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**Unpacking Domestic Sources of Investment Screening Mechanisms
Across the EU Member States**

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ABSTRACT

While the European Union (EU) remains committed to the free movement of capital, the proliferation of investment screening mechanisms (ISMs) reflects a growing prioritization of national security. At first glance, this proliferation suggests convergence. Yet beneath this surface, EU member states have designed these mechanisms in markedly different ways. This dissertation explains what drives that variation by focusing on two core institutional dimensions of ISM design: scope, defined as the sectors subject to review, and threshold, defined as the ownership level that triggers scrutiny. Drawing on the PRISM dataset (Bauerle Danzman & Meunier, 2023a), it cross-tabulates scope (broad/narrow) and threshold (high/low) to develop a fourfold typology: wide-selective, restrictive, tolerant, and deep-selective. It explains this variation through two domestic factors: technological intensity and public bank ownership. Countries with high technological intensity are more likely to adopt broad-scope ISMs to manage diffuse, cross-sectoral vulnerabilities, whereas countries with lower technological intensity tend to adopt more targeted, narrow-scope regimes. Regarding threshold, countries with strong public banking capacity are more likely to adopt higher thresholds, as public banks serve both as financial backstops against hostile takeovers and as promoters of domestic industrial resilience, reducing the need for more restrictive, low-threshold screening. These arguments are tested through a factor-centric comparative case study of Germany, Italy, Poland, and the Czech Republic, combining a plausibility probe with process tracing. In doing so, the dissertation makes three contributions: it develops a novel ISM typology that accommodates hybrid institutional forms, advances a domestic political economy explanation linking technological intensity and public banking capacity to variation in ISM design, and bridges the literatures on financial statecraft and investment screening by extending public banks' role beyond development and industrial policy.

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Abbreviations

AAA	Credit rating (AAA)
AI	Artificial intelligence
AWG	Foreign Trade and Payments Act (<i>Außenwirtschaftsgesetz</i>)
AWV	Foreign Trade and Payments Ordinance (<i>Außenwirtschaftsverordnung</i>)
BERD	Business expenditure on R&D
BGK	Bank Gospodarstwa Krajowego (Poland)
BIT	Bilateral investment treaties
BMWK	German Federal Ministry for Economic Affairs and Climate Action
CDP	Cassa Depositi e Prestiti (Italy)
CEB	Česká Exportní Banka (Czech Export Bank)
CEO	Chief executive officer
CFIUS	Committee on Foreign Investment in the United States
CME	Coordinated market economy
COVID-19	Coronavirus disease 2019
CZK	Czech koruna
EEA	European Economic Area
EFTA	European Free Trade Association
EIB	European Investment Bank
ELTI	European Long-Term Investors Association
EPO	European Patent Office
EPRS	European Parliamentary Research Service
ERP	European Recovery Program (ERP) Special Fund
ETCI	European Tech Champions Initiative
EU	European Union
EUGS	European Union Global Strategy
FDI	Foreign direct investment
FDP	Free Democratic Party (Germany)
FSI	Fondo Strategico Italiano (Italy)
GDP	Gross domestic product
GERD	Gross domestic expenditure on R&D
ICT	Information and communication technology
IMF	International Monetary Fund
IP	Intellectual property
IPE	International political economy
IR	International relations
ISM	Investment screening mechanism(s)
ISIC	International Standard Industrial Classification
IT	Information technology
KfW	Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction)

LME	Liberal market economy
M&A	Mergers and acquisitions
MoIT	Ministry of Industry and Trade (Czech Republic)
NACE	Statistical classification of economic activities in the European Community
NATO	North Atlantic Treaty Organization
NRB	Národní Rozvojová Banka (National Development Bank, Czech Republic)
OECD	Organisation for Economic Co-operation and Development
PESA	PESA (Poland; rolling stock manufacturer)
PFR	Polish Development Fund
PiS	Law and Justice (<i>Prawo i Sprawiedliwość</i> , Poland)
PKO BP	PKO Bank Polski (Poland)
PKP	Polskie Koleje Państwowe (Polish State Railways)
PLN	Polish złoty
PRISM	Politics and Regulation of Investment Screening Mechanisms
PZU	Powszechny Zakład Ubezpieczeń (Poland)
TFEU	Treaty on the Functioning of the European Union
TIM	Telecom Italia
UNCTAD	United Nations Conference on Trade and Development
VC	Venture capital
VoC	Varieties of Capitalism
WB	World Bank

INTRODUCTION

“European security screening of new investments is neither desirable nor feasible.”

Karel De Gucht (2012).

European Commissioner for Trade

“We are not naïve free traders. Europe must always defend its strategic interests. This is why today we are proposing a new EU framework for investment screening.”

Jean-Claude Juncker (2017).

President of the European Commission

The EU’s regulatory and normative frameworks have long prioritized openness and free capital movement across borders. However, this openness has been challenged due to the rapidly changing global political landscape. The geopolitical shift in trade and investment policy, especially in the wake of the US-China trade conflict, strategic asset acquisitions by China in Europe, and the coronavirus pandemic, represents a significant departure from the neoliberal outlook on trade and investment policies in the EU.

Taken together, these two statements by the Commissioners in 2012 and 2017 demonstrate how quickly the perspective on FDI has shifted in the EU. This evolving perspective catalyzed the swift adoption of the EU FDI Screening Regulation (EU 2019/452). The Regulation is designed to coordinate the screening of inward FDI likely to affect the security and public order of its member states or the EU as a whole. However, because it functions as a loose framework of cooperation and consultation, it leaves the institutional design choices and the operation of the screening to the discretion of individual member states. This has resulted in a highly fragmented landscape in which national governments tailor their policies to their specific domestic needs.

This dissertation takes this as a point of departure, noting that EU member states have adopted new ISMs and/or revised existing ones in different ways. The dissertation’s main research question is: what explains cross-national variation in ISM design? Existing literature offers valuable but incomplete explanations of this variation. This is because, first, much of the current literature typically emphasizes macro-level factors, pointing to the increasing politicization of trade (De Bièvre & Poletti, 2020), backlash against globalization (Dür et al., 2019), and the geopoliticization of trade and investment

(Meunier & Nicolaïdis, 2019). While these accounts are valuable for contextualizing the environment in which ISMs have been operating, this strand of the literature does not address the divergence in specific national policies. Second, investment screening has become a prominent policy area since the adoption of EU Regulation 2019/452. Therefore, the academic literature is still emerging and has only begun to explain its dynamics. In this context, significant attention has also been given to the EU level, where scholarly work has advanced important insights into the drivers and politics of the EU framework (Eichenauer et al., 2021; Chan & Meunier, 2021; Bauerle Danzman & Meunier, 2023a; Vlasiuk Nibe et al., 2024) as well as its implications for policy coordination and legal practice (Schill, 2019; De Kok, 2024; Hindelang & Moberg, 2021). However, the empirical landscape that motivates this dissertation is at the national level, where the institutional design choices are adopted.

Third, a newly emerging research stream documents variation among the different institutional designs with reference to their state-firm relations (Doppen et al., 2024), historical narratives (Mattlin & Rajavuori, 2023), geographical proximity (Bauerle Danzman & Meunier, 2023a), legislative details (Bauerle Danzman & Couloubaritsis, 2023), and domestic stakeholder preferences (Vlasiuk Nibe, 2023). While these studies provide important insights, there is an opportunity to further refine the conceptual and theoretical frameworks. First, from a conceptual perspective, the existing typological work relies on binary dichotomies (Doppen et al., 2024) or focuses on legal labels such as “national security” in the member states’ legislation (Bauerle Danzman & Couloubaritsis, 2023), which may not reflect the underlying political economy. While these classifications offer a useful starting point, they often struggle to account for the hybridity inherent in most national ISMs. This dissertation addresses this by moving beyond dichotomies toward a more comprehensive typology without sacrificing analytical clarity. Second, from an explanatory perspective, this stream identifies different domestic variables that shape the design, such as state-firm relations (Doppen et al., 2024), historical narratives (Mattlin & Rajavuori, 2023), geographical proximity (Bauerle Danzman & Meunier, 2023a), legislative language of national security (Bauerle Danzman & Couloubaritsis, 2023), and domestic stakeholder preferences (Vlasiuk Nibe, 2023). However, the literature still lacks a readily applicable framework to systematically explain which domestic factors shape broader variation in ISM configurations across the

EU. To address these research gaps, this dissertation develops a fourfold typology that systematically analyzes government autonomy and provides a factor-centric comparative explanation for the observed institutional variations.

To make this variation analytically feasible, the first step is to conceptualize ISM design in a way that directly captures the state's capacity to filter incoming investment. Drawing on the PRISM dataset (Bauerle Danzman & Meunier, 2023a), this dissertation applies "pragmatic compression" techniques (Elman, 2005) to isolate meaningful comparable factors. Accordingly, the dissertation conceptualizes ISM design in terms of two institutional dimensions. The first is scope (broad/narrow): the breadth of sectors subjected to screening. The second is threshold (high/low): the trigger point at which a transaction becomes reviewable. It is typically defined by ownership or control percentages. The interplay between these dimensions captures how widely a regime can reach and how easily it can be activated. Conceptually, these two dimensions are crucial for understanding the extent to which governments are autonomous or constrained in their ability to screen and, ultimately, block inward FDI. By cross-tabulating these two dimensions, the dissertation develops a fourfold typology of ISM: "wide-selective" (broad scope, high threshold), "restrictive" (broad scope, low threshold), "tolerant" (narrow scope, high threshold), and "deep-selective" (narrow scope, low threshold).

Building on this typology, the dissertation offers a comparative explanation for the variation in two core institutional design features: scope (broad/narrow) and threshold (high/low). Within this framework, two key hypotheses guide the analysis. First, the study hypothesizes technological intensity to play a key role in shaping the scope. Accordingly, higher technological stakes are expected to lead to a broader sectoral scope (H1a), while lower technological intensity is expected to lead to a narrower sectoral scope (H1b). For the second variable threshold, higher public bank ownership is hypothesized to correlate with higher thresholds (H2a), while weaker public banking structures are likely to lead to lower thresholds (H2b).

The logic behind this framework is both structural and institutional. First, regarding the scope of the ISM, the dissertation argues that technological intensity shapes the scope of screening. This is because technologically advanced countries face greater investment vulnerabilities due to the intangible and complex nature of high-tech industries. This makes broad coverage more effective for detecting the risk across sectors. The reverse

holds where technological stakes are lower. In low-tech economies, vulnerabilities are more focused on conventional sectors such as defense and critical infrastructure, and a more targeted, narrow scope encompassing these sectors is more likely.

Second, variation in thresholds is explained by the extent of public ownership in their banking sectors. The theoretical framework states that countries with large public financial institutions have greater opportunities to support and defend domestic firms against hostile takeovers when necessary and to promote industrial capacity for scale-up by leveraging their status. Accordingly, the dissertation argues that large public financial institutions provide an alternative tool to help mitigate risks by protecting firms, stabilizing ownership, and supporting strategic investment. Therefore, countries that have this instrument are more likely to adopt the higher threshold. Conversely, countries with lower levels of public banking ownership are likely to adopt lower thresholds, as they may feel more vulnerable given their fewer policy alternatives.

To evaluate the empirical validity of these theoretical propositions, the dissertation adopts a factor-centric, comparative case study design. In such a methodological design, the first step is a macro-level plausibility probe to determine whether the anticipated empirical patterns are observable (Lehnert, 2007). However, the logic behind it is not intended to establish a definitive causal test. Instead, it assesses whether the proposed relationships are sufficiently consistent to warrant further investigation (Eckstein, 1975). The plausibility probe is further supported through competitive testing of alternative explanations.

After having assessed the plausibility probe, the second step constitutes the dissertation's comparative core. Four case studies were selected to represent distinct typological configurations and maximize variation in explanatory conditions. The first case study is Germany, which is examined as a *Wide-Selective Type*. The second case study is Italy, which represents a *Restrictive Type*. The third case study is Poland, which is analyzed as a *Tolerant Type*. The last case is the Czech Republic, which illustrates a *Deep-Selective Type*. Across these cases, the thesis traces how scope and threshold choices were assembled through domestic sources in the nexus of technological stakes and public financial institutions.

By identifying the cross-national variation in ISM design across EU member states, the dissertation makes three primary contributions to the academic debate. First, it offers a

comprehensive typology that speaks directly to the government autonomy by conceptualizing two main design choices. Second, the dissertation develops a factor-centric explanation for cross-national variation in ISM design. The technological intensity–public banking nexus adds explanatory leverage by showing how domestic institutional contexts function in the design of ISMs. This advances an explanation grounded in political economy structure and institutional substitutes, going beyond the typical emphasis on threat perception, ideology, or legal form. Third, the dissertation contributes to broader IPE debates on state capitalism, financial statecraft, and the domestic politics of foreign economic policymaking by re-centering public banking and development finance as instruments of national security. Public banks are often analyzed as tools of development, industrial policy, or crisis management. The cases here show that they also function as instruments of strategic control in geopolitical competition, shaping ownership outcomes and altering the state’s opportunity set.

The dissertation is structured as follows. Chapter 1 examines the emergence of investment screening within the broader political economy of openness and security. Additionally, it also synthesizes the major debates and identifies the explanatory gap in academic literature regarding variation in national design. Building on these, the research conceptualizes ISMs along the two following dimensions: scope and threshold. It introduces a fourfold typology by cross-tabulating these. The second chapter articulates the theoretical framework. It links technological intensity to scope and public banking to thresholds. In doing so, it presents the dissertation’s main hypothesis. The third chapter concerns the methodological strategy. This includes operationalizing and detailing the logic of the factor-centric comparative design and using plausibility probes alongside the analysis. Drawing on these methodological choices, Chapter 4 presents the cross-national plausibility probe as a preliminary test. Then, it evaluates alternative explanations to offer a comprehensive analysis. The remaining part of the dissertation continues by presenting the case studies (Germany, Italy, Poland, and the Czech Republic), each illustrating the different types of ISM. From Chapter 5 to Chapter 8, each case study follows the same structure, moving from a descriptive legal foundation to a deeper theoretical exploration of the specific threshold and scope choices. Then, each chapter ends with a synthesis of findings and country-specific alternative explanations. Building on these, the concluding chapter synthesizes the comparative findings and interprets the

empirical results. It also discusses the contribution and proposes avenues for future research.

CHAPTER 1. DESCRIBING AND CONCEPTUALIZING INVESTMENT SCREENING

The EU has long tied its single market project to openness and cross-border capital mobility, underpinned most clearly by Article 63 of the Treaty on the Functioning of the European Union (TFEU). However, in recent years, this liberal orientation has been tested. The combination of the US–China trade war, a wave of Chinese takeovers in sensitive sectors, and the disruption of COVID-19 has pushed EU institutions and member states to rethink how trade and investment policy should balance openness with security and resilience.

In response, the EU has introduced a range of policy tools to mitigate security risks and reinforce its regulatory capacity and resilience in trade and investment. Among the most notable of these instruments is the EU’s FDI Screening Regulation (EU 2019/452), which was designed to strengthen member states’ ability to assess and, where necessary, restrict foreign investments that may threaten public order or national security, in coordination with the European Commission. This shift highlights a significant retreat from the traditionally open and liberal principles.

While there has been a clear trend toward the institutionalization of ISMs across the EU, the design of these mechanisms varies substantially among member states. The mere proliferation of ISMs does not imply uniformity in their institutional architecture. Member states often differ in how they define, prioritize, and operationalize national security concerns (OECD, 2022, 2024). While variations in the definition of national security typically pose a conceptual challenge, they also present an analytical opportunity centered on the following question: how can such diverse systems be systematically analyzed and compared?

This chapter addresses this question by developing a conceptual framework for analyzing and comparing national ISMs. First, it defines investment screening and distinguishes it from other regulatory tools for managing FDI. It then provides a historical overview of investment control regimes globally and in the EU, tracing their evolution from early national restrictions to current institutionalized mechanisms. The chapter further

identifies critical gaps in the existing literature, particularly the lack of comparative frameworks that explain divergent ISM designs within the EU. To fill this gap, the chapter proposes a novel typology of ISMs based on two key institutional design dimensions: scope and threshold. This typological framework serves as the analytical lens for the subsequent empirical analysis and hypothesis testing developed in the following chapters.

1.1. What is Investment Screening?

Understanding the concept of investment screening requires first examining the category of investments it regulates. According to the benchmark definition provided by the Organization for Economic Cooperation and Development (OECD), FDI is:

“A category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise.” (2008, p. 17)

According to this definition (OECD, 2008, p. 17), FDI is characterized by two core elements: a “lasting interest” and a “significant degree of influence.” Lasting interest is typically established when an investor owns at least 10% of the voting power in an enterprise, thereby gaining a degree of control over its management (OECD, 2008, p. 17). These criteria distinguish FDI from portfolio investments, where investors typically hold a smaller stake, a stake that does not confer influence over the enterprise's decision-making (OECD, 2008, pp. 17-18). Therefore, FDI is significantly different from foreign portfolio investments. Portfolio investment tends to be more volatile and is typically driven by short-term returns rather than managerial control (OECD, 2002, p. 42).

FDI is a category of cross-border investment that plays a significant role in economic growth, globalization, and technological spillover (OECD, 2008). While earlier studies acknowledge the favorable economic outcomes (Lall & Narula, 2004; Scott-Kennel, 2004) associated with hosting FDI, including job creation and enhanced competitiveness

(Pandya, 2016a, 2016b), the past two decades have seen a shift in how FDI is assessed, increasingly shaped by potential security risks (OECD, 2022, pp. 14-15). These risks, such as the loss of critical infrastructure and resource exploitation, have led several states to proactively implement screening regulations and measures to address these concerns (OECD, 2022, p. 16).

Investment screening is one of several tools available to governments for regulating inflows of foreign investment. Wehrle and Pohl (2016) classify three approaches used by OECD countries to restrict investment.

1. *Prohibition*: a complete restriction on foreign participation in designated sectors, either partial or total (Wehrle & Pohl, 2016, p. 13).
2. *Foreign investment review*: a case-by-case review of transactions or projects involving investments identified as potentially problematic without an institutionalized process (Wehrle & Pohl, 2016, p.14).
3. *Scrutiny systems*: mechanisms through which potentially sensitive transactions are evaluated against specific criteria (Wehrle & Pohl, 2016, p. 15). This approach refers to ISM, which is distinct from the first two approaches.

According to Wehrle and Pohl (2016), states do not necessarily follow a single approach but often employ a combination of approaches.

Investment screening is a legal process that involves identifying investments that require review and scrutiny based on predetermined criteria (Bauerle Danzman & Meunier, 2023a, p. 2). ISMs establish structured regulatory frameworks, criteria, and procedures for evaluating and approving investment proposals. This process differs from other instruments, such as investment prohibitions and ad hoc screenings, although all of them can ultimately restrict incoming FDI. This research will focus primarily on the institutionalized approach to regulating foreign investment flows, represented by ISMs.

Although countries have numerous policies and instruments for reviewing investments, when assessing investment screening on national security grounds, states apply radically different logics and regulatory frameworks. For instance, under EU competition law, Mergers and Acquisitions (M&A) that meet the thresholds set out in the EU Merger

Regulation (Regulation (EC) No 139/2004) must be notified to and assessed by the European Commission, regardless of the investor's origin. However, this review does not take security, public order, broader geopolitical, or strategic risks into account. Instead, it primarily focuses on ensuring fair competition by preventing market concentrations that distort competition within the internal market.

Having established what ISMs are and how they differ from other FDI restrictions, it is essential to explore their roots. The subsequent analysis of how these mechanisms evolved from earlier modes of investment control establishes the foundational context required to evaluate their contemporary functions.

1.2. Evolving Environment of Investment Screening Mechanisms

Historically, no country has fully opened its economy to unrestricted foreign investment, and there have always been some limitations or regulations on foreign investors to protect national security (Esplugues, 2018, p. 14). Early investment restrictions often emerged in response to wars or economic crises rather than as elements of formalized regulatory frameworks. After World War I and World War II, governments frequently relied on state-led industrialization to rebuild their economies and implemented safeguards to keep domestic industries out of foreign hands (Lipson, 1985). These included nationalizing foreign-owned companies, introducing golden-share arrangements, and requiring government approval for foreign takeovers in strategic sectors (Wehrle & Pohl, 2016, pp. 13-15). Although such restrictions served national security purposes, they were not institutionalized into dedicated screening mechanisms until the 1970s (Lipson, 1985).

It was in the 1970s that the institutionalization of this process truly took off, as the oil crises and rising Cold War geopolitical tensions increased pressure (Muchlinski, 2011, p. 39). In response, many Western countries, including the US, Canada, and Australia, introduced formal, institutionalized investment screening regimes. During the same period, guided by similar security calculations driven by their geographical proximity to the Soviet bloc, many EU countries adopted strict investment prohibitions, particularly concerning defense capabilities (Muchlinski, 2011, p. 39). This security-focused

regulatory era persisted until the end of the Cold War, after which these restrictions were gradually replaced globally by a more open approach (Alvarez & Sauvant, 2011, p. 32). This openness was further solidified following the Washington Consensus in 1990, with values such as cross-border trade and capital liberalization prioritized (Mann, 2011, p. 27).

In the post-Cold War context, capital liberalization gained prominence and Bilateral Investment Treaties (BITs) became one of the main instruments used to promote and facilitate FDI (OECD, 2002, 2008). The total number of BITs rose rapidly, from fewer than 386 treaties concluded from 1959 to 1989 to over 1,850 that were in force by 1999 (UNCTAD, 2000, pp. 7–8). These treaties served different interests for different countries. While developed, capital-exporting countries used them to protect their investors abroad, developing, capital-importing countries used them to attract foreign direct investment to support growth (Echandi, 2011, p. 11).

During this period, as states sought to align with the overarching objective of promoting investment in a liberalized economic environment, they generally refrained from implementing comprehensive screening mechanisms to address potential security risks (Alvarez et al., 2011; Esplugues, 2018). Paradoxically, security considerations were largely managed through narrowly defined legal clauses embedded in the very instruments designed to encourage openness, such as BITs and investment chapters in preferential trade agreements (Muchlinski, 2011, p. 40). These provisions typically grant the right to invoke exceptions or modify treaty obligations under specific circumstances related to national security. However, these mechanisms are rarely used (Pohl & Rosselot, 2020, p. 16), largely because most FDI flows occurred between developed countries that were members of shared security alliances, such as NATO, where perceived security risks were low (Lenihan, 2018). Consequently, systematic and proactive screening of inward FDI for national security threats remained a relatively low policy priority for most developed host economies throughout the early 2000s (Alvarez & Sauvant, 2011).

According to the OECD’s comprehensive report on “acquisition- and ownership-related risks to security interests in 62 economies,” the policy landscape leading up to the mid-

2010s is commonly classified as the era of “first-generation policies” (Pohl & Rosselot, 2020, p. 18). These policies were characterized by sector, entity, or asset-specific ownership restrictions. These restrictions were grounded in the traditional concept of national security, which predominantly focused on defense and military interests (Pohl & Rosselot, 2020, pp. 20–21).

A typical example of early investment controls is the prohibition of foreign ownership in sectors such as defense contracting, arms production, and military technology (Pohl & Rosselot, 2020, p. 20). These measures were primarily intended to secure strategic-military interests and maintain state defense capabilities essential to the functioning of a sovereign state (Dunning & Lundan, 2011, p. 132). As a result, such policies were narrowly focused and did not establish a comprehensive, long-term strategy for managing broader foreign investment risks. As highlighted by the OECD’s survey (Pohl & Rosselot, 2020), this narrowly targeted approach persisted until approximately the mid-2010s. By that point, only a small number of countries had institutionalized comprehensive mechanisms to address security risks associated with foreign investment, and even then, these mechanisms were rarely used (Pohl & Rosselot, 2020). Thus, investment controls were largely limited to sensitive and unconventional defense-related sectors, without constituting a systematic regulatory framework.

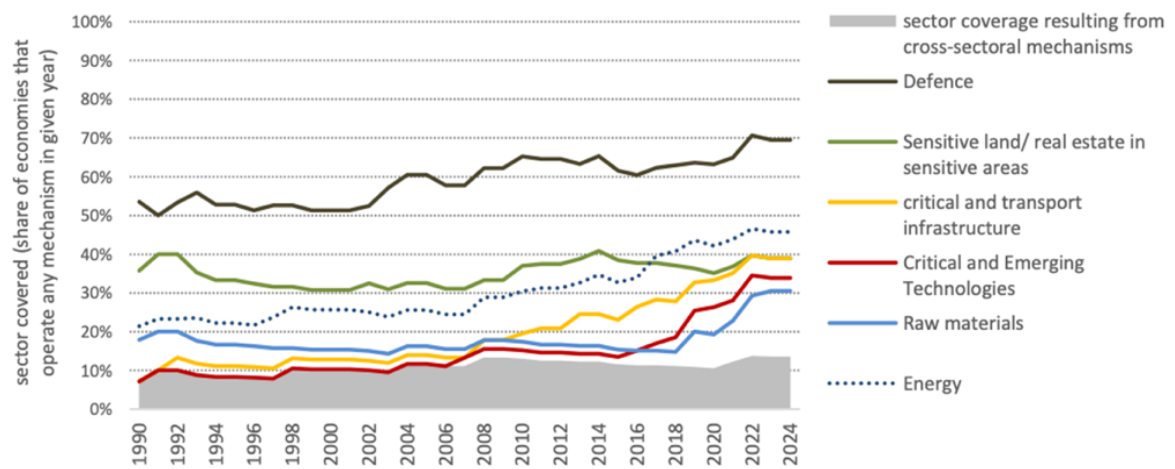
By the mid-2010s, the foundations of second-generation screening policies began to take shape. This shift was driven by a broader reconceptualization of national security, coupled with growing awareness of the risks associated with foreign state-backed investment. In particular, the emergence of outward investors from the Global South, most notably China, further intensified these concerns (Echandi, 2011, p. 11). The changing investor landscape introduced new complexities for advanced Western economies, as these emerging players often operated within fundamentally different economic and political systems (Sauvant, 2009, p. 236). This divergence gave rise to several concerns, including the risk of forced technology transfers (Chen, 2016), selective compliance with international rules (Christiansen & Maher, 2017), restricted access to foreign markets (Telo, 2021), and the significant involvement of the state in both economic activities and outbound investment (Enderwick, 2017).

Furthermore, technological developments accelerated the reshaping of the investment security agenda during this period, bringing previously overlooked sectors such as digital infrastructure, communications, and media into the realm of strategic concern (OECD, 2024, pp. 10-11). For instance, foreign acquisitions in the media and telecommunications sectors were increasingly perceived as threats because they could enable external actors to shape public discourse, influence democratic processes, or undermine trust in national institutions (Dunning & Lundan, 2011, p. 129). The potential impact of these acquisitions across sectors critical to national security has brought previously underestimated economic and security risks under extensive scrutiny (Nettesheim, 2020, p. 492). This is particularly salient in contexts where the investor is state-backed and may have motivations extending beyond purely commercial interests (European Commission, 2017a, p. 2). In such instances, the risk of intentionally limiting access to essential technologies or infrastructure becomes a significant concern for advanced capitalist countries (Telo, 2021).

Furthermore, a series of global crises revealed how easily key economic sectors can be disrupted. For example, the COVID-19 pandemic highlighted the extent to which some EU countries had become dependent on foreign supply chains and essential goods (OECD, 2022, 2024). Similarly, the Russian invasion of Ukraine underscored the geopolitical risks of allowing foreign, especially “adversarial” actors, to acquire critical infrastructure or assets (European Commission, 2024, pp. 1-2). Taken together, this emerging awareness of potential security risks has prompted EU governments to reconsider how foreign investment may affect national security.

To address these growing concerns, governments gradually broadened the scope of their screening mechanisms, bringing non-traditional sectors under increased scrutiny (Figure 1). While sectors such as defense and real estate in sensitive locations have consistently been scrutinized, others, including critical infrastructure, emerging technologies, energy, and raw materials, have seen a notable surge in policy attention, particularly over the last two decades, as illustrated in Figure 1. This progressive broadening marks a clear retreat from earlier, more narrowly focused first-generation policies, which were centered primarily on defense.

Figure 1. Sectoral Coverage of Foreign Investment Security Measures (selected sectors 1990-2024)



Note: The figure depicts the frequency of sector coverage in investment policies aimed at national security across 61 economies with such measures. The grey area represents the share of economy-wide mechanisms without mentioning them explicitly

Source:OECD (2024, p.11)

More importantly, this expansion was achieved mainly by institutionalizing the screening process (OECD, 2024, p. 11). While older measures, such as prohibition, still exist, institutionalized investment screening has become a more common approach to managing the security implications of incoming investment. Such institutionalization involves incorporating more sophisticated risk assessments and establishing clearer, more formalized procedures for review and potential mitigation (Pohl & Rosselot, 2020, pp.19-21).

As the OECD (2022, p. 17) notes, the institutionalization of the screening procedure is the most distinctive feature of investment screening. This is important because institutionalization has fundamentally transformed how FDI is treated. It shifted from a limited, exceptional tool to a standardized, systematic approach routinely used by governments to manage national security risks across a broad spectrum of foreign investments. UNCTAD (2023) data show that while fewer than ten countries had such mechanisms in place before 2010, this number rose to 37 after COVID-19, including a substantial uptake across the EU, with 22 member states adopting regimes.

In this context, the proliferation of ISMs across the EU reflects a notable convergence among member states (OECD, 2024). However, this policy convergence does not directly translate into uniformity in institutional design. Accordingly, the next step is to conduct a closer examination of the EU context, including both the supranational coordination framework and the distinct national screening mechanisms that have emerged in parallel.

1.3. Investment Screening in the EU Member States: Restrictive Policy Convergence Yet Diverse Institutional Design

Openness to FDI has long been a fundamental principle of the EU's internal market, grounded in the bloc's commitment to fostering economic growth and global trade (European Commission, 2017a). This approach has made the EU one of the most attractive destinations for foreign investment for many decades (OECD, 2024). Article 63 of the TFEU is considered the key legal foundation of this openness. It prohibits restrictions on capital movements between member states and between member states and third countries (Article 63 of TFEU). This principle admits exceptions under Article 65 TFEU, but any restriction must be both necessary and proportionate.

As noted briefly in the previous section, the changing geopolitical landscape repeatedly revealed vulnerabilities in strategic sectors and led the EU to reconsider its traditionally open stance (European Commission, 2024). These efforts align with broader global trends, reflecting a growing recognition that openness to investment must be accompanied by safeguards to protect economic security and resilience (European Commission, 2024). In response, both the EU and its member states have introduced measures to strengthen investment screening and safeguard critical industries.

The first time this debate emerged at the EU level was in 2012 at the European Parliament, in the context of global trade developments and specific transactions in strategic sectors (European Parliament, 2012). Nevertheless, investment screening did not become a pressing concern until the mid-2010s, when a sharp rise in Chinese investment in critical infrastructure and high-tech industries between 2015 and 2016 brought the broader implications of these takeovers into focus. Several high-profile cases fueled concerns about potential risks to European technological sovereignty and national

security. These examples include the acquisition of KUKA, a world leader in robotics, by the Chinese company Midea Group (Weinland & McGee, 2016), and China's Fujian Grand Chip Investment Fund's attempt to take over chip equipment maker Aixtron (which was later blocked) (Deutsche Welle, 2016b). With Chinese investment peaking at 37.3 billion euros by 2016, that year is often perceived as the most crucial year for Chinese investment in Europe, particularly in sensitive or strategic sectors (Kratz et al., 2021).

The rising volume of Chinese FDI, including notable transactions such as KUKA, served as a catalyst for a broader debate among EU policymakers (Calcara et al., 2020; Csernaton, 2022; Cavelty & Wenger, 2019). Growing recognition of the strategic risks associated with foreign takeovers, particularly those involving state-backed investors, further fueled momentum for regulatory action. As a result, political pressure to create a common European investment screening framework intensified, and new legislation followed at both the national and EU levels.

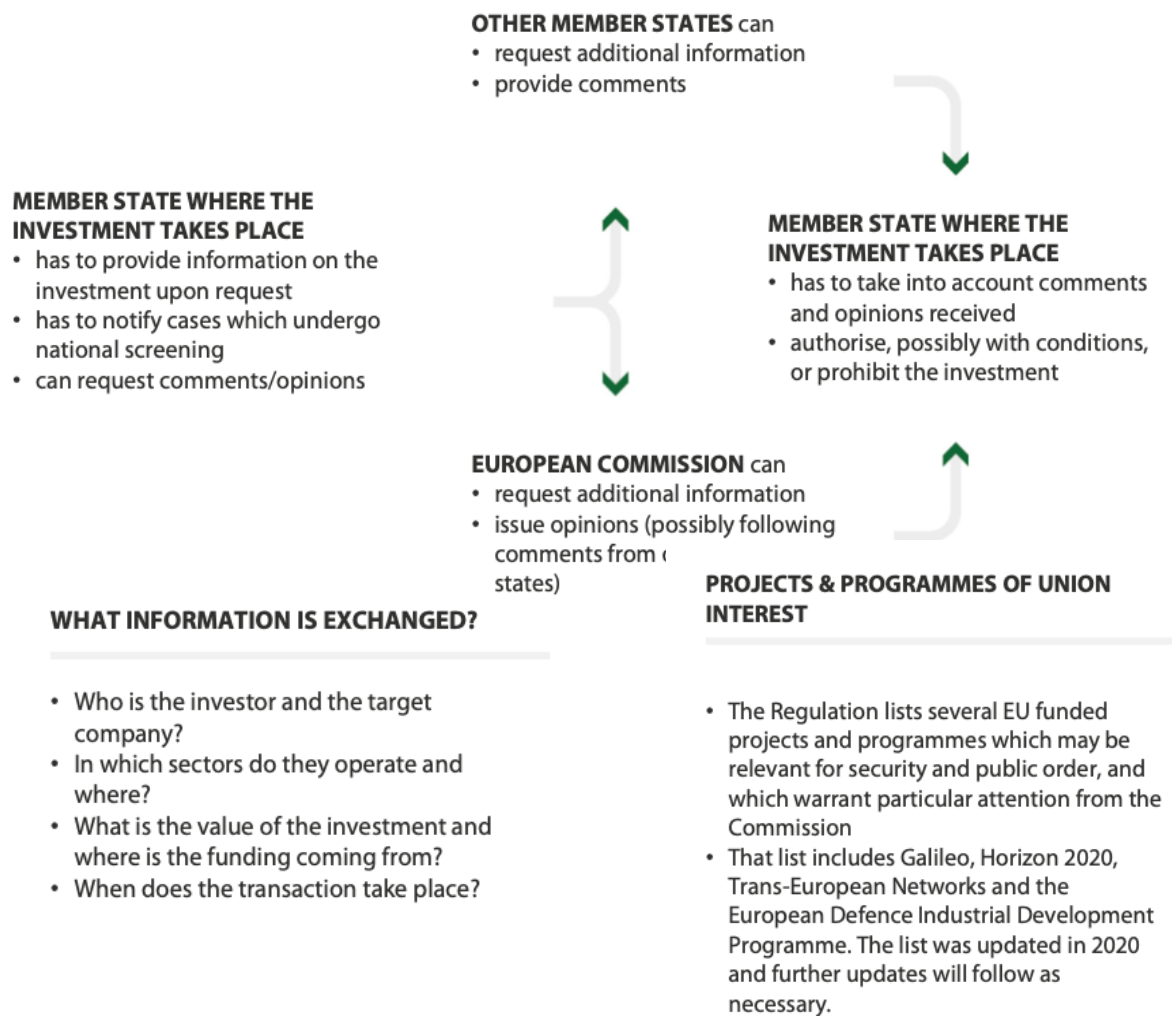
In 2017, Germany, France, and Italy raised alarms about the growing sell-off of high-tech expertise to Chinese investors (Joint Letter, 2017). In a joint letter, they called for stronger protective measures, marking the start of a broader debate on EU-wide investment screening. They highlighted cases where SOEs acquired critical assets and key technologies from European companies to advance strategic industrial policy, even though European investors lacked reciprocal access (Joint Letter, 2017). This asymmetric market access, along with the strategic nature of certain acquisitions, raised concerns about national security, economic competitiveness, and technological sovereignty (Joint Letter, 2017). By doing so, the joint letter laid the first concrete steps toward a unified investment screening framework at the EU level.

In May 2017, the European Commission proposed establishing a mechanism that would allow both member states and the Commission to screen incoming FDI based on national circumstances and economic contexts (European Commission, 2017b). By September of the same year, the European Commission published a formal proposal for a Regulation to create a legal framework for FDI screening across EU member states (European Commission, 2017a). The urgency of such measures intensified with the outbreak of the COVID-19 pandemic, which deepened economic uncertainty and raised fears of

opportunistic takeovers of vulnerable European companies. Ultimately, these developments led to the swift adoption of Regulation 2019/452 in March 2019.

The Regulation establishes a “cooperation mechanism” between the member states and the Commission to identify, assess, and, where appropriate, restrict FDI that may threaten the security of the EU or its Member states or undermine a strategic project or program of interest to the whole EU, such as Horizon 2020 or Galileo. Although the Regulation is grounded in Article 207(2) TFEU, which grants the EU exclusive competence for the standard commercial policy, it does not impose a uniform EU-wide screening process. National security and public order remain areas in which the state retains sole responsibility. Thus, member states are free to introduce a screening mechanism and define its scope, provided they comply with EU law (including the free movement of capital). Moreover, member state authorities are the only entities that can make decisions on individual FDI (Articles 3 to 5). Within this framework, the Regulation aims to enhance cooperation, raise security-related awareness, and foster a more harmonized approach among member states by facilitating collective assessment. This mechanism is illustrated in Figure 2 below.

Figure 2. EU Framework for Investment Screening



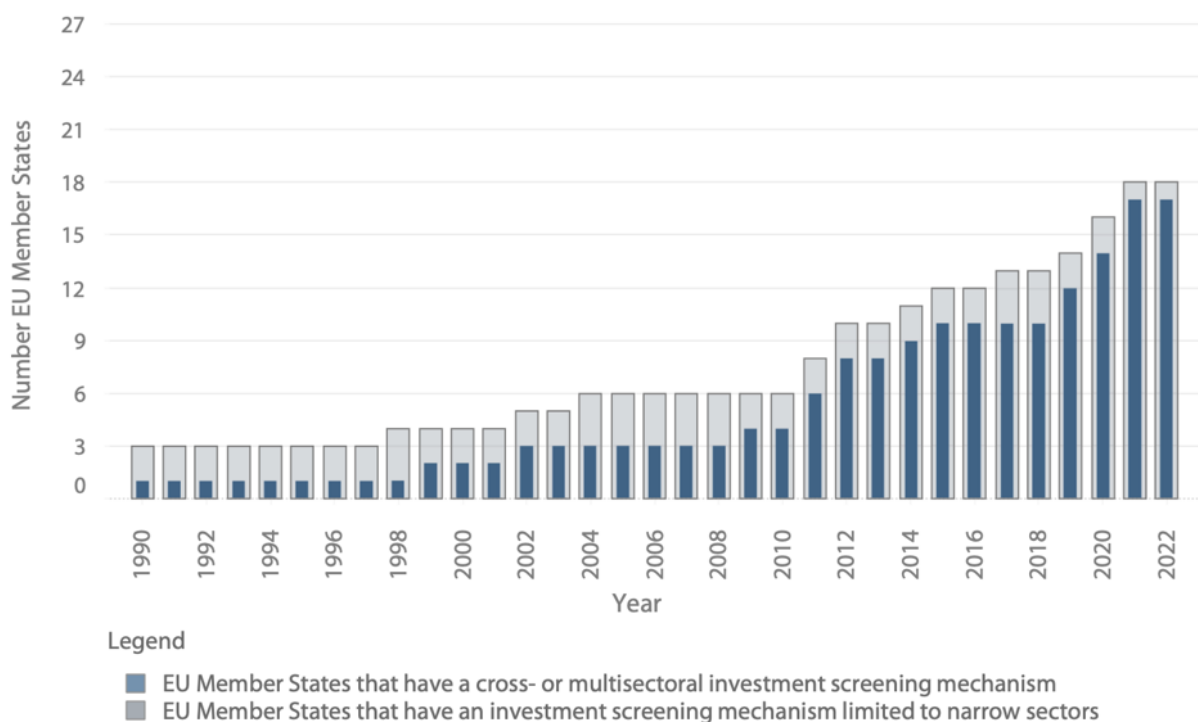
Source: European Court of Auditors, 2023, p. 18.

Under the EU screening framework, when a foreign investment occurs within a member state, that state must provide relevant information upon request (Article 6(1)), notify cases under national screening (Article 6(2)), and may seek comments from others (Article 6(3)). In turn, other member states and the European Commission may request additional information and provide opinions on the transaction (Article 7). Although the final decision remains with the member state where the investment occurs, it must take into account all feedback before approving, imposing conditions, or prohibiting the investment (Article 8). The information typically shared includes details about the investors, the target company, the sector involved, the value and timing of the investment, and the source of funding (Article 9). Additionally, specific EU-funded projects, such as

Galileo, Horizon 2020, and defense initiatives, require particular attention due to their strategic importance (Article 8(3)).

Within this framework, although the European Commission lacks supranational authority to screen incoming investments, the Regulation has still played a crucial role in raising awareness and encouraging EU member states to adopt or enhance their ISMs. Following the entry into force, the European Commission reports a notable increase in the number of member states having an ISM (European Commission, 2023b). By the end of 2023, 25 of 27 countries either had an active mechanism or were in the process of establishing one. The OECD (2024, p.11) interprets this trend toward broader policymaking as a form of policy convergence, in which ISMs increasingly become standard practice rather than exceptional measures within the EU.

Figure 3. Proliferation of Investment Screening in EU Member States (1990-2022)

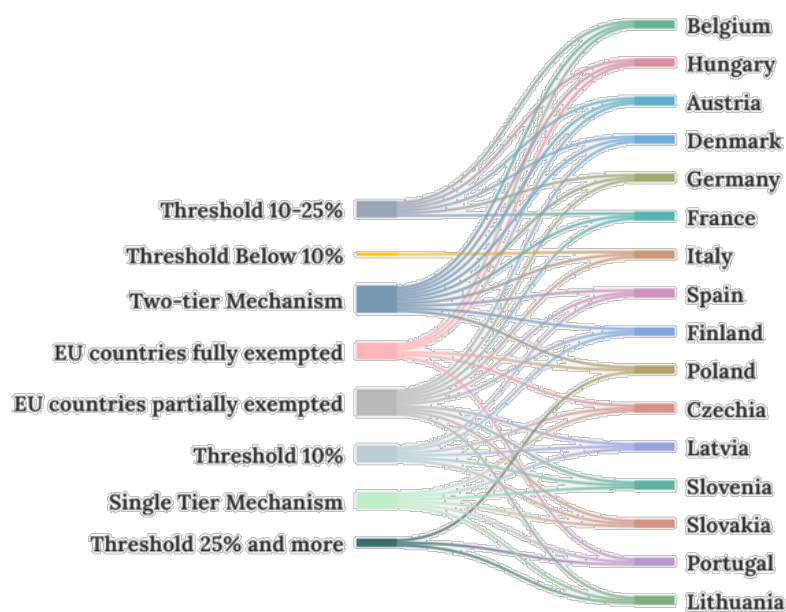


Note: Data for 2022 as of 30 June 2022. Projections based on public government statements or information obtained in interviews with Member States' authorities conducted in the context of this study. The notion of "any investment screening mechanism" includes screening or review mechanisms whose scope is limited to a single sector.

Source: OECD, 2022, p.17.

As illustrated in Figure 3, the growing number of member states adopting or strengthening ISMs might initially suggest a trend toward regulatory convergence. However, an examination of Figure 4 reveals a more complex reality. This growing policymaking activity in the field does not necessarily translate into homogeneity in design choices but rather into significant variation.

Figure 4. Variation in ISM Design Choices Across EU Member States



Source: Author's own illustration based on selected indicator from the PRISM (2023) dataset

Figure 4 illustrates the divergent approaches adopted by EU member states to manage the perceived national security risk associated with foreign investment. As highlighted by the European Commission, the primary factor is how “national security”, the very justification for these mechanisms, is conceptualized differently across member states (European Commission, 2023b, 2024). This fundamental divergence in understanding national security is a primary limitation to greater convergence in ISM design. National security, as a concept, is neither static nor objective but is shaped by each country's unique historical, political, and socio-economic context (Williams, 2003). As Balzacq et al. (2016) frame it, it originates “from a time and context-specific intersubjective agreement that something poses a vital threat to a community” (p. 496). This essentially hinders the possibility of national security becoming universally applicable or

standardized across member states, meaning that a matter considered a threat to national security by one country may not be viewed similarly by another.

In this context, the OECD (2022, p. 58) highlights significant conceptual divergences among EU member states, particularly the absence of unified metrics for defining and measuring national security. Member states interpret terms such as “security”, “public order”, “national security” and “essential security interests” differently. Similarly, varying phrasing of probability thresholds for intervention, such as “likely”, “disrupt”, “threaten”, and “may affect”, reflect differences in perceived risk and precaution, and thus institutional choices (OECD, 2022, p. 58). In other words, what falls under the title of national security within these regulations is far from uniform across the EU. As Babic and Dixon (2022, p. 132) note, while geopolitical and geoeconomic pressures have encouraged convergence in the broader policy direction, particularly the adoption and enhancement of ISMs, the substantive content and practical application of these policies remain highly uneven.

Given this diversity, drawing simplistic conclusions about this diversity can be challenging. This necessitates a closer analysis of the academic literature to better understand how these differences have been interpreted. Therefore, the following section analyzes the existing scholarship and identifies the gaps in the field.

1.4. Literature on Investment Screening

While ISMs have rapidly proliferated across EU member states, the scholarly literature is still catching up to these fast-moving institutional shifts. As the following subsections outline, this analytical gap stems primarily from two factors. First, conventional liberal theories, on which many ideals of EU market openness were founded, fail to account for the recent trend toward investment screening, which, in its restrictive nature, contradicts liberal core tenets. Second, investment screening within EU member states remains understudied. In contrast to many countries, such as the United States, Canada, and Australia, which have historically established screening mechanisms, investment screening is a relatively new policy area at the EU level, primarily emerging after 2019. Consequently, the scholarship is still in its early stages. Furthermore, much of this

emerging research prioritizes aspects such as EU-level cooperation or the role of supranational institutions, often overlooking the crucial variations in how individual member states design and implement their sovereign screening mechanisms.

1.4.1. Limitations of Conventional Explanations

Conventional liberal theories face limitations because, historically, the dominant academic perspective emphasizes the substantial benefits of hosting FDI, which outweigh potential costs (Pandya, 2016a; Banday et al., 2020). These benefits include technological diffusion and economic growth (Lall & Narula, 2004; Scott-Kennel, 2004). Therefore, scholarly attention has focused primarily on developing policies to attract investment through liberalization and incentives, rather than on restricting it (Bauerle Danzman & Slaski, 2021; Jensen & Malesky, 2018).

However, this conventional liberal understanding of FDI does not align with emerging ISMs. This divergence is particularly complex in the EU context, where both EU and international law explicitly prohibit protectionist barriers and emphasize free-market principles (Esplugues, 2018). For instance, from a liberal economic standpoint, states are generally expected to embrace greater openness to FDI during economic downturns to attract capital and stimulate recovery as it was broadly the case following the 2008 financial crisis (Meunier, 2014a, 2014b). Yet during the economic shock caused by the COVID-19 pandemic, many developed economies tightened their investment screening frameworks. Despite the urgent need for capital inflows, this turn toward restriction was described as “surprising” (Bauerle Danzman & Meunier, 2021, p. 5). Similarly, while a well-established body of research (Jensen, 2003; Jensen & McGillivray, 2005; Pandya, 2010, 2016b) has shown that democracies tend to be more open to inward investment, in recent years numerous European democracies have been at the forefront of strengthening their national investment screening frameworks.

The direction of FDI flows has been another topic that has influenced the research agenda on the security-related aspects of FDI (Alvarez & Sauvart, 2011; Esplugues, 2018; Sornarajah, 2017). Historically, as capital flowed predominantly from developed to developing countries, scholarly attention centered on the security implications for the latter, such as dependency, asymmetric power relations, and strategic vulnerabilities

(Cardoso & Faletto, 1979; Moran, 1978). As a result, the security risks facing developed host economies remained largely overlooked. Moreover, because much FDI occurred between developed countries that were also partners in security alliances like NATO, where relationships were marked by trust and cooperation, such investments were generally perceived as low-risk and did not attract attention (Lenihan, 2018). Consequently, the potential security implications of hosting FDI received less academic attention within developed economies. Therefore, conventional theories, shaped by earlier economic and geopolitical conditions, fall short of accounting for the contemporary drivers and patterns of investment screening in developed economies.

1.4.2. Gaps in Contemporary Scholarship

The existing literature primarily offers insights along three main lines: (1) identifying the drivers behind the widespread adoption of ISMs; (2) examining ISMs at the EU level and their practical implementation; and (3) explaining the variation in their institutional characteristics.

The first body of work typically emphasizes macro-level factors, pointing to the increasing politicization of trade (De Bièvre & Poletti, 2020), backlash against globalization (Dür et al., 2020), and the geopoliticization of trade and investment (Meunier & Nicolaïdis, 2019). Key concerns highlighted include surging geopolitical competition (Babic & Linsi, 2024; Conzelmann & Vanhoonacker, 2025; Herranz-Surrallés et al., 2024), particularly rivalries involving China or Russia (Raik et al., 2024), and broader national security considerations (Lai, 2021; Nettesheim, 2020). While this body of work is valuable for providing overall contextualization of the trend, it offers less insight into precisely how and why individual EU member states design their specific policy responses to these pressures.

A second research stream focuses on the EU's non-binding screening framework, examining the politics and processes surrounding its adoption (Chan & Meunier, 2021; Bauerle Danzman & Meunier, 2024). This includes studies of the specific context and timing of the EU's movement toward screening (Vlasiuk Nibe et al., 2024) and of shifting national preferences throughout the process (Calcara & Poletti, 2023). Beyond the politics of adoption, this research stream also examines the Regulation's broader legal

and practical implications. These analyses explore the diverse EU-level legal consequences (Bian, 2021; De Kok, 2024) and scrutinize its application in specific sectors, ranging from banking to telecommunications and IT (Hindelang & Moberg, 2021). They seek to situate screening within the broader scope of EU investment relations and as a strategic bargaining chip in trade negotiations (Schill, 2019), while also considering member state regulatory preferences and the role of other EU institutions in shaping adoption.

However, while crucial for understanding the EU dimension, this literature offers limited explanatory power for national level variation. Because the EU framework lacks direct enforcement power and offers guidance rather than dictating outcomes, analyzing it alone is insufficient to explain why member states make specific sovereign choices about the design and implementation of their distinct ISMs.

A third, relatively less developed research stream attempts to explain the national specificities that characterize ISM design across EU member states. This research is crucial for identifying potential domestic sources of different ISMs and for exploring factors such as VoC (Doppen et al., 2024), historical narratives (Mattlin & Rajavuori, 2023), geographical proximity (Bauerle Danzman & Meunier, 2023a), legislative details (Bauerle Danzman & Couloubaritsis, 2023), and domestic stakeholder preferences (Vlasiuk Nibe, 2023).

While these studies offer valuable insights, literature has yet to produce a comprehensive framework for systematic comparison. For instance, frameworks such as Doppen et al.'s (2024) use a broad VoC approach to create a binary "open/closed" typology, which risks oversimplifying the hybrid nature of many national systems. In contrast, more detailed models, such as Bauerle Danzman and Couloubaritsis (2023), offer a nuanced, four-part typology but ground it in the legal language of "national security," which may not reflect these mechanisms from an IPE perspective. Consequently, while this stream identifies key domestic variables, it still lacks a readily applicable framework to systematically explain how different factors interact to shape diverse ISM configurations across the EU. In other words, a systematic explanation for the specific variation in ISM design remains underdeveloped. Within this challenging context, this dissertation situates its

contribution to the puzzle of national ISM variation by developing an explanation that is both empirically comprehensive across EU member states and theoretically grounded. The following section synthesizes these limitations to define the central puzzle this dissertation aims to solve.

1.4.3. Synthesizing Limitations and Defining the Path Moving Forward

The preceding section highlighted the limitations of current scholarships on ISMs. On the one hand, conventional theories fall short of explaining the contemporary rise of restrictive FDI policies in developed economies, including those in the EU. On the other hand, more recent scholarship focuses specifically on the EU context, identifying broad contextual drivers of ISM adoption such as geopolitical tensions and security concerns. However, it struggles to systematically link these macro-level factors to the concrete, often highly varied, institutional designs observed at the national level. Collectively, these shortcomings reveal a critical deficit: the absence of a framework to compare and explain the significant variation in how individual sovereign states design and implement their ISMs. This leaves us with a central puzzle. Given that most existing liberal theoretical frameworks are limited to analyzing current investment screening realities and that EU-specific research efforts are still underdeveloped in providing comparative explanations, how can we explain the variation in national ISM design across the EU?

Developing a systematic explanation for national variations in ISMs poses significant challenges. As explained previously, one of the main difficulties is directly comparing these mechanisms across countries, because ISMs often operate on national security concerns. This concept lacks a unified set of metrics, complicating straightforward comparisons (European Court of Auditors, 2023). To address this challenge, a more sophisticated understanding is needed to reveal the practical differences that distinguish national approaches. This is where focusing on the institutional dimensions of ISMs becomes not just valuable but essential. ISMs are fundamentally institutional constructions, shaped by specific configurations of rules governing inward FDI. Thus, examining these institutional features offers a way to uncover the variations that truly distinguish national systems. However, this requires more than a simple listing of institutional features.

Instead, the goal is to identify and analyze key institutional dimensions that capture core variations, particularly those that clarify how discretionary power is structured and exercised within each system. Developing a typology of ISMs is essential for this purpose. Such an approach clarifies diverse national approaches and enables meaningful comparison by examining the underlying structures, procedures, and allocation of authority that shape how screening is conducted in practice. Grounded in core institutional features, such a typology can provide the analytical structure needed to systematically map, compare, and ultimately explain the diverse landscape of national screening practices across the EU. Therefore, to fill this analytical gap, the following section unpacks institutional differences in screening practices across member states by identifying crucial dimensions for comparison. These dimensions lay the groundwork for constructing such a typology.

1.5. Constructing a Typology on Investment Screening Mechanisms

Typologies are a fundamental methodological tool in the social sciences that serve a range of analytical purposes (Bailey, 1994; Braun, 2015; Elman, 2005; Gerring & Barresi, 2003). In comparative politics, typologies are often regarded as essential “building blocks” that bring order to empirical complexity and enable the systematic interpretation, classification, and explanation of phenomena (Braun, 2015, p. 91). Although they may vary in form, including ideal types, real types, or prototypes (Bailey, 1994, pp. 10-11; Elman, 2005, pp. 296-297), they share a common logic.

Typologies are constructed by grouping: each type is defined by one or more attributes (Collier & Adcock, 1999, p. 543; Kluge, 2000, p. 3). Ideally, types should display internal homogeneity while maximizing external heterogeneity (Braun, 2015; Collier & Levitsky, 1997; Kluge, 2000). In other words, within each type, main characteristics should be as similar as possible (internally homogeneous), while across types, main characteristics should be as different as possible (externally heterogeneous). In this way, typologies reduce empirical complexity, sharpen conceptual distinctions, and enable the formulation of hypotheses about potential causal mechanisms (Elman, 2005, p. 295).

Crucially, the purpose here is not to engage in a purely classificatory exercise but to transform fragmented empirical observations into systematic comparison (Elman, 2005, p. 301).

It is precisely this analytical dimension that makes a typology an ideal tool for examining variation in ISMs across the EU member states. The considerable diversity of institutional choices complicates direct cross-country comparisons. In this context, a typological framework offers a way to resolve this problem by organizing heterogeneous institutional forms into conceptually coherent categories (Bailey, 1994; Collier & Levitsky, 1997; Kluge, 2000). The goal is to identify and analyze key institutional dimensions that capture core variations, with particular attention to how discretionary power is structured and exercised within each system. Therefore, to enable meaningful comparison across cases, this study adopts a typological approach that accommodates this diversity while preserving analytical clarity and comparability.

To this end, the study adopts the framework proposed by Collier et al. (2012). The framework identifies four components of typology construction: (1) the overarching concept under investigation; (2) the dimensions or variables used to describe or explain that concept; (3) a matrix derived from cross-tabulating these variables; and (4) the resulting conceptually grounded types.

The first step is to define the overarching concept that guides this typological framework, namely the autonomy of state regulation in investment screening. It refers to the state's institutional capacity to selectively admit, shape, or block incoming FDI under a given ISM. In this context, state capacity can be understood as a form of filtering that reflects the state's discretionary authority to regulate cross-border capital flows.

The second step is to identify the key dimensions through which this regulatory autonomy can be observed and compared. To systematically assess how state autonomy varies across countries, this research draws on empirical data reflecting the institutional design of ISMs. Specifically, it uses the PRISM database (Bauerle Danzman & Meunier, 2023a), the most current comprehensive source for analyzing ISM design features across

38 OECD countries from 2007 to 2021. The PRISM dataset (Bauerle Danzman & Meunier, 2023a) codes ISMs along seven key dimensions:

1. Scope: determined by the type of sectors and business activities that are subject to review.
2. Thresholds: determined by the minimum size of the transaction, which is enough to trigger review.
3. Foreign government control: whether the mechanism treats entities considered to be controlled by a foreign government differently.
4. Net benefit tests: whether the review criteria determined by the mechanism are limited to national security, essential security concepts, or also cover broader general economic policy concerns.
5. Pre-approval: whether the mechanism requires pre-authorization.
6. Monitoring/enforcement: whether the government is empowered to monitor and enforce the mechanisms' rules.
7. Screening apparatus: determined by the entity within the government that is tasked with transaction review.

As seen from these dimensions, the database provides extensive data on various aspects of ISMs. The richness of this data requires careful variable selection to avoid an overly complex classification. In such cases, the core methodological tension lies in balancing parsimony and complexity (Braun, 2015). A binary typology may oversimplify variation, whereas an overly detailed model risks losing analytical clarity.

To seek conceptual guidance for the typology selection process, a critical step is to engage carefully with existing typologies. In this regard, Elman (2005, p. 294) argues that reviewing previous theoretical and empirical work helps “discover[...] missed combinations and suppressed assumptions” and reveal potential pitfalls in conceptualization and measurement. Therefore, a close reading of existing frameworks helps identify possible dimensions, evaluate their limits, and select appropriate variables from the PRISM data (Bauerle Danzman & Meunier, 2023a).

One of the main relevant frameworks provided by Doppen et al. (2024) examines the attributes of state-firm relationships within capitalist states by introducing two ideal-type ISMs: “open” and “closed”. This typology is categorized by multiple criteria, including the scope of the review, the reviewing body’s authority, and the level of investor protection. Among the main strengths of this framework is its value as a lens on state-firm dynamics and broad ISM configurations. However, because ISMs often exhibit hybrid

characteristics and operate along a spectrum rather than at two extremes, relying on the “open” – “closed” binary classification to capture the state autonomy risks oversimplifying the reality of many ISMs. In Braun’s terms (2015, p. 91), such parsimonious models may suffer from low internal homogeneity, grouping cases that are quite dissimilar. In such cases, despite being theoretically derived dimensions, the framework may not fully capture the complexity of real-world ISM types.

Meanwhile, Bauerle Danzman and Couloubaritsis (2023) offer a more multifaceted typology by cross-tabulating two elements: the definition of “essential security” in legislation and the required standards of evidence for intervention in OECD countries. This intersection yields four types: “targeted intervener”, “FDI booster”, “high economic securitizer”, and “tech-leader”. In contrast to the previous approach, Bauerle Danzman and Couloubaritsis (2023) move beyond the binary framework. However, this approach may be limited in practice because it depends on the legislative language surrounding “essential security”. Given the inherent ambiguity and political flexibility of national security definitions (Lai, 2021), capturing operational autonomy may be significantly challenging. Nettesheim (2020, p. 480) argues that the language of the legal instruments and their actual implementation are likely to misalign. In turn, this could hinder the accurate categorization of states within the proposed typology.

In sum, while Doppen et al. (2024) offer valuable concrete variables, their binary types may oversimplify the phenomenon. Meanwhile, Bauerle Danzman and Couloubaritsis (2023) provide a comprehensive typology, but their framework prioritizes legal definitions over political economy reasoning. This research aims to capitalize on the strengths of both approaches while mitigating their limitations. The proposed approach should be able to develop and test multiple, distinct types and assert control over the empirical analysis (as seen in Doppen et al., 2024), while also offering the theoretical diversity of a multi-type of approach (as in Bauerle Danzman & Couloubaritsis, 2023). In other words, what is needed is a typology that is both comprehensive and grounded in the functional realities of screening practices.

To address this balance, this study adopts the “analytic differentiation” approach (Collier & Levitsky, 1997), which seeks to identify the most critical variables that are conceptually

relevant, systematically contextualizable, and aligned with the study's objectives. From this standpoint, two indicators emerge as particularly salient: scope and threshold.

The scope can be understood as the breadth of the ISM. It reflects the range of sectors subject to the screening process and determines the extent to which the state can intervene across industries. A broad scope encompasses many sectors, whereas a narrow scope focuses on only a few. By contrast, the threshold captures the depth of the screening process. Thresholds can be defined in various ways, including monetary values, percentages of ownership or control, or other criteria tied to the nature of the investment or the sector involved. While a low threshold enables the government to screen more investments, a high threshold reduces the number of transactions that undergo scrutiny. These two dimensions are selected for several reasons:

First, the breadth-depth duality represented by the scope and threshold dimensions facilitate capturing the degree of state autonomy over incoming investments. Both dimensions are directly tied to the state's operational capacity to control market access, making them particularly well-suited to capture filtering capacity for incoming investments. Scope reflects the proportion of the economy that is potentially subject to screening, while the threshold indicates how easily state scrutiny is triggered.

Second, the prominence of scope and threshold in existing datasets enables consistent cross-national comparison. These two dimensions constitute core design features that guide the codification process for all ISMs across cases in the PRISM database (Bauerle Danzman & Meunier, 2023a).

Building on this logic, a typology matrix organizes and selects the two variables, forming the table's rows and columns. As shown in Table 1, the matrix cross-tabulates the scope and threshold variables, thereby creating a property space in which each cell represents a distinct ISM type. On the one hand, the broad range of sectors covered by ISM indicates that the screening mechanism is comprehensive, encompassing a wide range of economic activities. In turn, this highlights the government's proactive approach to evaluating and regulating investments across various sectors to safeguard national security. On the other hand, a narrow range of sectors covered under ISM suggests a more targeted and focused

approach. In other words, the government prioritizes certain sectors or industries deemed critical or sensitive while potentially excluding others. A narrow sectoral coverage may reflect a more specialized or selective approach to investment screening.

The threshold level represents the degree to which a specific investment is perceived as a potential threat or risk. It reflects the level of scrutiny applied to any incoming FDI within the identified scope. By relying on two distinct characteristics, threshold and scope, the research presents different configurations. Accordingly, these types will be followed to conduct research:

Table 1. Typology of Investment Screening Mechanisms

		Sectoral Scope	
		Broad	Narrow
Threshold	High	Wide Selective Screening (T1)	Tolerant Screening (T3)
	Low	Restrictive Screening (T2)	Deep Selective Screening (T4)

T1: Member states that combine a high threshold with a broad scope are more likely to adopt a Wide Selective FDI Screening Model, in which FDI screening comprehensively covers many sectors. However, it is activated only if the specified high threshold is exceeded.

T2: Member states that combine a low threshold with a broad scope are more likely to adopt a Restrictive FDI Screening Model, which enables monitoring of a large number of transactions due to the broad scope of sectors and the low threshold percentage.

T3: Member states that apply a high threshold within a narrow legal scope are more likely to have a Tolerant FDI Screening Model, in which the mechanism has a narrow focus under certain conditions; therefore, fewer transactions will be scrutinized.

T4: Member states that apply a low threshold within a narrow legal scope are more likely to have a Deep Selective FDI Screening Model, which indicates an in-depth review of transactions on a sectoral basis.

The four typologies are based on the intersection of two key design dimensions: scope (broad vs. narrow) and threshold (high vs. low), both of which determine the degree and

character of regulatory autonomy over FDI. For instance, the Restrictive Screening type (T2) resembles what Doppen et al. (2024) refer to as a “closed ISM,” in which member states possess extensive regulatory autonomy across a broad range of sectors. By contrast, the Tolerant FDI Screening Model (T3), similar to what Doppen et al. (2024) have labeled an “open ISM,” reflects comparatively limited state autonomy.

Unlike the two extreme cases (T2 and T3), T1 and T4 exhibit a distinct pattern of selectivity. Although selectivity is the defining feature of models T1 and T4, their difference stems from their configurations. For instance, the Wide-Selective Model (T1) constrains government autonomy through a high threshold while allowing significant scope for intervention across a broad range of economic sectors. Conversely, the Deep-Selective Model (T4) restricts the scope of government intervention to a limited number of sectors but enhances regulatory autonomy by applying low thresholds, thereby allowing more transactions to be screened within those sectors.

The focus on scope and threshold also reflects a form of “pragmatic compression” intended to exclude variables with limited analytical utility, particularly those that complicate classifications without providing meaningful insights (Elman, 2005, p. 301). For instance, the formal classification of mechanisms such as mixed, sectoral, or cross-sectoral can be problematic. A country with a formal sectoral mechanism might appear to have a narrow scope for screening. However, if it includes an extensive list of sectors, the mechanism could still exert a broad, cross-sectoral impact in practice. Conversely, a formally cross-sectoral mechanism might suggest comprehensive screening across all sectors. Yet, if additional requirements or exemptions apply to specific sectors, the practical scope of screening may be much narrower than its formal classification implies.

Similarly, the definition of a foreign investor offers limited explanatory power for understanding variations in ISMs. While member states may screen any investor for national security reasons, such a practice remains the exception rather than the rule. In most cases, except for a few notable outliers, member states explicitly designate non-EU citizens or entities as foreign investors or provide extensive exemptions for EU-based investors (OECD, 2022, pp. 53-56). Recent empirical evidence further supports this view

(Eichenauer & Wang, 2024) that ISMs are designed primarily to target non-EU investors, with limited application to European investment flows.

Given these considerations, this study employs a typological approach as a methodological tool to define the key institutional characteristics of ISMs that shape the exercise of regulatory authority over incoming foreign investment. By systematically identifying and categorizing these features, the typological approach enables a structured understanding of how states configure their screening frameworks. This framework, in turn, facilitates a cross-national comparison of institutional preferences and establishes the basis for the theoretical arguments developed in the subsequent chapters.

Conclusions

This chapter documented the trends and driving forces behind the proliferation of ISMs across EU countries. While the EU's FDI Screening Regulation (EU 2019/452) has encouraged the diffusion of screening regimes across member states, it has not produced convergence in institutional design. Instead, national ISMs continue to vary in how they define and operationalize security concerns. This creates both a conceptual challenge and a comparative opportunity for IPE research.

To address this challenge, the chapter developed a framework for systematically analyzing and comparing national ISMs. To unpack institutional differences, it proposed a parsimonious typology that captures variation in the scope and threshold of ISMs across EU member states. Using PRISM data and prior typological work, the chapter identifies scope and threshold as the key comparative dimensions of screening capacity. Scope (broad/ narrow) captures how broadly screening reaches across sectors, while the threshold (low/high) captures how easily review is triggered. Cross-tabulating these dimensions generates four ISM types, which provide the analytical lens for the chapters that follow. Building on this discussion, the resulting descriptive typology was presented. This framework provides a more sophisticated understanding of the diversity of ISMs and reveals deeper institutional logic and autonomy. In doing so, it provides the analytical lens for the dissertation's subsequent chapters, which use the typology to guide case selection, develop and test hypotheses about the drivers of ISM design, and investigate the mechanisms that link underlying conditions to observed institutional outcomes.

CHAPTER 2. THEORETICAL FRAMEWORK: EXPLAINING THE VARIATION ACROSS DIFFERENT TYPES

The previous chapter established a descriptive typology. This chapter takes the next step and advances testable hypotheses to account for variation across the types. More specifically, it argues that variation in scope and thresholds can be explained systematically by two key factors: technological intensity and public banking.

First, scope. It is hypothesized that the scope can be determined by the state's level of technological intensity. High-tech sectors tend to be diffuse and systemic, spanning multiple industries and creating complex, cross-sectoral vulnerabilities. Accordingly, technologically advanced states are expected to adopt broad-scope ISMs to mitigate the distinctive risks arising from their exposure to these sectors. In contrast, countries with lower levels of technological sophistication are likely to implement more targeted mechanisms, focusing only on traditional strategic sectors.

Second, the threshold. The level at which screening is triggered is expected to be tied to the extent of public ownership in the banking system. Countries with high levels of public ownership in banks tend to set higher screening thresholds, as they have the financial and institutional capacity to support domestic firms, when necessary, in defending against hostile takeovers. Conversely, countries with lower levels of public banking ownership are likely to adopt lower thresholds, given their limited ability to counter hostile takeovers through alternative means.

By integrating these hypotheses on technological intensity and public banking dynamics, this chapter develops a theoretical framework that shows how combinations of technological intensity and public banking are expected to generate the four distinct ISM types identified in prior sections.

2.1. Scope of Investment Screening and Technological Stakes

The scope of ISMs refers to the sectors subject to review and potential restriction. In other words, it reflects state expectations about where sensitive transactions are most likely to occur and where threats to national security may emerge. Over the past decade, as discussed in Chapter 1, the scope of ISMs has undergone a fundamental transformation. Once confined largely to a narrow set of sectors, primarily defense and the military, many advanced economies have since expanded their screening mechanisms to encompass a far broader range of activities, from sectors such as gambling to advanced technologies such as AI and biotechnology (OECD, 2022).

While this widening of scope reveals broader expectations about where trade and investment risks might occur, the transformation did not produce uniform institutional responses. While some countries rapidly expanded the scope of their screening mechanisms, others maintained a narrower focus. This raises the question: what accounts for this variation?

The hypothesis examined here is that higher technological intensity leads to a broader scope of investment screening. This theoretical proposition builds on a growing body of empirical research (Chan & Meunier, 2021; Eichenauer et al., 2021; Bauerle Danzman & Meunier, 2023a), which identifies high technological intensity as a central factor shaping both cooperation at the EU level and the strengthening of ISMs at the national level.

While existing studies have identified mechanisms behind variation in ISM scope, the underlying logic linking technological intensity to ISM scope still requires further elaboration. In particular, it remains to be explained why high-tech economies perceive a broader range of sectors as vulnerable. What types of risks are associated with these sectors, and how do these risks differ from traditional notions of national security?

To address these questions in detail, this analysis proceeds in two steps. First, it examines the broader salience of technology in contemporary international relations to establish and contextualize its strategic significance. Second, it examines how the distinctive features of high technology shape national preferences regarding the scope of ISMs.

2.1.1. Theoretical Perspectives on Technology

The salience of technology in global affairs is not a new phenomenon; it has long been recognized as a critical determinant of national power and prosperity (Zysman & Newman 2006; Nelson & Ostry, 1995). However, the lens through which states interpret and respond to technology is undergoing a fundamental transformation. For instance, the liberal principles that shaped the post-Cold War economy were built on the idea that diffusing technology and encouraging cross-border investment would naturally drive growth, employment, and national competitiveness (Abramovitz, 1986; Guerrieri & Milana, 1995). Historically, advanced economies operating under this logic sought to attract FDI to facilitate technological upgrading and maintain competitiveness (Dunning & Lundan, 2008; Jude, 2015). These assumptions formed the basis of what scholars in this field conceptualized as “techno-globalism” (Montresor, 2001; Weiss, 1997). This view portrayed innovation as a collaborative effort carried out by multinational institutions that commonly leverage technological interconnectivity (Nelson & Ostry, 1995). Under this consensus, national security restrictions on technology flows were widely viewed as unnecessary and economically costly.

However, this liberal understanding has been challenged by the rise of the “new techno-nationalism” defined as “an emerging strain of geopolitical thinking and actions that link technological capabilities directly to a country’s national security and geopolitical benefits, and involve legal and regulatory restrictions or sanctions against selected foreign investors or foreign companies” (Luo, 2022, p. 551). From this perspective, technology has been reconceptualized, shifting its role from a facilitator of prosperity and growth to a critical instrument for asserting power amid geopolitical competition (Capri, 2024; Drezner, 2019).

This conceptual shift, linking technology directly to national security, is grounded in realist assumptions. From a realist perspective, states strive to maximize their relative power over other actors to ensure their own survival in a competitive environment (Waltz, 1979, 1993). Although conventional realism in IR did not explicitly prioritize technology, it has long been implicitly recognized as a crucial element of state strength, a “force multiplier” attached to states’ material capabilities (Eriksson & Giacomello, 2007;

Hoijsink & Leese, 2019). In other words, technology is an essential instrument for maintaining or expanding a relative power position in the international system (Eriksson & Newlove-Eriksson, 2021). Given the uncertainty surrounding other states' intentions (Mearsheimer, 1994) and the ongoing competition imposed by an anarchic structure (Waltz, 1993), states are constantly obliged to upgrade and safeguard their technological capabilities.

In the current geopolitical environment, states are increasingly driven to secure and enhance their technological base for survival and influence (Drezner, 2019; Drezner et al., 2021). The EU's strategic thinking and policy toolkit are concrete manifestations of this shift in how technology is perceived. The European Commission (2020) under its geopolitical mandate, has introduced the concept of "technological sovereignty." This concept is rooted in the idea of "strategic autonomy," outlined in the EU's Global Strategy (EUGS) in 2016. It explicitly encourages member states to preserve, develop, and maintain their capacity to act independently in the face of intense global technology competition (EUGS, 2016). Initially focused on a limited number of sectors, this notion of strategic autonomy became more pronounced and expanded across multiple new domains, such as innovation, infrastructure resilience, and regulatory competence, particularly following the vulnerabilities exposed by the COVID-19 pandemic (OECD, 2024, p. 8; European Commission, 2023b, p. 19).

Empirical research also highlights the growing importance of technology. Scholars identify "technological intensity" as a key factor behind the proliferation of ISMs at both the EU and national levels. At the EU level, Chan and Meunier (2021) show that member states with higher levels of technological intensity are more inclined to support EU-level cooperation in investment screening, driven by concerns about unreciprocated technological transfer. In a similar vein, at the national level, Bauerle Danzman and Meunier (2023a) examined the relationship between the presence of ISMs and domestic R&D expenditures. Their findings show a positive association between the presence of ISMs and high levels of domestic R&D spending.

Empirical evidence discussed above powerfully confirms the centrality of technology in explaining the general trend toward the adoption of ISMs. However, this overarching

trend does not entirely explain the diverse ways these mechanisms are structured across different states. Moving from a general focus on technology to an analysis of its specific features may offer a clearer explanation for variation in screening scope. As the next section will demonstrate, it is the nature of high technology, its systemic interconnectedness, its reliance on intangible assets, and its inherent dual-use potential that determines whether a country favors a comprehensive or a targeted approach to its defense.

2.1.2. Countering Diffuse Vulnerabilities with Broad Regulatory Scope

As established in the previous section, both the empirical literature (Chan & Meunier, 2021; Bauerle Danzman & Meunier, 2023a; Eichenauer & Wang, 2024) and broader theoretical perspectives (Seidl & Schmitz, 2023; Eriksson & Newlove-Eriksson, 2021) highlight the centrality of high technology in shaping state preferences over investment screening. The underlying logic behind this relationship is that countries with high technological intensity tend to be more cautious, as they have more to lose if foreign investors seek to gain control of their strategic businesses or assets through FDI. Taking this as a starting point, this section explains the specific features of high-tech economies that create this vulnerability and explain the rationale for such heightened state caution.

First, modern high-tech production creates systemic vulnerabilities that demand a comprehensive response. These high-tech economies are embedded in complex, interdependent global supply chains (Gereffi et al., 2005; Zysman & Newman, 2006). While this model drives innovation, it also creates structural vulnerabilities that strategic rivals might exploit. This is the basis of “weaponized interdependence,” in which states gain leverage by controlling critical nodes in the supply chain (Farrell & Newman, 2019b). For instance, a foreign acquisition of an essential supplier (e.g., a semiconductor) may enable the acquirer to disrupt domestic firms’ access to components that other industries might need. This could create reliance on foreign sources and potentially allow rivals to map and exploit national tech systems (Baldwin, 2019; Mozur & Ewing, 2016; Farrell & Newman, 2019b).

The European Commission's policy of "de-risking" is driven by the perceived threat that a rival state could exploit economic dependencies (European Commission, 2023b). This was also the discussion behind the acquisition of KUKA by a Chinese firm in Germany. Since the company innovations are fundamental to other sectors, particularly those involved in automation and manufacturing under Germany's "Industry 4.0" strategy, the concern was not just about the firm itself, but also about the broader ecosystem that depends on its advanced robotics technology (Mozur & Ewing, 2016). The fear was that foreign control over such a key enabler might restrict the access of domestic firms and deepen vulnerabilities across multiple industries (Mozur & Ewing, 2016).

Given that this risk extends beyond final products to upstream technologies critical to diverse industries, it became increasingly essential for policymakers, especially in high-tech countries, to implement broad-scope ISMs. Theoretically, a broad scope can provide the state with comprehensive visibility and control over these critical, interconnected nodes, which can prevent widespread systemic disruption.

Second, high-tech industries are also defined by their reliance on intangible assets (Hatzichronoglou, 1997). These assets, including intellectual property, specialized knowledge, and data, are difficult to quantify and easy to transfer (Haskel & Westlake, 2018). More importantly, once these assets are transferred abroad, the loss is often permanent (OECD, 2024, p. 16). For instance, when a foreign firm acquires an automotive company, the value lies not only in its manufacturing facilities but also in decades of accumulated R&D, battery innovation, expertise, and vehicle design. While such embedded knowledge might enhance the acquiring state's technological capabilities in similar sectors, it can also undermine the host country's long-term competitiveness (European Commission, 2020). Therefore, countries with high R&D investment often fear that transferring their intangible assets abroad could erode their long-term capacity for innovation. Accordingly, high-tech economies are likely to adopt a broad ISM scope to protect their intangible assets.

Finally, the dual-use nature of emerging technologies makes it difficult to classify them as either civilian or military. Technologies such as AI, telecommunications infrastructure, and quantum computing often serve both commercial and strategic purposes (EPRS,

2021, pp. 7-8). This convergence introduces new layers of risk, especially given the data-intensive nature of many high-tech applications (EPRS, 2021, pp. 7-8). Even though a company may be privately owned and operate for commercial purposes, its technology can have direct security implications, including data governance, surveillance, and the manipulation of critical information systems. For instance, the Chinese firm Huawei, as a leading global provider of 5G infrastructure and ICT equipment, plays a central role in digital networks that handle vast amounts of sensitive data (Farrell & Newman, 2019a). Through multiple collaborations and partnerships with European firms, Huawei has already gained access to data-rich environments that could be exploited for surveillance, espionage, or service disruption (Zhao, 2019). Given the inherent ambiguity and potential for significant strategic repercussions associated with civilian technologies, high-tech countries are expected to adopt broad ISMs that allow governments to screen foreign investment across a wider portfolio of sectors.

The risks associated with these three features of the high-tech economy (systemic interdependence, valuable intangible assets, and dual-use applications) do not operate separately. They reinforce one another and create vulnerabilities that extend beyond any single sector. As a result, risks are more diffuse, cross-sectoral, and difficult to anticipate, which strengthens the case for a comprehensive filtering approach. This need becomes more pressing given that geopolitical competition intensifies existing vulnerabilities and turns them into sharper strategic concerns.

These multifaceted threats cannot be effectively mitigated by screening only specific industries or isolated transactions. Instead, they require screening a wide array of sectors simultaneously. Accordingly, I hypothesize that states with high technological intensity are more likely to adopt ISMs with broad scope, which enables them to scrutinize a diverse set of sectors and thereby safeguard and map interconnected critical technologies and strategic interests.

H1a: Countries with higher technological intensity are more likely to adopt a broad-scope ISM.

In contrast, countries with lower technological intensity are likely to face a fundamentally different security landscape. The relative absence of complex interconnected high-tech sectors makes their economies less susceptible to the diffuse, systemic risks that affect high-tech economies. Instead, their critical sectors are often more traditional, including conventional critical infrastructure, defense, and natural resources. These sectors typically rely on more localized supply chains, involve a higher proportion of tangible assets, generate fewer sensitive data, and present fewer dual-use applications (Pohl & Rosselot, 2020, p. 18).

As a result, the potential threats facing these economies tend to be more contained, predictable, and concentrated in a limited number of clearly defined sectors. Therefore, the associated risks are less likely to spill over into the entire economy, and the loss or compromise of a single entity is less likely to trigger widespread disruption. For instance, while foreign control of a major port could pose a significant national security concern, the ramifications are more localized and less systemic than those of a disruption to a global semiconductor supply chain.

In this context, a narrower, more targeted ISM is likely sufficient to address the specific threats faced by countries with lower technological intensity. These states can effectively safeguard their essential interests by focusing screening efforts on a limited set of strategically significant sectors, without the broad, economy-wide oversight typically required in more technologically advanced economies. This targeted approach minimizes regulatory burden and intervention in the broader economy while still ensuring adequate protection against the most salient risks. Accordingly, I hypothesize that countries with limited high-tech industries are more likely to adopt a narrow ISM scope, focusing primarily on sectors where potential threats are most likely to arise.

H1b: Countries with lower technological intensity are more likely to adopt a narrow-scope ISM.

2.2. Threshold and Public Ownership of Banks

Threshold refers to the specific point at which a transaction becomes subject to formal scrutiny. Lower thresholds increase the number of transactions subject to review.

Conversely, higher thresholds signal a more selective and less interventionist screening regime. Therefore, the threshold is a critical indicator that captures the magnitude of the transaction criteria.

The central role of the threshold in shaping state policies raises the question of what accounts for variations in threshold designs. While a complex interplay of geopolitical dynamics undoubtedly influences such decisions, this research emphasizes the explanatory power of an often-overlooked institutional factor: public banking capacity. I argue that the extent of state ownership in the banking system is an observable indicator of public banking capacity, and that variation in this capacity influences threshold design in the plausibility probe. According to the factor-centric expectation, governments that hold substantial stakes in public banks are more likely to adopt higher screening thresholds than states with more limited public ownership. I argue that this can be understood in terms of public banking capacity providing alternative instruments for managing ownership risks in sensitive industries.

To better contextualize the strategic relevance of public banking, it is crucial to unpack its financial and institutional capabilities. Understanding these components helps clarify how states can mobilize and direct finance through public or state-aligned financial institutions in pursuit of strategic objectives. First, public banking capacity can serve a protective function by acting as a financial backstop against undesirable ownership change (e.g., through counterbids, recapitalizing firms, taking stabilizing shareholdings, or co-investing to keep strategically sensitive assets under domestic control). Second, it can serve a promotional function by providing patient capital for upgrading, innovation, and scaling. By easing financing constraints, public banks can reduce firms' reliance on foreign acquisition as a growth strategy and help limit "fire-sale" dynamics during downturns. Together, these functions expand the state's policy vis-à-vis hostile takeovers.

To ensure analytical clarity, I begin by defining public banks, outlining their significance, and situating them within relevant theoretical debates. I then examine how the roles and capabilities of these institutions have evolved in response to a changing geopolitical context, with particular attention to the practical advantages of their financial and

institutional capacities. Finally, I synthesize these insights to formulate hypotheses regarding the relationship between public bank ownership and investment screening thresholds.

Emphasizing these factors provides a broader perspective on how governments can strategically leverage public banks to address challenges associated with inward investment. Such an understanding, in turn, enables a more systematic assessment of how public banks can equip member states to safeguard domestic economic sectors against hostile takeovers that threaten national security.

2.2.1. Theoretical Perspectives on Public Banks

To understand how public bank ownership may shape the design of ISMs, it is useful to situate public banks within broader debates about modern statecraft and the political role of finance. In the academic literature, several scholars (e.g., Brei & Schclarek, 2013; Cull & Martinez Peria, 2013; Bertay et al., 2015) define public banks as financial institutions that are primarily (majority) owned and controlled by state actors. Public banks' mission is generally understood as advancing public objectives through the provision of accessible financial services and policy-relevant financing. Public banks can take different organizational forms—commercial, development, and universal— but in the EU, the states are predominantly active in development and promotional banks, while commercial and universal banking is largely private.

A foundational reason public banks matter in political economy is that banking occupies a position of structural power. The literature emphasizes two core functions of banks: (1) the financial ability to create money, transform it into credit, and allocate capital (Hilferding, 1983), and (2) the institutional capacity to contribute to broader economic coordination by engaging with firms across sectors and sustaining credible commitments among diverse economic actors (Useem, 1984; Mintz & Schwartz, 1981; Davis & Mizruchi, 1999). Public ownership potentially makes these capacities available for public purposes, although the effects, legitimacy, and performance of such steering remain contested.

The roles attributed to public banks have evolved over time and have been interpreted in different ways (Braun, 2022; Massoc, 2022), ranging from accounts that treat them as

developmental instruments (Gerschenkron, 1962) to perspectives emphasizing political influence and distortions (Dinc, 2005; Iannotta et al., 2012). For analytical clarity, the literature commonly groups arguments into three mainstream perspectives: the developmental view, the social view, and the political view.

The developmental view emerged as a dominant perspective in the immediate post-World War II period, presenting close state–bank relations as a vital instrument for national economic development (Gerschenkron, 1962). In the context of postwar industrial reconstruction, scholars (Cameron, 1961; Gerschenkron, 1962; Verdier, 1995; Zysman, 1983) argued that states could strategically mobilize public banks to direct capital toward the modernization of infrastructure and industry. This view was influenced not only by the success of postwar European reconstruction (Eichengreen, 2007; Ahrens, 2019) but also by the rise of East Asian developmental states, where public banks were widely regarded as essential drivers of economic growth (Woo & Woo-Cumings, 1991; Evans, 1979; 1995; Johnson, 1982).

The social view gained prominence alongside the rise of welfare states and heterodox economic thought. From this perspective, public banks leverage their financing capacity to address broader societal challenges, including inclusion, regional equity, and social cohesion (Levy Yeyati et al., 2007). This view offers a broadly positive assessment of public banks and highlights their capacity to support long-term, socially significant projects that the private sector is unwilling or unable to finance (Gerschenkron, 1962; Da Rin & Hellmann, 2002). In this framework, public banks are positioned as key actors in mitigating market failures, promoting financial inclusion, and delivering public goods.

In contrast to these largely positive accounts, the rise of neoliberalism brought a more politicized critique of public banking. Often described in the literature as a political view, this perspective portrays public banks as distorting market dynamics by crowding out private investment and contributing to resource misallocation (La Porta et al., 2002). Scholars also cite empirical evidence of lower profitability (Micco et al., 2006), limited financial development (Barth et al., 2003; Cornett et al., 2009), and rent-seeking behavior driven by political interference (Dinc, 2005; Iannotta et al., 2012). This perspective narrows the legitimate scope of public banking, reducing it to a “market-fixing” function

justified only when it can correct specific market failures, such as financing public goods or addressing negative externalities (Stiglitz, 1993).

Against this backdrop, the 2008 global financial crisis reopened these debates and prompted scholars to revisit earlier conclusions. Post-crisis research showed that public banks often served as relatively stable sources of credit when private markets froze (Brei & Schclarek, 2013; De Haas et al., 2012; Cull & Martinez Peria, 2013), complicating blanket claims that public ownership is inherently inefficient. Subsequent crises—including COVID-19 and intensifying climate and geopolitical challenges—further reinforced interest in the strategic roles public banks may assume under disruption (Mertens & Thiemann, 2019; Lepont & Thiemann, 2024; Marois, 2022, 2024). Rather than viewing public banks through static ideological binaries (e.g., efficient vs. inefficient; profitable vs. unprofitable), this literature increasingly situates them at the intersection of institutional legacies and contemporary policy challenges (Marois, 2022, 2024; Davydov, 2018).

Revisiting Keynesian insights (Keynes, 1937), some scholars reconceptualize public banks as crucial market-stabilizing institutions (Mikheeva, 2019; Mikheeva & Ryan-Collins, 2022; Mikheeva, 2024). This perspective argues that private financial systems dominated by short-term profit-seeking and speculative dynamics are prone to procyclical instability that undermines long-term productive investment and innovation (Mazzucato & Penna, 2016; Mikheeva, 2019; Mikheeva & Ryan-Collins, 2022; Burlamaqui & Kattel, 2018). In this view, supporting industrial and technological change is not only a matter of investment volume but also investment quality (Mikheeva, 2019; Mikheeva & Ryan-Collins, 2022). Addressing “grand challenges,” such as the climate crisis, requires long-term, patient, and risk-tolerant capital—forms of financing that private investors and commercial banks often underprovide given their focus on short-term returns and low-risk assets (Mazzucato & Penna, 2016; Mazzucato & Semieniuk, 2018; Mazzucato & Kattel, 2020). In this context, public banks are recognized not only as countercyclical instruments but also as institutions capable of addressing structural dysfunctions in financial systems increasingly detached from the real economy (Griffith-Jones & Tyson, 2013; Griffith-Jones et al., 2018).

From a more transformative perspective rooted in Polanyian thought, public banks are framed as proactive market-shaping institutions (Mazzucato, 2013, 2016). This perspective holds that since markets are state-created, public banks should not merely “fix” market failures but actively “shape” markets to pursue strategic missions (Mazzucato & Penna, 2016, p. 207). In this view, grand societal challenges are not reducible to negative externalities; they require directional investment and institutional coordination (Mazzucato & Semieniuk, 2018; Mazzucato & Kattel, 2020; Burlamaqui & Kattel, 2018).

Scholars advancing transformative accounts emphasize a broad range of contemporary functions for public banks, including countercyclical finance during downturns, innovation-oriented financing, green infrastructure investment, and financial inclusion (Griffith-Jones & Tyson, 2013; Mazzucato & Penna, 2016; Griffith-Jones et al., 2018). They also argue that the renewed salience of public banking is not merely theoretical but evident across major economies. In the United States, for example, scholars use concepts such as the “developmental network state” (Block & Keller, 2015; Block, 2008) and the “entrepreneurial state” (Mazzucato, 2013, 2015) to capture the “hidden” nature of industrial policy enacted through public institutions. These accounts highlight innovation strategies across sectors such as information technology, biotechnology, and nanotechnology (Block & Keller, 2015; Lazonick & Tulum, 2011; Motoyama et al., 2011).

Comparable patterns are evident across EU member states, despite structural constraints such as competition law, fiscal restrictions, and state aid rules. Although one might expect these constraints to diminish the role of public banks, recent decades instead show their renewed prominence especially, in the context of the global financial crisis, the COVID-19 pandemic, and the green and digital transitions (Bulfone, 2022; Di Carlo & Schmitz, 2023; Seidl & Schmitz, 2023). Building on these developments, recent scholarship emphasizes public banks’ growing role in European industrial policy and investment governance, reflected in conceptualizations such as the “reinvention of development banking” (Mertens et al., 2021), “state-led enabling of market-based finance,” the “European investor-state” (Lepont & Thiemann, 2024), and the “hidden investment state” (Mertens & Thiemann, 2019).

This body of literature challenges the automatic framing of state influence as inherently harmful and calls for a more pragmatic, problem-oriented approach. As Alami and Dixon (2019, p. 74) argue:

“The relationship between the state and SOEs... tends to take for granted that the influence of state bureaucrats and politicians is a source of ‘dysfunctional political interference’ in state-controlled firms. This ontological view... is extremely problematic because it does not leave room (if any) for scenarios where firms are efficient in economic terms and simultaneously perform functions that further the strategic interests of state actors. It also precludes considerations of (geo)economic and (geo)political strategies that involve both private and public actors.”

Taken together, these debates support a dynamic approach to public banking that emphasizes how mandates, tools, and institutional positioning evolve with changing political-economic conditions (Marois, 2022, 2024). The next section applies this insight in the EU context by tracing how public banks’ instrument toolkits and institutional roles have been shaped by European governance constraints and successive crises.

2.2.2. Public Banks in Europe: Constraints, Reinvention, and Instrument Toolkits

As defined by their mandates, public banks pursue their goals by employing several financial tools, including capital injections, guarantees, and equity stakes. However, there is still no universally accepted way to define the goal of public banks (International Monetary Fund, 2020, p. 69), despite their explicit mandate to achieve socio-economic goals. A World Bank survey (2018) shows that mandates range from broad aims such as “promoting economic development” to more specific tasks according to their dedicated missions.

From a historical perspective, public banks were particularly prominent in the postwar period, when broad mandates and the legitimacy of state intervention enabled them to direct national economic activity (Shonfield, 1965; Johnson, 1982; Evans, 1995). Operating within a policy environment that afforded fiscal space and strong state capacity, these institutions served as engines of reconstruction and development (Seccareccia, 1995; Eichengreen, 2007). Their governance was often embedded in state-led planning and “picking winners” strategies (Zysman, 1983; Shonfield, 1965). This meant providing targeted, strategic support to selected firms and sectors deemed vital

for national modernization. The instruments were direct and consequential, relying on grants, subsidies, and public spending to build industrial capacity from the ground up (Diamond, 1984).

In such settings, public banks could function as coordinating nodes for state-led industrial policy and, in some cases, sustain privileged access to information and influence through close involvement in corporate governance arrangements (Diamond, 1984; Haggard & Lee, 1995; Mintz & Schwartz, 1987; Davis & Mizruchi, 1999). Empirical studies also highlight that this positioning could create concerns about incumbency advantages, entry barriers, and preferential allocation (Morck et al., 2005; Rajan & Zingales, 2003; Morck et al., 2010; Grittersova & Mahutga, 2020).

The onset of the neoliberal era in the late 1970s and 1980s altered these conditions. The traditional model of extensive state involvement in banking was progressively dismantled (Hardie & Howarth, 2013). In the EU, regulations designed to protect the Single Market, particularly competition law, fiscal rules, and state aid controls limited public banks' room for direct intervention (Volberding, 2021). Until the 2010s, the prevailing view within EU institutions was that public banks were outdated instruments for correcting market failures and could even distort the Single Market (DG Competition, 2008). During this period, traditional tools such as subsidized credit or direct investment were replaced or diluted in favor of instruments compatible with the EU's liberalized policy framework (Verdier, 2000).

However, the 2008 global financial crisis and the Eurozone sovereign debt crisis triggered a more pragmatic and integrated approach. These crises highlighted the importance of public banks as stable countercyclical financial institutions (Brei & Schclarek, 2013). From 2014 onward, the EU increasingly relied on development banks as central instruments of its economic strategy, developments described as early steps toward the "reinvention of development banking" (Mertens et al., 2021). With the launch of the Investment Plan for Europe (Juncker Plan) in 2014, public banks were again recognized as key drivers of growth, recovery, closing investment gaps, and innovation (European Investment Bank [EIB], 2020, pp. 1–3). Many of these activities were

channeled through the European Fund for Strategic Investments (EFSI), managed by the EIB (EIB, 2020, p. 9).

This reliance persisted and expanded under the von der Leyen Commission, notably through the European Green Deal Investment Plan (European Commission, 2019, p. 15) and gained additional momentum post-COVID-19. Substantial resources were directed toward environmental and digital transition sectors (e.g., hydrogen, batteries, biomedicine), exemplified by Next Generation EU (NGEU) (€740 billion injected 2021–2023; EPRS, 2023). InvestEU, the successor program aiming to generate at least €650 billion in investment between 2021 and 2027, extends this impetus for development banking in the EU (European Commission, 2025). Collectively, these initiatives have channeled significant public resources through both national public banks and the EIB, and in exceptional periods they have been accompanied by relaxed state aid and competition constraints (Volberding, 2021).

From the Juncker Plan to InvestEU, EU policies have moved beyond simply injecting capital into the economy to institutionalize public banks as central components of EU governance (Mertens et al., 2021). This stance has opened pathways for the EIB and national public banks to assume more prominent roles in directing strategic investment, particularly in digital, green, and technology-related domains (European Commission, 2025; EIB, 2024). The EIB has expanded its role not only as a financier but also as a technical authority and risk-sharing partner that catalyzes private capital (Griffith-Jones & Naqvi, 2021). Its responsibilities have increasingly included designing financial instruments and developing new markets, such as green bonds and venture debt (EIB, 2024).

At the national level, public banks have followed a broadly similar trajectory, and in some cases they have coordinated through transnational networks. Collaborations such as the European Tech Champions Initiative (ETCI) have pooled resources and established large-scale venture funds to address critical financing gaps (ETCI, 2023). Public banks from across the EU have also coordinated through the European Association of Long-Term Investors (ELTI) to advocate reforms that would expand investment capacity (ELTI, 2025). By joining forces in such networks, public banks can enhance collective influence

and the ability to develop and deploy flexible instruments aligned with national industrial strategies (Piroska & Epstein, 2023).

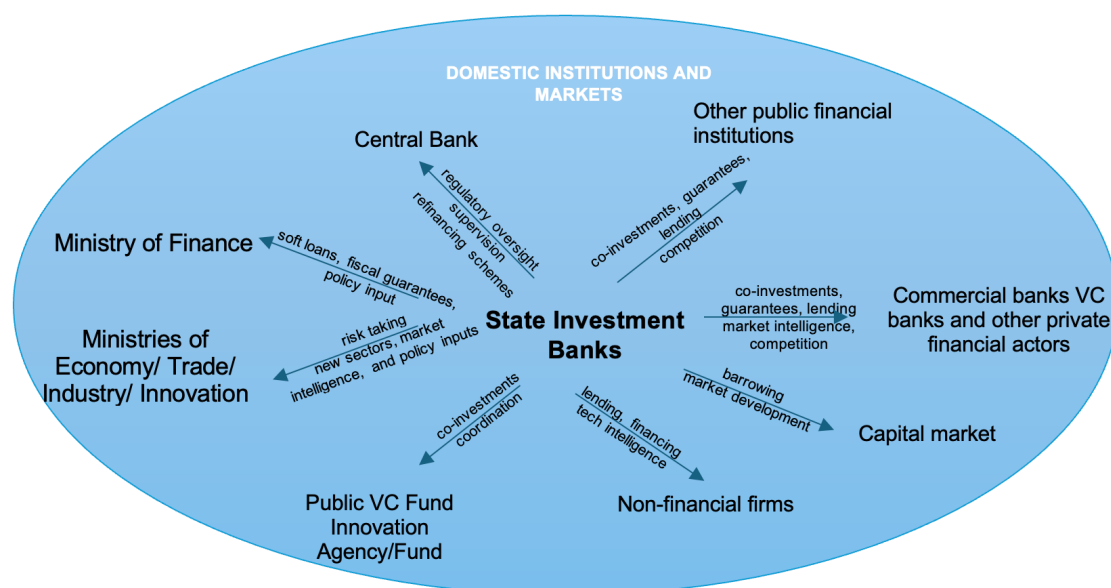
Empirical studies show how these institutions are used to implement targeted industrial policies that prioritize national interests and seek to promote and protect key sectors. Notable examples include contexts where shifts away from neoliberal paradigms have been especially visible, such as Poland (Naczyk, 2022), as well as core member states such as France (Clift, 2013) and Germany (Naqvi et al., 2018). The literature often interprets this as evidence of a “geo-dirigiste turn” (Seidl & Schmitz, 2023), highlighting the paradoxical rise of public banks in which “old” tools are leveraged to pursue “new” strategic objectives (Mertens et al., 2021). In this context, the framing of industrial and technological challenges as matters of sovereignty and national security traditionally associated with the “high politics” of defense has increasingly been extended to encompass the “low politics” of industrial capacity, supply chains, and technology (Csernaton, 2022, p. 397). As a result, industrial policy has become increasingly intertwined with national security concerns.

The expanding financial role of public banks is inseparable from their evolving institutional role (Figure 5). Their growing financial power is rooted in expanding mandates from financing the green transition to strengthening industrial resilience. As Mikheeva (2024, p. 117) emphasizes, expanding mandates can fundamentally alter the operational reality of public banks by broadening not only their instruments and policy areas but also the institutional contexts in which they coordinate. Public banks’ significance is also reinforced by their ability to engage broader sets of industry actors and stakeholders and to operate within complex policy ecosystems that include firms, research bodies, ministries, and other public institutions (Figure 5). Achieving transformative goals, green transition, digital transformation, and supply chain resilience requires not only financial capital but also institutional expertise, strategic planning, cross-sector alignment, and long-term vision (Mazzucato, 2018).

Public banks contribute to policy formulation through knowledge production. This is evident in the production of sectoral reports, technology assessments, and economic forecasts that provide detailed, sector-specific insights for industrial and innovation

strategies (Mikheeva & Juuse, 2021; Mikheeva & Ryan-Collins, 2022; Mikheeva, 2024). Their expertise becomes formalized in “organizational routines” for systematic learning and analysis (Mikheeva, 2024, p. 113), positioning them as policy partners that integrate financial tools with analytical and coordinative capacities.

Figure 5. State Banking



Source: Mikheeva (2024) p. 121

Although this repositioning offers public banks a distinctive degree of flexibility, a realistic assessment of their limitations remains essential. This analysis does not present them as a panacea for all economic challenges; instead, it recognizes their role as complementary to, but not a substitute for, comprehensive structural reforms or incoming FDI. The core argument of this section is that public banks now have greater room to maneuver and execute strategic tasks due to their geopolitical positioning.

In sum, the evolution of public banking in Europe is characterized neither by a simple retreat nor by a return to postwar dirigisme. Rather, successive crises and shifting policy priorities have increased the prominence of public banks and expanded the instrument toolkits through which they operate, often in hybrid forms that reconcile public objectives with EU governance constraints (Mertens et al., 2021). Table 2 summarizes

these changing emphases in instruments, institutional relations, development logics, and constraints.

Table 2. Changing Functions and Institutional Logics of Public Banks in Comparative Perspective

	Postwar Period (1948-late 1970s)	Neoliberal Period (1980s- mid 2010s)	Geopolitical Period (Mid-2010s- Present)
Main Financial Instruments	Direct Capital Allocation, Public Investments	-Indirect support via credit guarantees and de-risking -Public-private partnerships (PPPs) -Market-based instruments (e.g., bonds)	-Strategic lending to key sectors - Equity stakes - Venture capital - Green bonds - Countercyclical lending
Institutional Relations	Close state-bank Interlocking directorates	Distant/ “hidden” state-bank relations	Networked state-bank relations
Development Logic	- National reconstruction - State-led industrialization	- Market efficiency - Fiscal restraint and liberalization	- Strategic autonomy - Technological leadership - Geopolitical positioning
Main Constraints	Material (lack of capital, fragile institutions)	Ideological and Regulatory (Competition, fiscal, state aid rules)	Reconciling Market Logic with Strategic State Objectives

Source: Author’s own compilation based on the literature reviewed above

Note: This is a stylized summary of dominant emphases in the literature and policy practice; logics and instruments may overlap across periods and across countries.

Building on this conceptual framing, the next step is to explore the practical implications of this growing role. A deeper analysis of public banks’ capacities helps identify concrete ways states can leverage these institutions to mitigate risks and enhance resilience, particularly in critical domains such as investment screening.

2.2.3. Leveraging Public Banks

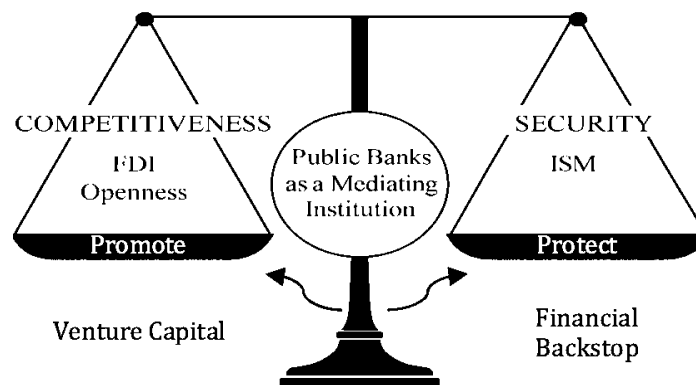
The previous analysis concluded that in the contemporary era, the role of public banks has evolved into that of influential instruments. Building on that discussion, this section

formulates expectations about their potential function as strategic tools for member states in navigating the challenges posed by ISMs and related national security concerns.

Although the existing literature does not explicitly link public banking to ISM policies, situating public banks within the broader framework of modern industrial policy could provide a useful conceptual bridge. There is growing consensus that contemporary state intervention in industrial policy operates along two parallel logics: first, enhancing domestic competitiveness through targeted support for innovation, sectoral upgrading, and the creation of new competitive advantages; and second, safeguarding strategic sectors from external geopolitical risks. These dual logics have recently been conceptualized in the literature through the binaries of offensive-defensive strategies (Bauerle Danzman & Meunier, 2024) and promotion-protection (Di Carlo & Schmitz, 2023), yet the underlying distinction remains the same.

However, as evident in the case of ISMs, operationalizing instruments to reconcile the promotion and protection functions can generate significant policy dilemmas. As shown in the figure below, on the one hand, economic competitiveness requires openness to foreign capital. On the other hand, the pursuit of national security requires the use of ISMs to manage the risks that openness entails. The central challenge is that ISMs can produce a “chilling effect,” potentially deterring foreign capital that the state deems essential to competitiveness (Eichenauer & Wang, 2024). In this context, this study positions national public banks as primarily domestic institutions through which member states can manage this inherent tension.

Figure 6. Public Banks as a Mediating Instrument



Source: Author's own illustration

Positioned at the intersection of these competing policy imperatives, public banks offer a unique mechanism for mediating the tension between economic openness and national security. This role operates in two ways:

First, when foreign takeovers are deemed undesirable or risky from a security perspective, public banks can be mobilized to stabilize or restructure domestic ownership. This practice became particularly evident in the immediate aftermath of the COVID-19 pandemic, when multiple governments carried out large-scale nationalizations to preserve critical services essential to national security and public order (Marois, 2024; Barrowclough & Marois, 2025). A similar pattern emerged during the Global Financial Crisis, when public banks played a stabilizing role by rapidly mobilizing capital in alignment with strategic state interests (De Haas et al., 2012; Cull & Martinez Peria, 2013). This record of targeted intervention builds confidence that public banks can again be deployed when ISMs identify transactions as problematic, providing a financial backstop to avoid outright bans.

Although the growing role of public banks and their expanding responsibilities might be perceived as temporary and exceptional, tied only to crises such as economic downturns or the COVID-19 pandemic, existing studies (Alami & Dixon, 2021; Alami et al., 2021; Alami, 2024) indicate that recent challenges within the evolving geopolitical order have cemented their status as enduring institutional actors. This trend is also evident globally, with multilateral actors such as the World Bank (2018) and the OECD (2015) recognizing

the sustained relevance of new public banks and the establishment of new institutions across both developed and developing countries.

Second, another important role of public banks in the domain of competitiveness lies in their promotional or entrepreneurial functions. Specifically, they advance contemporary development banking practices by employing innovative, risk-sharing financial instruments, such as VC funds, loan guarantees, and securitization, to attract and mobilize private capital toward ambitious state-led economic initiatives.

This role takes on added significance given the limited availability of domestic VC in the EU, particularly in later-stage firm growth (EIB, 2024). According to the EIB (2024, p. 15), while early-stage funding is often accessible to European firms, later financing rounds require substantially larger capital volumes, which many European countries cannot provide, given their relatively small equity markets. As a result, mature European firms increasingly turn to foreign investors to secure necessary funding (EIB, 2024, p. 16). This dependency is underscored by the fact that 82% of EU scale-up deals involve a foreign lead investor (EIB, 2024, p. 14). Around 60% of those companies are eventually acquired by foreign firms or relocated abroad (EIB, 2024, p. 14).

In short, the limited size of European VC markets, especially for large-scale firms, often forces growing firms to rely on foreign capital in late-stage funding, increasing the likelihood of foreign acquisitions or relocations (EIB, 2024, p. 16). In this context, by acting as a “lead investor” and providing “patient capital,” public banks catalyze private investment to reduce systemic dependency and build a more resilient domestic ecosystem (Eichenauer & Wang, 2024).

However, it is important to clarify that the growing role of public banks does not necessarily signal a simplistic, zero-sum strategy of replacing all foreign investment with domestic capital. Such an approach would be counterproductive, as it could undermine the very conditions for economic competitiveness by deterring the FDI that innovative European firms appear to need to overcome the “scale-up gap”. In this context, I argue that the role of the reinvented public bank becomes particularly relevant as a strategic

alternative to more extreme defensive measures, making it more feasible for the state to manage the tension between security and competitiveness.

Accordingly, I hypothesize that greater public ownership of banks, combined with strong institutional linkages, provides the state with alternative policy instruments to mediate the trade-off between security and competitiveness. On the one hand, public banks can serve as a financial backstop, offering the state a credible alternative to simply blocking a problematic transaction. On the other hand, public banks help close the domestic “scale-up gap,” mitigating the structural dependence on foreign capital that can leave a country vulnerable to takeovers. Furthermore, their institutional capacity, including detailed sectoral analysis and technical assistance, enhances the state’s market intelligence, enabling more informed and targeted policy responses.

H2a: Countries with a higher degree of public ownership of banks and strong institutional ties are more likely to adopt higher thresholds in their ISMs.

In contrast, countries with lower levels of public ownership of banks have a more limited policy toolkit, lacking both the promotional capacity to build industrial resilience and the protective capacity of a “financial backstop.” With fewer policy alternatives, these states may feel more vulnerable and thus adopt stricter, more direct protectionist measures.

H2b: Countries with a lower degree of public ownership of banks and weak institutional ties are more likely to adopt low thresholds in their ISMs.

That said, public banks should not be regarded as a “silver bullet” for resolving all the state’s geoeconomic challenges. Instead, I argue that their primary role is to mediate the inherent trade-offs between competitiveness and security, rather than to eliminate them. On the promotional side, their function is to support and catalyze the market, not to act as a substitute for it. Similarly, on the protective side, their capacity as a financial backstop serves to mitigate risks, not to prevent them from happening again.

Importantly, the availability of public banks as crucial backup instruments does not mean the state will always intervene aggressively. In other words, possessing the means to act does not mean the state will automatically “pull the trigger” on every foreign investment.

Instead, the state has discretion to carefully assess and selectively intervene in line with its strategic priorities and national interests. In short, the public bank provides the state with a powerful alternative to simply blocking a problematic transaction, but it does not create an impenetrable shield. It allows the state to manage the consequences of a risky foreign takeover more strategically, but it does not eliminate the inherent risks.

2.3. Combining Two Explanatory Variables

The primary focus of this research is to identify the conditions that explain variation in how member states design ISMs. To this end, four distinct expectations are developed to explore how preferences regarding thresholds and scope may be shaped.

First, technological intensity is expected to shape the breadth of ISMs. As high-tech economies face complex, interconnected risks that span multiple sectors, broad-scope ISMs are better suited to safeguarding and mapping critical technologies and strategic interests. Second, low-tech economies face more contained, sector-specific risks, often concentrated in traditional industries with localized supply chains and tangible assets. For these states, targeted ISMs focusing on a limited set of strategic sectors can provide sufficient protection while minimizing regulatory burden.

Third, the degree of public ownership of banks, particularly when coupled with strong institutional ties, enhances the state's policy toolkit for balancing security and competitiveness. Public banks provide both promotional capacity (closing the domestic scale-up gap and reducing reliance on foreign capital) and protective capacity (serving as a credible financial backstop). These features give states viable alternatives to outright protectionism, enabling higher investment screening thresholds. Fourth, states with low public bank ownership lack these capacities and are therefore more likely to rely on stricter, direct protectionist measures.

Building on the hypotheses linking technological intensity and public banking dynamics to ISM design, I propose that:

1. The wide-selective screening type is expected in countries with high stakes in technology and high public ownership of banking.
2. The restrictive screening type is expected in countries with high technological stakes and low public banking ownership.
3. The tolerant screening type is expected in countries with low stakes in technology and high public ownership of banking.
4. The deep-selective screening type is expected in countries with low stakes in technology and low public ownership of banking.

Table 3. Interplay between Technological Intensity and Public Banking

		Public Banking	
		High	Low
Technological Intensity	High	Wide Selective Screening (T1)	Restrictive Screening (T2)
	Low	Tolerant Screening (T3)	Deep Selective Screening (T4)

Conclusions

This chapter has outlined a set of expectations for understanding variation in design choices of ISMs adopted by different EU member states. Scope variation, consistent with previous research, is expected to be closely linked to high-technology stakes. When technology stakes are high, ISMs are anticipated to have a broad scope encompassing a wide range of sectors. Conversely, in countries with lower technology stakes, ISMs are expected to be more narrowly focused. On the other hand, variation in threshold is hypothesized to be shaped by the role of public banking. Where public banks can provide financial and institutional support to domestic firms in the event of hostile takeovers, states are expected to set higher thresholds for investment screening. In contrast, states with weaker public banking institutions are anticipated to adopt lower thresholds.

By integrating these two dynamics, this chapter concludes with a framework that links variation in scope and threshold to the observed diversity of ISM models. This framework provides a foundation for assessing the relative explanatory power of the four identified ISM formations. The next chapter outlines how this theoretical framework will be empirically tested.

CHAPTER 3. METHODOLOGICAL CONSIDERATIONS

This chapter outlines the methodological framework used to empirically test the theoretical arguments presented in the previous chapter. It provides a comprehensive overview of the research design, variable operationalization, and the process for selecting case studies.

The chapter is divided into four steps. First, it outlines the overall research design, explaining the choice of a factor-centric, comparative case study approach that uses process-tracing and plausibility probes. Second, it explains the operationalization of the independent variables. It also addresses challenges in operationalizing both dependent and independent variables, explaining how these challenges have been met through practical solutions that capture the institutional nature of ISMs. Third, it operationalizes and categorizes the dependent variables along the two key dimensions of ISM design, scope (broad/narrow) and threshold (high/low), drawing on PRISM data (Bauerle Danzman & Meunier, 2023a). Building on this categorization, the chapter details the process of selecting four cases, namely, Germany, Italy, Poland, and the Czech Republic explains the rationale for this selection.

3.1. Research Design

This research investigates the variation in ISMs across selected EU member states, with respect to their technological intensity and public banking. To explore this variation effectively, it is essential to clearly define the study's methodological orientation. This choice significantly shapes the research strategy and analytical focus.

Scholars commonly distinguish between outcome-centric and factor-centric research designs (George & Bennett, 2005; Gschwend & Schimmelfennig, 2007). An outcome-centric approach aims to provide a rich, holistic explanation of a specific outcome (Y) that accounts for a broad array of contributing factors (Gschwend & Schimmelfennig, 2007, p. 14). By contrast, a factor-centric design narrows its focus to examine the influence of one or a few key independent variables (X) on that outcome (Sieberer, 2007). The choice

between these two designs ultimately depends on the research task at hand (George & Bennett, 2005; Gschwend & Schimmelfennig, 2007).

Given the study's core objective of testing the explanatory power of technological intensity and public banking in shaping ISM design choices (scope and threshold), a factor-centric design is most appropriate. In other words, the emphasis is on assessing the explanatory power of these factors rather than fully accounting for the complexity of each outcome (Lehnert, 2007, p. 67). At the same time, factor-centered analysis in a small-N setting requires an explicit strategy for discriminating among rival explanations to avoid an indeterminate research design (Dür, 2007).

Within this framework, the study adopts a comparative factor centric case-study design across selected EU member states. Case selection was primarily guided by the need to maximize variation in the explanatory variables (technological intensity and public banking) (Lehnert, 2007). This strategy also generates cases that clearly and uniquely represent combinations of ISM attributes (threshold and scope) and enables meaningful comparative analysis of how variations in the explanatory conditions relate to differences in ISM design. By comparing multiple cases, this approach enables an in-depth analysis of the factors and helps identify key patterns, similarities, and differences (Yin, 2009, 2017).

The empirical strategy proceeds in two steps. First, the study uses plausibility probes to assess whether the theory's observable implications align with broad patterns across the selected cases. The use of plausibility probes is well established in scientific inquiry, particularly where absolute certainty is difficult to achieve (De Bièvre, 2007, p. 208). This approach allows researchers to formulate and refine hypotheses and demonstrate their empirical relevance (Levy, 2008; Drezner, 1999) relative to other possible explanations. While plausibility probes do not provide definitive proof or formal theory testing (Eckstein, 1975, p. 108), their primary value lies in using available evidence to develop a coherent explanation centered on the selected factors (George & Bennett, 2005, p. 75). This is particularly advantageous in contexts, such as this one, where data constraints arising from confidentiality constrain deep empirical testing.

Second, the dissertation's comparative core relies on within-case process tracing. This method involves closely examining the development of ISMs, key turning points, and relevant policy documents in each country. By seeking evidence that directly supports the proposed mechanisms, such as references to technological competition in policy debates or the documented influence of state-linked banks, the research aims to reconstruct the narrative explaining observed variations in ISM scope and threshold. To strengthen inference and avoid indeterminacy (Dür, 2007), the process-tracing analysis explicitly evaluates rival explanations alongside the proposed mechanisms. For each case, the study specifies a small set of theoretically plausible alternatives. Then it assesses which account fits best for the observed variation. This does not undermine the study's factor-centric orientation. Instead, it reinforces the evaluation of the primary variables by assessing their explanatory power relative to competing alternatives. As Levy (2008, p. 11) observes, such checks can reveal how much proposed explanations account for phenomena that previous theories overlooked. Building on the methodological foundations outlined above, the following section operationalizes the key variables and describes the data sources used to measure them across the selected cases.

3.2. Operationalization of Independent Variables

To empirically investigate the hypothesized relationships discussed previously, this section operationalizes the core independent variables. Specifically, it outlines the measurement strategies and data sources for Technological Intensity (examined in relation to ISM scope) and Public Bank Presence (examined in relation to ISM thresholds).

Technological Intensity

In the previous chapter, I hypothesized a positive relationship between a country's technological intensity and the breadth of its ISM scope. To test this hypothesis, it is crucial to operationalize technological intensity in a way that avoids the limitations of conventional indicators, which may be misleading about a nation's true technological capabilities.

Technological intensity refers to the degree to which knowledge and advanced technologies are embedded in economic activities (Zawislak et al., 2018). Although various classifications exist, this study focuses specifically on the high-technology manufacturing sector, drawing on established methodologies such as the OECD classification system based on Hatzichronoglou (1997) and using NACE (or ISIC) codes at the 2- or 3-digit level. This system classifies industries according to criteria such as R&D intensity and value added, enabling consistent identification of the high-tech sector across countries (Hatzichronoglou, 1997).

This distinction is particularly important in the context of ISMs, where concerns about foreign takeovers are driven not only by the scale of high-tech production but also by the strategic value of the innovation and technological expertise embedded in these sectors. Therefore, to capture both the economic scale and the innovative quality relevant to potential FDI vulnerabilities, this research employs a multi-indicator approach to technological intensity:

Value-Added Factor Cost of High-Tech Manufacturing: This indicator measures the economic significance and overall production scale of the high-tech manufacturing sector. Quantifying the domestic value generated by high-technology manufacturing reflects the overall size and significance of the industrial base that may be exposed to foreign investment risks.

High-technology exports serve as a key indicator of competitive advantage and global market success (OECD, 2023). If a country is a major exporter of semiconductors, advanced machinery, or pharmaceuticals, its domestic ecosystem for producing those goods is more likely to be globally competitive in price, quality, and innovation. However, measuring only the size or output of the high-tech sector may be insufficient. As the literature highlights (e.g., Lall, 2000; Srholec, 2007; Mani, 2000), countries may exhibit significant production or exports in high-tech categories, primarily through participation in lower-value-added, labor-intensive segments such as assembly, without substantial domestic R&D investment or capability. This distinction is particularly important in the context of ISMs, where concerns about foreign takeovers are not solely driven by the scale of high-tech production but by the strategic value of the innovation and technological

expertise embedded within these sectors. Therefore, to capture both the economic scale and the innovative quality relevant to potential FDI vulnerabilities, this research also employs more specific features that directly speak to high-tech sectors.

One key indicator in the high-technology sector is Business Expenditure on R&D (BERD). BERD measures the distribution of R&D spending by business enterprises across industrial sectors. The emphasis on BERD, rather than total R&D expenditure (GERD), is deliberate because BERD captures R&D funded and performed by the business sector, providing a more accurate reflection of industry-driven innovation (OECD, 2023). It reflects the private sector's direct financial commitment and strategic investment in maintaining a technological edge (OECD, 2023). Unlike GERD, BERD is more closely tied to the country's industrial structure and technological specialization (Mathieu & Potterie, 2010). Focusing on BERD within high-tech industries enables an assessment of the extent to which domestic firms invest in the development of advanced, often strategically sensitive, technologies (Karahan, 2015). This focus is particularly relevant to ISMs, since BERD in high-tech industries is a direct input into the generation of valuable intangible assets associated with proprietary knowledge in fields at the center of geoeconomic competition.

Lastly, European Patent Applications are selected as a direct measure of codified knowledge output (EPO, 2025). As a tangible result of R&D investment, European Patent Applications capture technological frontier activity. Most importantly, each patent is a legally defined piece of intellectual property, a valuable and transferable asset primarily targeted for strategic acquisitions (EPO, 2025).

To ensure cross-case comparability and temporal consistency, the four indicators are measured from 2015 to 2021 using standardized international data sources. Data on value added in high-technology manufacturing and on BERD in high-technology industries are obtained from the OECD and Eurostat databases. High-technology exports are sourced from the World Bank, and European patent applications are drawn from the European Patent Office (EPO).

Public Banks

Public banks are defined here as financial institutions in which the government holds 50% or more of the equity. Accurately operationalizing this variable is crucial for testing this hypothesis. This is because simple metrics may not fully capture the strategic dimensions relevant to ISM policy.

Consistent with the outlined hypothesis (H2a/H2b), the research examines the relationship between public bank presence and ISMs threshold levels across EU countries. However, this relationship is not hypothesized to be driven solely by public banking financial scale but also by strategic coordination, and alignment with state goals such as industrial policy.

I argue that institutional capacity provides states with alternative tools for managing foreign investment risks. However, developing robust, comparable cross-national quantitative measures of this multifaceted institutional capacity remains inherently challenging. This challenge arises from both the complexity of banking capabilities and the practical barriers to comprehensive data collection created by the political and security sensitivities surrounding ISMs and related strategic banking functions.

To address this challenge, the study draws on both quantitative and qualitative sources. Quantitatively, public bank presence is measured as the share of total banking system assets held by government-controlled banks, using data from the World Bank's 2019 Bank Regulation and Supervision Survey (Series Code: GFDD.OI.20a). Although initial analysis suggested a plausible relationship between this variable and ISM thresholds, this asset-based indicator primarily captures financial scale. As such, it captures only financial scale and overlooks institutional capabilities central to the hypothesis.

However, to explore the mechanisms underlying the observed relationship and to investigate the role of public banks, this study includes document analysis of publicly available parliamentary and ministerial records to examine how policymakers perceive and frame the roles and capabilities of public banks. Furthermore, the focused case studies examine specific foreign takeover instances in which public banks demonstrably

acted as a “backup” providing concrete evidence of the mechanisms through which these banks are strategically deployed in practice to manage investment risks.

Within this framework, the research supplements primary qualitative sources with secondary literature, drawing on analyses from business associations and specialized reports by international organizations engaged in the field, such as the UNCTAD Investment Policy Monitor, the OECD, and World Bank country surveys on investment screening policies. Triangulating the initial quantitative findings with detailed qualitative insights into policy mechanisms, framings, and perceived institutional capabilities enables the capture of dimensions of public banks beyond asset measures alone.

Two clarifications are important for aligning this operationalization with the dissertation’s claim. First, the cross-national banking asset-share indicator should be read as a measure of the structural presence of state-aligned finance within the banking system, rather than as a direct measure of day-to-day policy activism. Comparable banking-structure data are typically available only for discrete years, and the 2019 survey therefore functions as a baseline proxy for the institutional and balance-sheet capacity on which governments can potentially draw when ownership risks emerge. Second, the argument of this dissertation concerns not only the existence of public bank ownership but its functional mobilization as an alternative instrument of ownership defense and strategic coordination. The same ownership share can underpin very different practical capacities depending on mandates, governance constraints, risk tolerance, and the availability of equity and market-based instruments. For this reason, the case studies do not treat the quantitative indicator as sufficient on its own. Instead, they use it to establish a comparative baseline and then trace, through process evidence, whether and how public banks (and closely related state-aligned financial institutions) were positioned and deployed to stabilize ownership, provide patient capital, or counter fire-sale dynamics in strategic sector.

Table 4. Operationalization of Core Independent Variables

Independent Variable (IV)	Hypothesis	Operationalization	Indicators	Expected ISM Outcome
Technological Intensity	H1: Higher technological intensity → Broader ISM scope	Measure national technological intensity as the capacity to produce and sustain high-tech sectors and R&D activity. Capture systemic risk exposure from complex, high-value, dual-use sectors.	Quantitative: • Value-added in high-tech manufacturing (% of GDP, OECD/Eurostat) • High-technology exports (% of manufactured exports, World Bank) • Business Expenditure on R&D (BERD) in high-tech industries (% of GDP, OECD/Eurostat) • European Patent Applications (EPO) as codified knowledge output Qualitative: • References to “technological sovereignty” in policy discourse • Legislative scope definitions in ISM laws	High-tech countries → Broad Scope Low-tech countries → Narrow Scope
Public Banking Capacity	H2: Higher public banking capacity → Higher ISM threshold	Define public banks as financial institutions with ≥50% state ownership. Operationalize capacity through financial presence and institutional role in strategic asset defense. Triangulate quantitative asset share with qualitative evidence of institutional capacity, mandates, and interventions in strategic sectors.	Quantitative: • % of total banking assets held by state-owned or government-controlled banks (World Bank) Qualitative: • Case studies of public bank interventions in strategic sectors • Public bank mandates referencing investment protection/industrial upgrading • Secondary sources (OECD, UNCTAD, business associations) on institutional capacity	High public bank capacity → High Threshold Low public bank capacity → Low Threshold

3.3. Operationalization of Dependent Variables

This section discusses the operationalization of the dependent variable. In line with the conceptual discussion, it focuses on two key dimensions that capture the states' autonomy over national ISMs: scope and threshold. The primary data source for this operationalization is the PRISM dataset (Bauerle Danzman & Meunier, 2023a), which provides comprehensive, comparative data on investment screening regulations across OECD countries.

Before measuring the scope and threshold, it is necessary to define the specific sample of EU member states included in the comparative analysis. The selection is based on the PRISM dataset's coverage and the nature of national ISMs, resulting in several exclusions, as detailed in Table 5. First, member states without an established ISM during the dataset's timeframe (Greece, Luxembourg, Ireland, and Sweden) are excluded. Second, because the PRISM dataset is limited to OECD countries, EU member states that are not OECD members (Malta, Croatia, Bulgaria, Cyprus, Romania) are also excluded.

Third, two additional countries were excluded because their screening practices are incompatible with the study's comparative categorization framework of threshold and scope. These countries are the Netherlands and Portugal. The Netherlands lacks a standardized ISM categorization: although it uses fixed numerical thresholds in some sectors, its broader framework relies on a flexible, case-dependent "control" criterion rather than predefined numerical thresholds (Bauerle Danzman & Meunier, 2023a), making direct comparison problematic. Portugal is also excluded because its system operates on an ad hoc basis rather than as an institutionalized, proactive screening tool. Specifically, it does not require mandatory investor notifications, and the government retains discretionary power to screen transactions on a case-by-case basis without predefined mandatory triggers. Accordingly, the operationalization and analysis focus on EU member states in the PRISM dataset whose ISMs can be coded for scope and threshold.

Table 5. EU Member States Included and Excluded in the Analysis

Country	Category	Explanation
Greece	No ISMs	No ISM in place
Luxembourg, Ireland, Sweden	No ISMs	No ISM in place at the time of dataset publication (as of Dec 2022)
Malta, Croatia, Bulgaria, Cyprus, Romania	Non-OECD member of the EU	Excluded due to the dataset's OECD focus.
The Netherlands Portugal	Exceptional Case	Lacks standardized variables for comparison
Remaining EU Countries	Included in analysis	Classified along two axes: Threshold (high/low) and Scope (broad/narrow)

The following subsections explain how these dimensions are measured and classified for the remaining EU member states. The first subsection addresses scope-based categorization, explaining how the breadth of sectoral coverage is assessed and classified. The second subsection identifies threshold-based categorization, outlining how minimum ownership thresholds are measured and how countries are classified, with particular attention to complexities arising from multi-tiered systems. Finally, building on these two operationalized dimensions, the subsequent discussion shows how this categorization informs the selection of case studies for in-depth analysis, ensuring representation across different ISM design configurations.

3.3.1. Scope-Based Categorization of EU Member States

To assess the scope of an ISM, the chosen empirical measure must clearly reflect the underlying theoretical concept and genuinely capture the extent to which the ISM spans different sectors or types of investments. Relying solely on the formal classification of ISM types (such as mix, sectoral, or cross-sectoral) poses a challenge to achieving content validity.

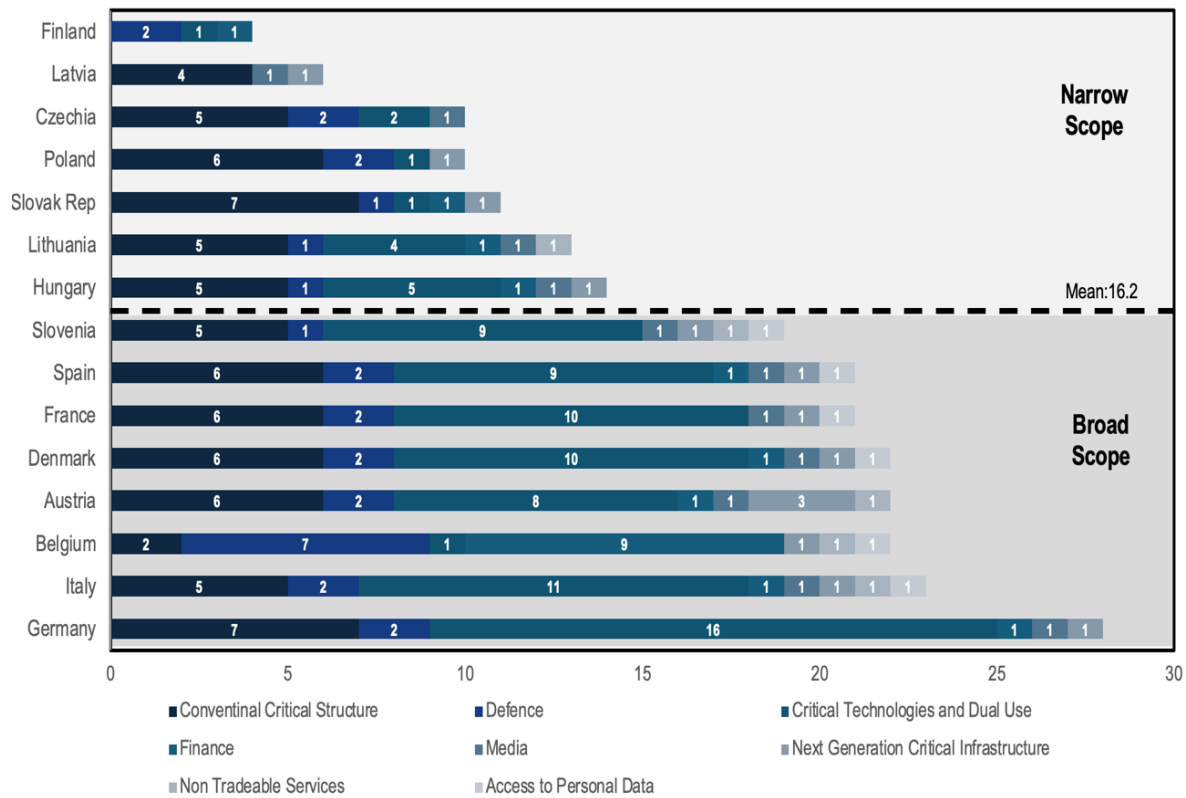
This is because such formal labels may not accurately or consistently capture the actual extent and substantive nature of screening activities across countries, thereby creating a potential mismatch between the formal concept and the empirical phenomenon. For instance, a country formally classified as having a “sectoral” mechanism might, in

practice, cover an extensive list of sectors, leading to broad impact (as seen in Italy). In contrast, a formally “cross-sectoral” mechanism may include exemptions or specific requirements that significantly narrow its practical scope (as in Finland). Adopting potentially misleading formal types as the measure could therefore lead to conceptual stretching or the misclassification of cases relative to the actual operational scope of their screening regimes.

Given the validity concerns associated with formal classifications, this study employs the PRISM data indicator “sectors with enhanced screening” as a more valid operationalization of ISM scope. This indicator is preferred because it directly captures the substantive content and practical reach of screening regulations across countries. By focusing on this specific indicator, this approach allows measurement based on observable features of national legal frameworks. This focus reduces uncertainty and makes cross-country comparisons of screening scope more straightforward.

To categorize the countries into narrow and broad scopes based on the number of sectors, the research uses the mean value as a benchmark (Figure 7). Accordingly countries with a number of sectors below the mean value are categorized as narrow scope, while those with a number of sectors above the mean value are categorized as broad scope.

Figure 7. Sectoral Division of ISMs among the EU Member States



Source: Author on elaboration based on PRISM data (2023)

The rationale for this dichotomization is primarily pragmatic; it creates two distinct, analytically tractable groups that fit the study's comparative framework and enable the construction of the subsequent 2x2 typology of ISM regimes (Table 1).

3.3.2. Threshold-Based Categorization of EU Member States

The second key dimension of ISM design operationalized in this study is the threshold. This variable captures the mechanism's activation point, specifically the ownership share that triggers review. In theory, the lower the threshold, the easier it is to trigger the screening process, which indicates a more restrictive approach. Conversely, a higher threshold suggests a more tolerant stance, as only investments with substantial ownership stakes are subject to review. This indicator provides a tangible measure of how restrictive or permissive a given ISM is regarding its application criteria.

Across the EU, thresholds for foreign investment screening vary widely, from 3% in some cases to as high as 25% in others. Some countries apply a single, uniform threshold across most investment cases, with 10% as a standard benchmark. For the purpose of this study's initial classification, member states are grouped into two main categories based on their primary or lowest applicable threshold as follows:

- Low Threshold: Countries where the screening process is triggered by an ownership stake of 10% or less indicate a more restrictive approach that is easily activated.
- High Threshold: Countries where the trigger point is set at 20% or higher have a comparatively more tolerant approach to foreign investment review, as only investments above this threshold go under review.

However, the classification becomes more complex for countries such as Hungary, Denmark, Austria, Belgium, and Germany, which apply different thresholds depending on the screening tier. These countries often apply 10 percent in the first tier and 20 or 25 percent in the second tier. This dual application of thresholds creates ambiguity and prevents the straightforward application of a simple High/Low categorization.

Coding countries by their lowest formal threshold may appear straightforward. Yet it can be misleading in multi-tier ISMs because it would overstate restrictiveness by ignoring the higher thresholds that often apply to the most strategic sectors. To capture the relevant policy design, I use a sector-prioritized rule that focuses on the threshold applied to critical technologies and dual-use goods. Two observations motivate this choice.

First, screening in conventional sectors such as defense and critical infrastructure is already widespread across most EU member states (Figure 7). This is because the state has traditionally assumed responsibility in these sectors to ensure the uninterrupted provision of essential services (Wehrlé & Pohl, 2016, p. 20). Therefore, screening practices in these areas offer limited analytical value for distinguishing the dominant tier of national ISM regimes, as they tend to be similar across countries.

Second, in contrast, as Figure 7 also illustrates that the “critical technologies and dual use” category is both the most expansive and the most geopolitically salient component of

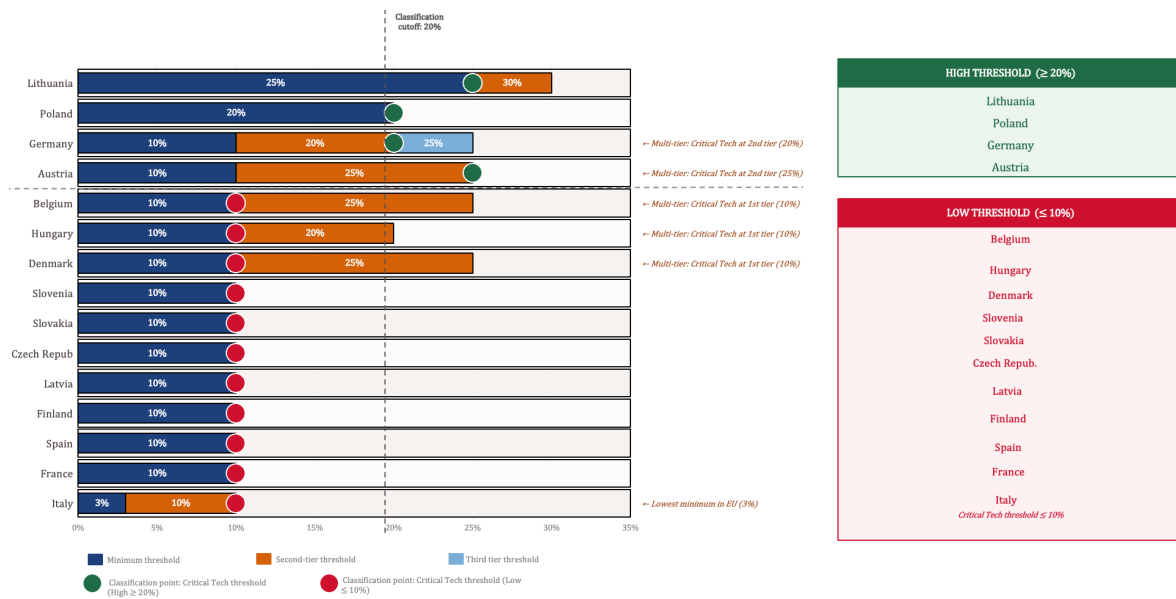
modern screening regimes. It encompasses the largest number of sub-sectors under review (Figure 7, Appendix A) and reflects emerging strategic concerns, including artificial intelligence, quantum computing, semiconductors, and biotechnology. Therefore, determining if the threshold for these sectors is 10% or 20% helps us understand the dominant tier for investment screening activities. Following this logic, countries are categorized by cross-referencing the PRISM data (Bauerle Danzman & Meunier, 2023a) presented in Table 6.

Table 6. Multi-Threshold Country Classification

Overview of Threshold Classification			
Countries	Position of Critical Tech and Dual Use	Applicable Threshold	Conceptualized as
Germany	Second Tier	20%	High Threshold Country
Austria	Second Tier	20%	High Threshold Country
Belgium	First Tier	10%	Low Threshold Country
Hungary	First Tier	10%	Low Threshold Country
Denmark	First Tier	10%	Low Threshold Country

After having simplified the complexity presented in multi-threshold countries, the resulting categorizations for all analyzed countries are plotted in Figure 8, visualizing the member states according to their assigned screening threshold (High/Low).

Figure 8. Threshold Levels Across the EU Member States



Source: Author's elaboration based on PRISM data (2023)

3.4. Case Selection

The operationalization of the ISM scope (Section 3.3.1) and threshold (Section 3.3.2) provides the basis for classifying EU member states' ISM into distinct types, as summarized in the typology presented in Table 7. This typology serves as the framework for the next critical step: selecting representative cases for in-depth, comparative analysis to test the study's core hypotheses about the drivers of ISM design.

Table 7. Fourfold Typology of EU Member States' ISMs

	Sectoral Scope	
	Broad	Narrow
Threshold	<u>Wide Selective Screening (T1)</u>	<u>Tolerant Screening (T3)</u>
	Austria Germany	Lithuania Poland
High	<u>Restrictive Screening (T2)</u>	<u>Deep Selective Screening (T4)</u>
	Belgium Denmark France Italy Slovenia Spain	Czech Republic Finland Hungary Latvia Slovakia
Low		

Consistent with a factor-centric comparative case study design, the cases were selected to maximize variance across the hypothesized explanatory conditions shaping ISM design: technological intensity and public banking ownership. At the same time, the selected cases exhibit clear and distinct configurations of the outcome variables: scope (broad/narrow) and threshold (high/low).

The rationale for each selection is as follows:

Germany is selected as a representative case of the Wide-Selective type. Although both Germany and Austria fall under the high-threshold, broad-scope configuration, Germany is chosen for its more pronounced characteristics. Germany's broader, more diversified sectoral scope clearly distinguishes it from Austria's approach. Therefore, it provides a clearer case for examining how a high threshold operates within an extensive regulatory scope.

Italy is selected for the Restrictive Screening type. While several countries fall into this category, including France and Spain, Italy's ISM represents as a distinctive case. It imposes the lowest threshold in the EU, creating a particularly restrictive screening

process compared with other countries with a similar scope. Moreover, Italy's lowest threshold, combined with the broadest scope (after Germany), provides a particularly valuable case for analyzing how low thresholds, in conjunction with broad sectoral coverage, produce an outcome not witnessed by other countries in this category.

Poland is selected as the representative case for the Tolerant Screening type. Although this category also includes other countries, such as Lithuania, Poland is chosen for two reasons. First, it provides the necessary variation in the independent variables relative to other economies in this category. Second, Poland's larger economic scale offers a broader and richer empirical basis for assessing how this configuration operates.

The Czech Republic is selected for the Deep-Selective Screening type. While Hungary also falls into this category, its broader scope makes it less representative and less distinct from the specific dynamics this configuration requires. In contrast, The Czech Republic offers a clearer case for exploring the implications of a more focused ISM design, in which the combination of a low threshold and limited sectoral scope creates a better fit.

Table 8 summarizes the explanatory operationalization of selected case studies.

Table 8. Selection of Case Studies

		Sectoral Scope	
		Broad	Narrow
Threshold	High	Wide Selective Screening (T1) Germany	Tolerant Screening (T3) Poland
	Low	Restrictive Screening (T2) Italy	Deep Selective Screening (T4) Czech Republic

Conclusions

The methodological framework developed in this chapter is tailored to the research objective. Adopting a factor-centric comparative case study design provides an appropriate means of isolating and assessing the impacts of technological intensity and public banking on ISM design across selected EU member states. The comparative approach incorporates process-tracing within each case study to investigate mechanisms and uses plausibility probes to evaluate arguments against alternative explanations.

Building on this methodological framework, the next chapter will conduct a plausibility probe, a macro-level analysis that provides preliminary evidence in support of the study's central argument and assesses the argument's robustness against key alternative explanations. Following this, the study will proceed to detailed case studies, applying process-tracing to uncover the specific causal mechanisms at work in each selected country.

CHAPTER 4. SHOWING VARIATION THROUGH TECHNOLOGICAL INTENSITY AND PUBLIC OWNERSHIP OF BANKS

This chapter presents an initial empirical analysis to assess the validity of the arguments developed in the previous chapter. This analysis follows the “plausibility probe” approach, an essential methodological step well suited for evaluating the real-world relevance of relatively untested theoretical arguments (Eckstein, 1975), such as those proposed here. The objective is not to provide conclusive proof but to determine whether the core hypotheses have sufficient empirical support to justify deeper, causal investigation. The study advances two main hypotheses: higher technological intensity is associated with a broader ISM scope (H1), and greater public bank ownership is associated with higher ISM thresholds (H2).

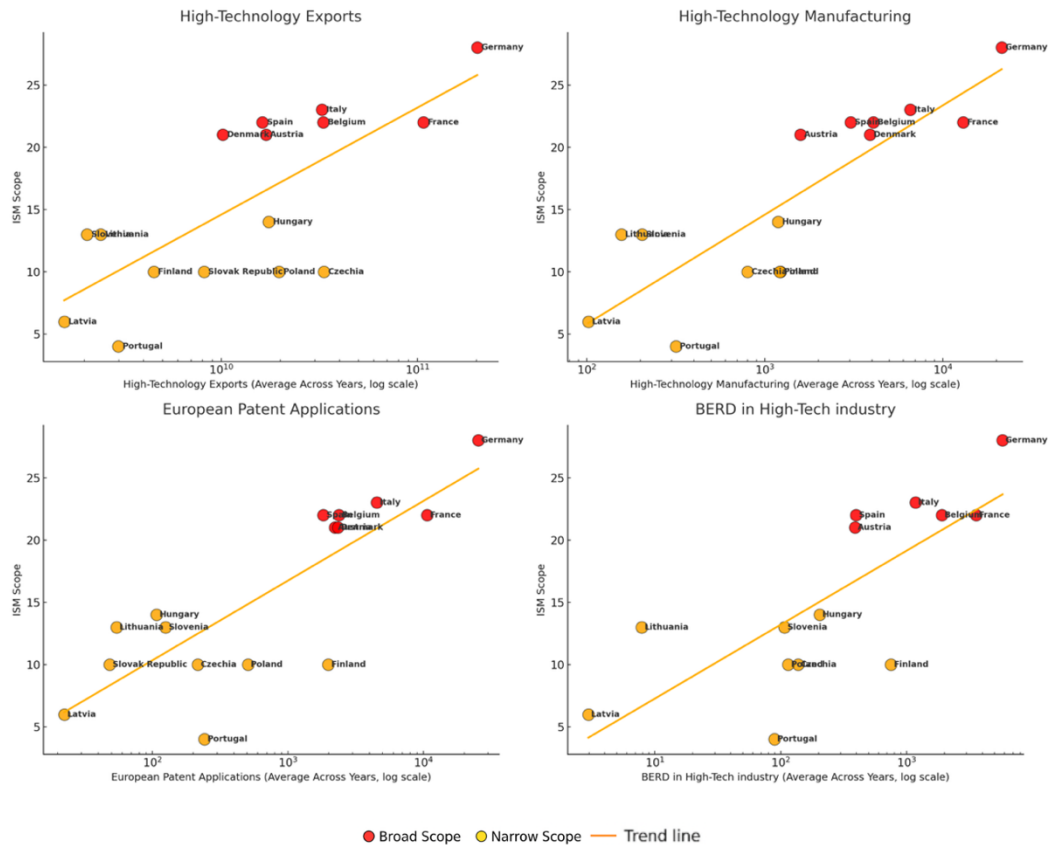
To achieve this, the analysis is organized into two parts. First, a macro-level quantitative analysis is conducted to probe the primary hypothesized relationships across a range of countries. However, a robust evaluation requires more than an initial test of the hypotheses. Therefore, in the second step, the primary arguments are tested against key alternative explanations. This step is methodologically essential for mitigating confirmation bias and for determining whether the proposed theory offers stronger or complementary insights than alternative explanations (Dür, 2007). In doing so, the chapter serves as both a logical and an evidentiary bridge, providing the empirical justification for proceeding to the in-depth case studies in the following chapter.

4.1. Plausibility Probe: Technological Intensity and Investment Screening Scope

This section presents a macro-level plausibility probe to empirically test the dissertation’s first hypothesis (H1a/H1b). The four scatter plots in Figure 9 show the relationship between a country’s ISM Scope (Y-axis) and four key indicators of high-tech and innovation performance (X-axis). As detailed in Chapter 3, the ISM Scope score is operationalized as the number of sectors subject to enhanced screening under national law. ISM Scope data are for 2022 and drawn from the PRISM dataset, while the technology

indicators are averaged over 2015-2021 to smooth annual fluctuations and are sourced from Eurostat and OECD.

Figure 9. Empirical Illustration Regarding the Scope of ISM



Source: Author's illustration based on OECD and Eurostat data (2015–2021)

Using a logarithmic scale on the X-axis to account for large differences in national technological output, the data reveal a positive relationship. This suggests that countries with higher technological intensity are more likely to adopt broader ISM scope, suggesting that technological intensity serves as a useful lens for assessing the breadth of ISMs.

As the figures indicate, the observed positive pattern aligns with the dissertation's theoretical argument. Technologically advanced nations, such as Germany, emerge as leading cases across all indicators, alongside a cluster of similar high-performing countries, including France, Italy, Belgium, Austria, Spain, and Denmark, that combine a broad ISM scope with strong technology indicators. Further along the trend line are

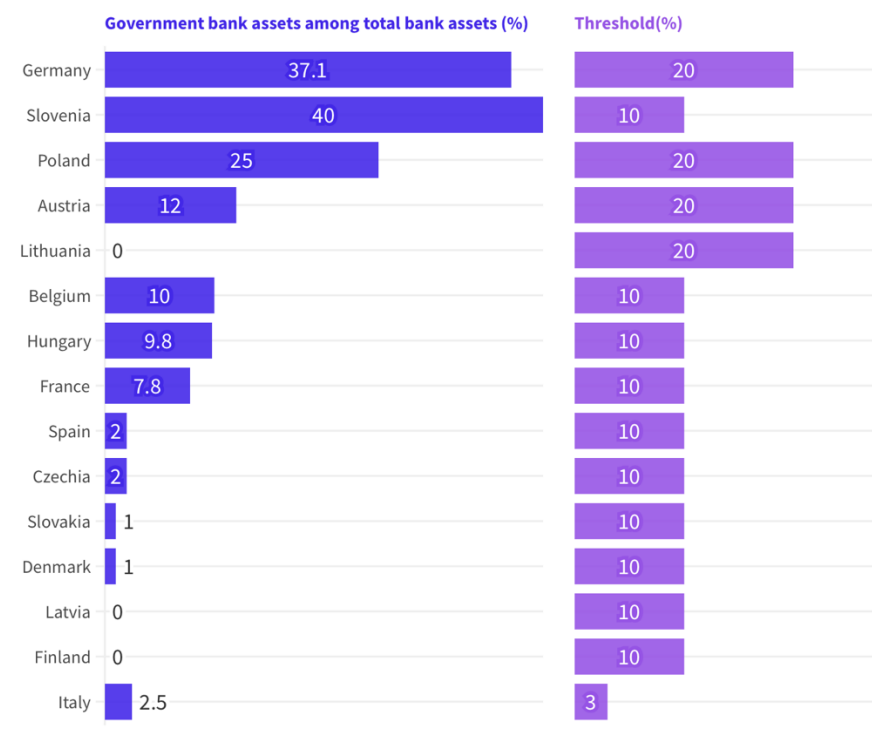
countries with more limited high-tech industrial base; Hungary, Slovenia, Poland, the Czech Republic, and Slovakia are positioned in the lower-left and middle sections of the plots. For this group, while some may perform relatively well on one metric, such as high-tech exports, their performance on other dimensions of technological capacity is more limited. As argued in Chapter 3, this supports the view that some indicators, such as high-tech exports, might be misleading, as countries may specialize in lower-value-added segments of high-tech production. Conversely, Finland presents an interesting case; despite high values in patent applications and R&D expenditure (BERD), its relatively lower high-tech manufacturing output corresponds with a narrower ISM scope. Finally, Lithuania and Latvia consistently occupy the lower end of both technology indicators and the ISM scope score.

While this analysis indicates a positive relationship, it does not establish causation. Instead, it serves as a plausibility check, revealing a pattern that justifies closer investigation of potential underlying causes. The subsequent case study chapters will therefore move from this macro-level correlation to the micro-level, using process-tracing to demonstrate how policymakers were explicitly motivated by concerns about their technological leadership when designing their national ISM.

4.2. Plausibility Probe: Public Banks and Investment Screening Threshold

To examine the hypothesized relationship between public ownership of banks and ISM threshold preferences, Figure 10 presents a comparative visualization across selected European countries. The left panel shows the share of total banking system assets held by the government based on World Bank data (2019), while the right panel shows the corresponding threshold for triggering ISM. The figure provides preliminary support for Hypothesis 2, which posits that states with higher levels of government ownership in the banking sector are more likely to adopt higher, less restrictive investment screening thresholds.

Figure 10. Public Banking and Thresholds



Source: Author's illustration based on World Bank (2019) Bank Regulation and Supervision Survey

Countries with a significant state presence in banking, such as Germany (37.1% ownership, 20% threshold) and Poland (25% ownership, 20% threshold), generally exhibit higher thresholds than the EU average. Conversely, countries with lower public bank ownership are more likely to adopt lower, more restrictive thresholds. Countries with minimal state ownership in banks, including Italy (2.5% ownership, 3% threshold), the Czech Republic (2% ownership, 10% threshold), Slovakia (1% ownership, 10% threshold), Denmark (1% ownership, 10% threshold), Finland (0% ownership, 10% threshold), and Latvia (0% ownership, 10% threshold), generally maintain thresholds at or below the commonly suggested 10% level. Italy's remarkably low 3% threshold strongly aligns with this proposed relationship.

Although the figure above suggests a relationship between public bank ownership and ISM's threshold, this finding should be interpreted with caution given the observational nature of the data and the potential influence of unobserved variables. For instance, Slovenia is a notable outlier, combining a high level of government ownership

(40%) with a relatively low threshold (10%). This configuration likely reflects compliance with EU Regulation rather than an independent national policy choice. Slovenia implemented its ISM framework in accordance with EU Regulation 2019/452, which encouraged the adoption of ISMs and set a 10% threshold. Therefore, Slovenia's policy choice might not be primarily driven by its banking structure and does not necessarily contradict the logic underpinning H2 for independently determined thresholds.

In conclusion, the preceding analysis provides initial empirical support, serving as a plausibility probe for the hypothesized links between technological intensity and ISM scope (H1) and between public bank ownership and ISM thresholds (H2). The primary goal of investigating these patterns is to identify potential cases for in-depth comparative case study analysis. The four selected cases are Germany, Italy, Poland, and The Czech Republic. The case study analysis seeks to explore the specific causal mechanisms driving these relationships within each country and to offer detailed contextual explanations for why each nation exhibits its particular ISM type (Wide-Selective, Restrictive, Tolerant, or Deep-Selective). It also investigates potential deviations or complexities not captured by the initial empirical analysis. However, before turning to the case studies, the next section first considers key alternative explanations to justify the theoretical focus of the dissertation.

4.3. Alternative Explanations for ISM Variations

While the preceding sections developed a framework focused on the intersection of scope and thresholds, several other factors warrant consideration as potential alternative or complementary explanations. To justify the chosen theoretical approach, the analysis clarifies why plausible alternative perspectives are not treated as the primary drivers. This section evaluates three prominent alternative explanations: the influence of investment specifically from China (1), the broader institutional logics captured by the VoC framework (2), and the impact of domestic political dynamics (3).

The methodological objective here is not merely to list other possibilities but to differentiate among these competing explanations (Dür, 2007) and to demonstrate how the selected theoretical framework provides specific analytical insights into this research question. To do so, the following subsections assess the theoretical and empirical

relevance of the aforementioned alternatives in explaining the specific technical variations in ISM design. Ultimately, the analysis's main finding is that while alternative explanations contribute to the broader geopolitical context in which ISMs are introduced, they offer less systematic explanatory leverage over the core dependent variables.

4.3.1. China-related Explanations

This approach examines the relationship between ISMs and Chinese inward investment, with a particular focus on how countries that host higher levels of Chinese investment are more inclined to adopt stricter ISMs. The discussion centers on two competing viewpoints: the pro-globalization perspective and the globalization-backlash perspective, the latter of which is becoming increasingly influential. While both perspectives offer valid points, their explanatory power for ISM variation is limited.

First, the pro-globalization perspective on trade and investment anticipates that governments reliant on Chinese investment will be reluctant to implement strict screening regulations (Eichenauer et al., 2021; Eichenauer & Wang, 2024). The concern is that such measures could deter vital capital inflows and hinder economic growth. Indeed, this perspective offers insight into the early stages of EU policymaking, particularly in explaining why some governments opposed non-binding EU-level screening. For instance, Nordic countries initially opposed the adoption of EU-level screening, arguing that it might discourage foreign investment and benefit competing economies (Chan & Meunier, 2021). However, this view does not fully explain the expansion or design of investment screening at the national level (Eichenauer et al., 2021; Bauerle Danzman & Meunier, 2023a).

The second, and currently more influential, perspective is the backlash against globalization in investment and trade policies (De Bièvre & Poletti, 2020; Dür et al., 2020; Roberts et al., 2019; Meunier & Nicolaïdis, 2019). According to these studies, governments are cautious about foreign acquisitions of domestic firms in high-technology and security-sensitive industries (Mozur & Ewing, 2016; Farrell & Newman, 2019b). The intense focus on China in this literature has, in turn, made the narrative plausible that greater exposure to Chinese investment might prompt host countries to adopt or strengthen ISMs as a defensive security measure (Chan & Meunier, 2021).

Although this narrative seems plausible, it is not the primary driver of ISM design variation for the following reasons:

First, the empirical evidence for a direct causal link is contested. For instance, early quantitative studies (Eichenauer et al., 2021; Chan & Meunier, 2021; Bauerle Danzman & Meunier, 2023b) based on PRISM data (Bauerle Danzman & Meunier, 2023a) found no such direct causal relationship, despite Chinese investment in critical assets frequently dominating public discourse. Nevertheless, more recent studies using different methodologies have identified a correlation, but the relationship is not decisive. Scholars argue that it reflects broader policy diffusion and a shift in investment policies rather than a direct, country-specific reaction to Chinese capital alone (Eichenauer & Wang, 2024; Alami, 2024).

Second, while the “China factor” may provide important background context (Alami et al., 2021; Alami, 2024) for ISMs, it does not explain the logic behind their specific institutional design. These mechanisms are generally employed to safeguard national security interests in sectors deemed strategically significant, with the primary objective of strengthening the institutional capacity of states to prevent potential hostile takeovers, regardless of their origin. Moreover, variation in investment restrictions among countries, even within the same security alliances, such as NATO (Lenihan, 2018), suggests that ISMs serve a broader function beyond China.

Third, and most importantly, the primary concern is not the investor’s nationality but the potential loss of strategic national assets, specifically advanced technology. As comparative empirical studies confirm (Chan & Meunier, 2021), the core concern is the potential loss of high-tech capacity. Because the technological intensity variable already directly measures this core concern (fear of losing tech), incorporating Chinese investments (a proxy for the same fear) as a separate variable could lead to double-counting. Therefore, it is not included as a separate explanatory variable.

4.3.2. Varieties of Capitalism

The VoC framework (Hall & Soskice, 2001) highlights systemic differences among developed democracies, particularly in labor markets, corporate governance, and inter-firm relations. It famously distinguishes between coordinated market economies (CMEs)

and liberal market economies (LMEs). Given that ISMs represent a significant institutional choice that shapes firm behavior and state-market relations, one might initially claim that their design to complement or be constrained by broader institutional logics. However, I argue that the VoC framework is not well-suited to explain the specific technical details of ISMs. The reasons are as follows:

First, the VoC approach, particularly in its foundational LME/CME dichotomy, poses analytical challenges when confronted with the complexity of ISMs. Even more nuanced extensions, such as Doppen et al.'s (2024) typology distinguishing “open” versus “closed” ISMs based on state-firm characteristics, tend to oversimplify the reality of national screening regimes. As discussed in previous chapters, ISMs often exhibit hybrid characteristics, blending elements of both openness and closure, and operate along a spectrum rather than fitting neatly into binary categories. This inherent complexity makes a straightforward mapping of VoC types onto specific ISM design configurations problematic and likely to overlook important combinations of scope (breadth/narrow) and thresholds (low/high).

Second, VoC's traditional emphasis on firm-level coordination and comparative institutional analysis struggles to capture the state's direct, autonomous strategic agency in security-driven policy domains (Jessop et al., 2014; Nölke et al., 2019). The framework primarily explains how firms coordinate to achieve competitive advantages within a given institutional setting, such as LME or CME. While later scholarship has expanded VoC to include different capitalist models and a more active state role (Hancké et al., 2007; Schmidt, 2009; Molina & Rhodes, 2007; Nölke & Vliegenthart, 2009), these additions remain relatively underdeveloped within the core framework.

This limitation becomes particularly evident when applied to ISMs. This is because the recent proliferation and specific shaping of ISMs are often explicitly justified by governments through the lens of geopolitical competition and safeguarding critical assets, reflecting heightened state assertiveness (Babic & Dixon, 2022). Similarly, ISMs have been perceived as instruments to “explicitly mobilize state power and coercion to aggressively (re)negotiate globalization” (Alami, 2024, p. 1). This perspective casts the state as a direct, strategic actor, moving beyond its traditional role of simply mediating

the interests of firms. However, the primary emphasis on firm preferences may overlook the state's direct strategic agency, especially concerning national security (Alami, 2024).

This is the case in VoC-informed analyses such as Doppen et al.'s (2024), which relate state-firm ecosystems to ISM types and channel the explanation primarily through firm preferences—arguing that firms in “public ecosystems” tolerate state discretion while those in “private ecosystems” lobby for limits. However, given the increasing state role in screening investments, it is likely that state strategic calculations also influence design choices such as sectoral scope or review thresholds. State policy might operate independently of, or even override, the firm-level profit maximization that is typically central to VoC analysis. Thus, explaining variations in these specific design features may require a framework that gives greater weight to the state's strategic objectives in a contested global environment.

Finally, the VoC framework was developed to understand institutional stability, complementarities, and gradual, path-dependent change (Hall & Soskice, 2001). The recent, widespread adoption and frequent redesign of ISMs represent a contrasting phenomenon: relatively rapid, often discontinuous policy change spurred by external shocks (such as the COVID-19 pandemic) and acute geopolitical tensions. Although existing institutional complementarities remain relevant, the speed of adoption and the security-driven logic underpinning many recent design choices indicate that explaining these variations requires analytical tools attuned to geopolitical drivers and abrupt policy shifts, rather than relying primarily on a framework centered on long-term institutional continuity.

Therefore, given these limitations, namely the difficulty of applying binary categories to hybrid ISMs and the partial attention to direct state strategic agency, particularly in the security domain, the VoC perspective is not used as the central explanatory framework for ISM design variations in this research.

4.3.3. Domestic politics

Existing literature on FDI openness has extensively examined the role of domestic political actors in shaping preferences toward FDI (Jensen, 2003; Jensen & Malesky, 2018; Bauerle Danzman & Slaski, 2021). Scholars explain variation in FDI preferences by

pointing to public opinion shaped by perceived economic gains, security risks, and investor origin (Li & Vashchilko, 2010; Tingley et al., 2015; Chilton et al., 2017); labor preferences linked to skill levels and sectoral exposure (Owen, 2015); institutional structures that enable or constrain policy change (Jensen, 2003); and partisan ideologies that influence openness or protectionism (Pinto, 2013; Pinto & Pinto, 2008).

Drawing on this body of research, one might expect domestic political factors to similarly shape ISM design. For example, as Eichenauer et al. (2021) note in their discussion of potential drivers, governments facing electoral pressure or declining popularity may be incentivized to adopt stricter ISMs with broader sectoral coverage or lower, more easily triggered thresholds to signal decisiveness, project an image of defending national sovereignty, or appease voter concerns about foreign influence. Likewise, one would expect well-organized domestic industries seeking protection from foreign competition to lobby for specific ISM provisions.

However, despite these plausible connections, domestic politics, including mass public sentiment and elite lobbying, are not the primary drivers of systematic variation in ISM design, particularly regarding scope and thresholds.

First, ISMs are highly technical and complex, making them difficult for non-expert audiences to understand. This complexity acts as a barrier to broad political contestation. As the literature on trade politicization demonstrates (De Bièvre & Poletti, 2020; Dür & Mateo, 2014; Dür et al., 2023), when issues are marked by high technical complexity, political battles often do not occur through public debate because publics generally lack the capacity or direct interest to organize around or effectively lobby for specific technical details. If contestation arises, it is generally ad hoc and case-driven, focusing on symbolic or foundational issues rather than the underlying mechanisms (Dür et al., 2023).

For instance, in 2016, the public debate over the acquisition of the German robotics firm Kuka by a Chinese company drew broad media coverage and elite commentary. However, the discourse focused mainly on binary outcomes (approve or block) and the investor's identity. It did not extend to the ISMs' technical parameters. This is because such technical design preferences often have low political visibility (Culpepper, 2010; Zürn, 2012) and require detailed legal expertise that is less amenable to direct electoral calculus or broad ideological mandates. Therefore, despite domestic political debates that may pressure

governments to intervene in foreign investment cases, I do not expect them to shape the detailed design choices systematically.

As Vlasiuk Nibe et al. (2024) show, even at the EU level, where issues of sovereignty, competence, and economic governance often spark politicization, the adoption of the 2019 EU investment screening framework proceeded with remarkable speed and minimal politicization. Through what they call “pre-emptive depoliticization,” the European Commission framed the initiative in legalistic and technocratic terms, strategically limiting contestation (Vlasiuk Nibe et al., 2024). The only notable deviation came from Italy, where political turnover triggered a reorientation of its stance (Calcara & Poletti, 2023). Yet even this moment of friction centered on sovereignty and institutional authority (Calcara & Poletti, 2023), not on the technical specifics of scope or thresholds. In short, if even intergovernmental bargaining between EU actors was insulated mainly from political contestation over ISM design, the prospects for meaningful domestic politicization at the national level appear even more limited.

Second, another proposed argument supporting this line of thought is that domestic business elites influence ISMs. Supporting factors in the academic literature include the role of large domestic firms, particularly their privileged access to policymakers (Culpepper, 2010; Bauerle Danzman, 2019) and their ability to lobby for favorable regulatory outcomes (Dür et al., 2018). However, I argue that domestic firm preferences and lobbying activities are not the primary explanatory variables shaping contemporary ISM configurations. Much of the literature that identifies business as a central actor in policymaking is grounded in a liberal economic paradigm that was dominant prior to 2019. In that earlier context, the state was primarily understood as a facilitator of market activity (Ruggie, 1982). Investment policy was closely tied to the goals of competitiveness, economic growth, and capital attraction (Dunning & Lundan, 2008; OECD, 2002). Many EU member states did not operate ISMs at all. However, since 2019, particularly in the wake of the COVID-19 pandemic, the global political economy has undergone a fundamental shift (OECD, 2022). National governments have become more assertive in regulating inward capital flows under the banner of national security. Some have gone even further, initiating frameworks to monitor or restrict outward investment. In this transformed context, investment policy is no longer organized solely along

commercial lines. Instead, commercial interests are frequently subordinated to state-led strategic and security considerations.

This reorientation is evident in how ISMs are governed. ISMs are embedded within inter-ministerial structures that include agencies for defense, intelligence, foreign affairs, and technological innovation. Empirically, over half of EU member states now govern ISMs through cross-departmental coordination mechanisms (Appendix A). Given this multifaceted policymaking environment, the inherent novelty of ISMs also poses significant challenges for domestic firms in articulating clear, stable design preferences. For instance, the Danish case is worth noting. Despite the country's historically strong pro-market orientation, domestic business actors did not resist the introduction of screening regulations. Vlasjuk Nibe (2023) attributes this to "Knightian uncertainty," in which novelty and complexity make the calculation of costs and benefits difficult. In such settings, preferences are neither stable nor exogenously given; they are emergent and context specific. This suggests that forming a position may be particularly difficult in novel regulatory areas like ISMs, where preferences themselves are emergent and context dependent. In such a novel and complex regulatory area, firm preferences may not yet be fully formed, making systematic lobbying for specific design features less likely.

This perspective is complemented by recent research on the broader politics of economic security. While firms may face uncertainty about technical rules, Dür et al. (2025) form clear preferences based on a policy's overall distributional effects. They classify inbound FDI screening as a "conflictive" policy because it creates both winners (e.g., import-competing firms seeking protection) and losers (e.g., firms in global value chains fearing retaliation). As Dür et al. (2025) show, the fundamental division among business interests reinforces the argument that a single business lobby is unlikely to systematically shape the specific technical parameters of an ISM. This "conflictive" dynamic at the macro-political level creates space for other factors to determine the final institutional design, including the structural and institutional variables central to this dissertation's framework.

Additionally, as previously mentioned, within this cross-ministerial network, even if domestic firms successfully lobby government offices, their influence on the final design is likely to be diluted, and the specific design features may be less a direct reflection of

business preferences and more a product of complex intra-state bargaining and strategic calculations. This challenges the applicability of conventional firm-centric explanations that rely on the logic of profit maximization. While this does not suggest that business actors are irrelevant, their role appears secondary.

Critically, empirical evidence linking specific domestic political variables (such as electoral cycles or lobbying intensity) to distinct ISM design outcomes (variations in scope versus thresholds) across a wide range of cases is not readily apparent in the existing literature. In contrast, significant work suggests that ISM design variations are better understood as strategic state responses to deeper structural shifts in the global political economy. Contemporary dynamics of industrial restructuring (particularly concerning intellectual property), significant capital centralization through strategic M&As, and intensified geoeconomic competition appear to be powerful drivers shaping how states manage foreign investment risks. This shift calls for greater analytical attention to variables aligned with the geopolitical logic of contemporary capitalism.

Consequently, given the limitations of mass public and firm influence on technical design, coupled with the evidence for structural factors, I claim that domestic political actors are unlikely to be the primary, systematic drivers behind the specific cross-national variations in ISM design features under investigation.

4.4. Discussion

While the preceding analysis shows that several alternative perspectives help explain important dynamics, particularly in adoption timing, political agency, and institutional legacies regarding ISMs, they offer weaker leverage on the specific design features examined here. These findings can be interpreted more clearly when placed in the context of broader shifts in the global political economy. Drawing on contemporary political economy scholarship (May et al., 2024, pp. 232-235) that has revisited Karl Polanyi's work to theorize the current era, the recent turn toward investment screening can be understood as a manifestation of a Polanyian "double movement." After a long phase dominated by the pursuit of "improvement," characterized by neoliberalism, globalization, and financialization, scholars argue that we are witnessing a powerful countermovement toward "habitation" reflecting a state-level demand for security and

protection against the dislocations caused by hyper globalization (May et al., 2024). The very nature of this Polanyian countermovement (1944) explains why a different set of analytical tools is now required. The preceding era of “improvement” was characterized by a belief in gradual, market-led change, and analytical frameworks like the traditional VoC approach were developed to explain that period of relative stability. However, the current shift is not a gradual evolution. It represents a rupture. The security-driven logic underpinning the rapid proliferation of ISMs is a direct reaction to a series of external shocks, from high-profile Chinese acquisitions to the COVID-19 pandemic and the war in Ukraine.

In this context of crisis and systemic competition, the importance of state agency and strategic calculation has been elevated (Alami & Dixon, 2019; Alami et al., 2021; Kim, 2022). Consequently, explaining these variations requires analytical tools attuned to geopolitical drivers and abrupt policy shifts, moving beyond frameworks centered on long-term institutional continuity. From this vantage point, the limitations of alternative explanations become particularly clear.

The following table summarizes the explanatory fit of the dissertation’s primary framework relative to the key alternative explanations discussed in this chapter. It maps each theoretical lens to the four distinct types of ISMs observed across the EU and provides a concise overview of their relative strengths and weaknesses in accounting for empirical variation.

Table 9. Alternative Explanations vis-à-vis Different ISM types

Alternative Explanations	Empirical Outcomes			
	Wide Selective Screening	Restrictive Screening	Tolerant Screening	Deep-Selective Screening
China-Related / Anti-Globalization Explains the adoption surge but not the variation	x	Explains broader adoption, not variation	x	x
Varieties of Capitalism ISM design shaped by CME/LME (Doppen et al., 2024)	x	Public ecosystems	Private ecosystems	x
Domestic Politics shaped primarily by electoral/lobby pressures.	x	x	x	x

As the table indicates, China-related concerns, while influential in policy discourse and potentially linked to the presence of ISMs, lack consistent empirical support as direct drivers of design variation. Moreover, they are partly subsumed within broader geopolitical and technological considerations elsewhere.

The VoC framework offers partial insights, linking some restrictive types to public ecosystems and others to private ones. However, the empirical distribution shows that screening types cut across CME/LME boundaries, suggesting that institutional models alone cannot account for the observed variation. Similarly, domestic politics, while crucial for agenda-setting and foundational choices, appears less directly influential on the technical design aspects of ISMs.

Similarly, explanations rooted in domestic politics and lobbying pressures appear less influential during periods of geopolitical rupture, when state-led strategic imperatives often override domestic interest-group politics. This is mainly because the policy's

novelty creates “Knightian uncertainty,” which prevents firms from forming stable preferences (Vlasiuk Nibe, 2023), while the inherently “conflictive” nature of screening divides the business community into distinct winners and losers, thereby preventing the formation of a unified lobbying front (Dür et al., 2025). Collectively, while these alternative explanations provide valuable context for the recent surge in ISM adoption, they do not systematically explain the specific institutional designs that have emerged.

In contrast, the framework advanced in this study presents a different analytical perspective: one that organizes these patterns around structural features, namely technological capacity and public banking strength, and, in doing so, provides a comprehensive way to integrate insights for a more systematic mapping of ISM design variation that can accommodate (Table 10). For instance, unlike the broad VoC categories, the framework advanced here can account for the “hybrid” outcomes we observe, such as the Wide-Selective model (T1), where a high-tech CME adopts a broad scope but maintains a high threshold—a nuance that a public vs. private ecosystem dichotomy might miss.

Table 10. Classification of ISMs of EU Member States

		Technological Intensity	
		High	Low
Public Banking	High	<u>Wide Selective Screening (T1)</u> Austria Germany	<u>Tolerant Screening (T3)</u> Lithuania Poland Portugal
	Low	<u>Restrictive Screening (T2)</u> Belgium Denmark France Italy Slovenia Spain	<u>Deep Selective Screening (T4)</u> Czech Republic Finland Hungary Latvia Slovakia

Although the observed patterns align with the theoretical framework, the underlying causal mechanisms require further exploration. The next stage of the dissertation addresses this by moving from macro-level statistical analysis to in-depth comparative case studies of Germany, Italy, Poland, and the Czech Republic. These cases have been selected to capture variation in both technological capacity and public banking strength, in line with a factor-centric design. This approach will demonstrate precisely how technological concerns and domestic financial capacity are translated into concrete policy outcomes.

Conclusions

This chapter presents the first empirical test of the dissertation's theoretical framework. The findings presented here offer preliminary support for the H1 and H2. Moreover, to justify the chosen theoretical approach, the chapter also clarified why plausible alternative perspectives are not treated as the principal drivers in this study. In this regard, this chapter has evaluated three key alternative explanations for the observed variations in ISM design across countries: China-specific investment pressures, VoC logics, and domestic political factors. While acknowledging the contextual importance of each, the analysis concludes that none provides a sufficiently compelling primary explanation for the observed variation in scope and threshold. Therefore, having considered these alternatives, the research maintains its focus on Hypotheses 1 and 2 as the most promising framework for understanding why national ISMs exhibit specific variations in their core design features. Through a macro-level plausibility probe and an evaluation of alternative explanations, the analysis seeks to establish a sufficient basis for the in-depth case studies that will follow.

CHAPTER 5. WIDE-SELECTIVE INVESTMENT SCREENING MECHANISM: GERMANY

“Germany is not for sale”

Former Economy Minister Peter Altmaier in 2019

This chapter analyzes the ISM of Germany as an example of a Wide-Selective investment screening type. A Wide-Selective ISM combines a broad scope with a high threshold, enabling comprehensive screening across many sectors; however, it is triggered only when the specified high threshold is exceeded. The chapter proceeds as follows. It first outlines the legal framework of the German ISM, then defines the main design characteristics of this complex system, highlighting features that underscore its wide-selective nature. Next, the discussion shifts to a theoretical assessment of these design choices. The broad scope of the ISM is explained in terms of Germany’s high technological intensity, while the preference for a high threshold is analyzed in the context of the high public ownership of banks. Relevant M&A cases are also included to illustrate real-world applications of these mechanisms. The final section explores alternative explanations to further substantiate the claims made.

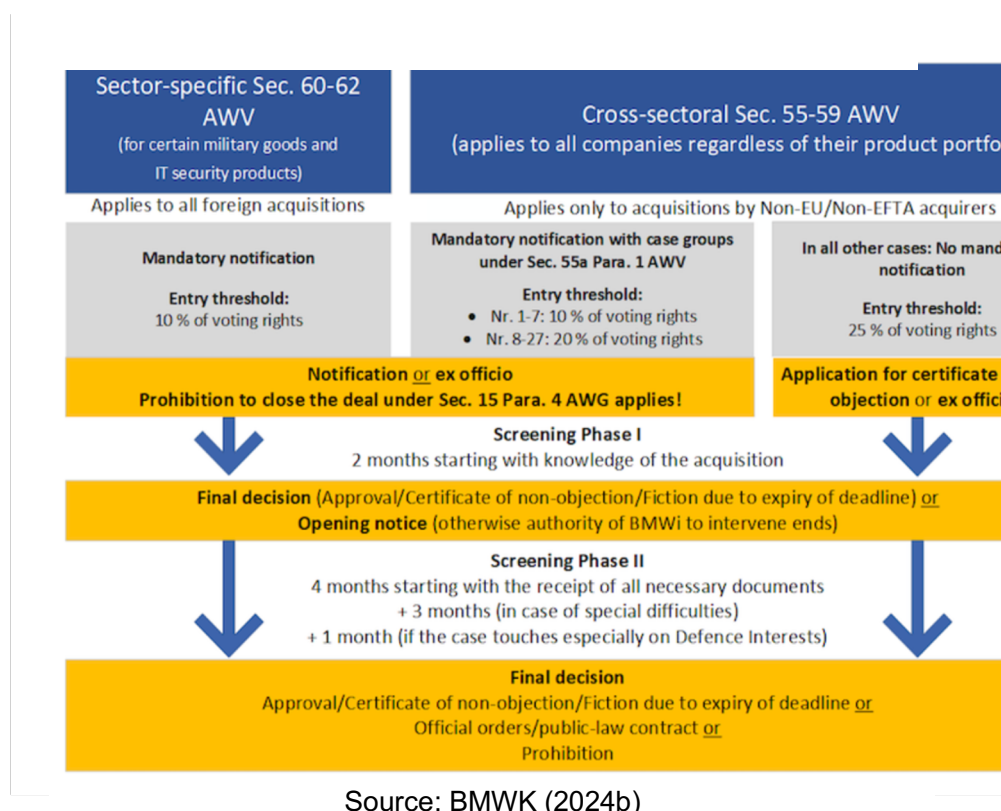
5.1. The Legal Framework of German ISM

Since 2004, Germany has been regulating foreign investment to protect its national security and public order, integrating key provisions into the Foreign Trade and Payments Act (Außenwirtschaftsgesetz, AWG) and the corresponding Foreign Trade and Payments Ordinance (Außenwirtschaftsverordnung, AWV). These initial regulations were significantly expanded and refined through a series of reforms in 2017, 2018, 2020, and 2021. Consequently, this process transformed Germany’s ISM into a more structured and comprehensive system, tailored to address various sectors and acquisition thresholds based on national security concerns.

Germany’s ISM differentiates among sectors, acquisition percentages, and the nationality of the acquiring entity. The regime is organized into three primary frameworks, each applied according to the characteristics of the transaction. Figure 11 below illustrates these mechanisms. The first mechanism is a sector-specific review, introduced in 2004. It applies to acquisitions by foreign investors of companies involved in the production of

certain military goods and IT security-related products, as specified under sections 60-62 of AWV. This includes entities that manufacture products such as weapons, tank engines, military technologies, and products with IT security features, among others. Therefore, this framework is closely associated with conventional defense, security, and infrastructure sectors. The sector-specific review is triggered when a non-German investor acquires control of at least 10% of the voting rights in these sectors.

Figure 11. German Investment Screening Review



In 2009, Germany introduced a cross-sectoral ISM that applies to all sectors of the economy, as outlined in Sections 55–59 of the AWV. This mechanism is specifically aimed at acquirers from outside the EU and EFTA (Section 55 of the AWV). Over time, a series of reforms have shaped and expanded this mechanism, resulting in two distinct branches under the same overarching framework. For industries, especially those related to advanced technology and critical infrastructure, a lower threshold of 10% foreign acquisition triggers a review process. This applies when foreign investors acquire 10% or more of voting rights or assets in companies that operate in sectors such as energy, telecommunications, transportation, and finance, or provide essential services like cloud

computing and state communications (Section 55a (1) no.1-7 of the AWW). This review comes with a notification requirement, although formal authorization is not necessary.

In critical industries, the 20% threshold applies to sectors such as healthcare, artificial intelligence, semiconductors, aviation, and quantum computing (Section 55a (1) no. 8-27 of the AWW). For sectors not explicitly listed in Germany's cross-sectoral ISM, a review is triggered if the acquisition results in a holding of at least 25% of the voting rights in the target enterprise (Section 55 of the AWW). Additionally, if further acquisitions push the investor's stake beyond other thresholds, subsequent reviews may be triggered. In this scenario, while there is no formal notification requirement, investors may apply for a certificate of non-objection to obtain legal certainty regarding the transaction and thereby avoid potential regulatory issues.

5.1.1. Institutional Set-up and Screening Process

Within this legal framework, the German Federal Ministry for Economic Affairs and Climate Action (Bundesministerium für Wirtschaft und Klimaschutz der Bundesrepublik Deutschland - BMWK) is the primary authority responsible for reviewing foreign investments under both the AWG and the AWW. Depending on the sector or the complexity of the acquisition, other key stakeholders, such as expert bodies or relevant ministries, may be consulted for their opinions during the review process. For sector-specific reviews (those relating to industries such as defense and military) the BMWK has the authority to block acquisitions or issue binding conditions to mitigate potential risks (Section 13(2) of AWG). However, for cross-sectoral reviews, the BMWK cannot independently block an acquisition, it can only impose conditions. Such decisions must be approved by the federal government (Section 13(3) of AWG).

The review is triggered when an investor reaches specific thresholds of voting rights, typically 10%, 20%, or 25%, depending on the sector. The screening process typically begins with a formal notification from the acquirer to the BMWK of the transaction. However, the BMWK may also independently commence a screening procedure within two months of becoming aware of the transaction (Section 13(1) of AWG). If no formal review is initiated within five years of the transaction's signing, the BMWK forfeits the right to trigger an assessment (Section 22 of AWW).

The review is structured into two phases. In the first phase, within two months of notification, the BMWK must decide whether to initiate an in-depth review in the second phase (Section 14a (1) of AWG). If no decision is made within the specified period, the transaction is either automatically approved or explicitly cleared through the issuance of a certificate of non-objection (Section 58(1) of AWV). If concerns arise during the initial assessment, the process enters the second phase. In such cases, it can last up to four months (Section 16(1) of AWG). This timeline may be extended in cases requiring additional documentation or involving sensitive sectors, such as defense, where the review may be prolonged by an additional three to four months (Section 17(1) of AWG).

In 2023, Germany introduced the Special Fee Ordinance, which established fees for ISM procedures based on the phase, duration, and complexity of the investment review process. Under the ordinance, administrative fees are set at €800 for cases that conclude in Phase I (Bundesgesetzblatt, 2023). For cases progressing to Phase II, fees range from €2,500 to €30,000, depending on the complexity and duration of the review process (Bundesgesetzblatt, 2023). In the same year, Germany also amended the framework to digitalize its FDI screening process and introduced penalties for certain violations, including acquiring stakes in Russian mining companies, managing Russian state-owned enterprises, or allowing Russian nationals to hold roles in critical infrastructure companies (Advant Beiten, 2023).

5.2. Typological Assessment of German ISM

At first glance, Germany's ISM appears complex because of multiple legal frameworks and specific rules applied to different types of transactions. Each sectoral group is subject to distinct threshold levels and tailored review criteria, making it difficult to formulate a single rule that encompasses all forms of FDI. However, it is important to examine how sectors are categorized and how thresholds are set to trigger reviews. This analysis provides insight into the structure of the mechanism, which ultimately helps identify the dominant tier of the mechanism. The table below summarizes the main characteristics of this sub-mechanism.

Table 11. The Overview of the German Investment Screening Mechanism

Application of German ISM Across the Industries				
	Sector Specific Mechanism (non-German)	Cross-Sectoral Mechanism (non- EU and EFTA)		
	10%	10%	20%	25%
Threshold	60-62 of the AWV	55a (1) no.1-7 of the AWV	55a (1) no.8-12 of the AWV	Section of 55 AWV
Sectoral Characteristic	Defense and Security	Critical Infrastructure	Critical Tech. and Industries	All Remaining Sectors
e.g. companies operate in	military weapons and equipment	transportation, water, food, energy, medicine, cloud computing, etc.	automated motor vehicles, robots, semiconductors, optoelectronics, cybersecurity, artificial intelligence	

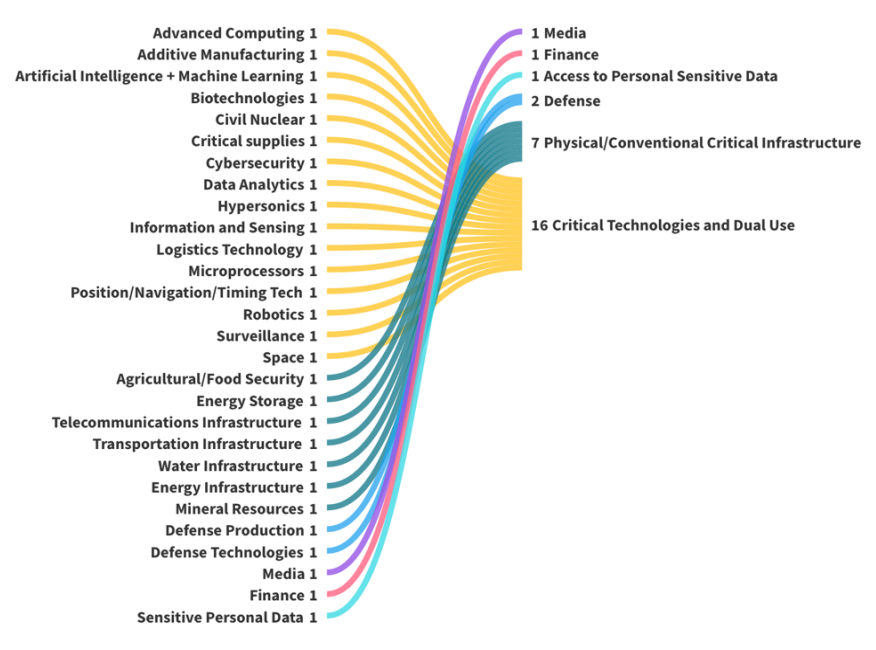
Source: Author's elaboration based on German legal framework

To begin with, transactions subject to the 10% threshold in Germany's ISM typically fall into two primary categories: traditional security sectors, such as military and defense, and critical infrastructure. Screening these sectors is justified by their direct connection to national security. In the defense sector, state oversight is vital for maintaining control over military assets, a crucial element of national sovereignty. Similarly, critical infrastructure sectors, such as energy, telecommunications, and transportation, are essential for ensuring the uninterrupted provision of vital public services.

However, this tier does not fully capture the overarching characteristics of Germany's ISM. As shown in Figure 12, sectors such as defense and traditional critical infrastructure account for only a small share of the overall ISMs. Thus, these sectors are less likely to constitute the dominant tier. In fact, official statistics indicate that less than 15% of all investment screening notifications between 2019 and 2023 fell under this category,

where the 10% threshold applied. This underscores the relatively narrow scope of this component of the mechanism (BMWK, 2024b).

Figure 12. Sectoral Division of German ISM



Source: Author's elaboration based on PRISM dataset (2023)

As previously discussed, critical technologies play a key role in Germany's ISM, since this is the category that spans multiple sectors across nearly all EU member states. According to the PRISM dataset (Bauerle Danzman & Meunier, 2023a), Germany's ISM oversees 16 subsectors within critical technologies and dual-use goods, as illustrated in Figure 12, making it the most extensive category. Because of its broad scope, this category frequently triggers investment reviews and accounts for the majority of notifications. In Germany, this tier is generally set at a 20% threshold, applying to industries related to advanced technologies and dual-use goods. This suggests that it constitutes the dominant tier of Germany's ISM, combining broad scope with a high threshold.

5.3. Theoretical Assessment of Wide-Selective Design

This section examines the explanatory factors behind Germany's specific design choices and assesses them theoretically using the framework established in Chapter 3. The analysis employs process tracing as its methodological approach.

5.3.1. Explaining Broad Scope

The key question here is why Germany adopted for a broad scope in its ISM. To clarify this, the analysis traces the regime's amendments. The evidence suggests Germany's broad ISM design reflects a strategic effort to protect technological capabilities. When Germany first introduced its ISM in 2004, it focused solely on assessing and prohibiting the acquisition of German defense-sector businesses by non-German investors. This limited approach reflects the fact that, despite rapidly growing Chinese investment in Germany, the security implications of these investments were not widely recognized before the mid-2010s (Chan & Meunier, 2021, p. 526).

Until mid-2015, Chinese investment was viewed favorably, based on the perception that the Chinese and German economies were complementary (Cai & Efstathopoulos, 2023). Even when China announced its "Made in China" strategy in 2015, it was seen as compatible with Germany's "Industrie 4.0". For instance, German firms such as BMW and BASF capitalized on these ties by establishing R&D centers in China to foster cooperation in the techno-economic domain. To further bolster industrial collaboration, the two nations developed Sino-German industrial parks and launched 11 innovative cooperation platforms (China Daily, 2018). Moreover, the "Sino-German Industrial City Alliance," launched in early 2016, aimed to foster strategic cooperation at the local level on industrial policies (Cai & Efstathopoulos, 2023, p. 298). Indeed, investment review statistics on cross-sector acquisitions confirm this positive atmosphere. From 2008 to 2015, all reviews were voluntarily initiated by investors to address potential concerns in advance, and all reviews were approved without any prohibitions (Bundestag, 2016).

However, since 2016, this positive outlook has been replaced by growing concern over strategic and technology-seeking foreign investment, particularly when linked to the Chinese state. A key example was the €4.5 billion acquisition of Kuka, a German robotics

company crucial to the automotive industry, by the Chinese firm Midea (Weinland & McGee, 2016). Often described as a “Sputnik moment” (Mozur & Ewing, 2016), the Kuka takeover marked a turning point that intensified public debate over the transfer of high-tech expertise to foreign investors.

In 2016, to counter the Chinese bid for Kuka, German Economy Minister Sigmar Gabriel encouraged European industrial groups to come together and propose an alternative offer (Deutsche Welle, 2016a). Meanwhile, Günther Oettinger, the German EU Commissioner, called for a European foreign trade law in response to Midea’s takeover of Kuka (Deutsche Welle, 2016a). Oettinger noted the limited tools available to European policymakers in such situations and emphasized the need for national and EU action to safeguard strategically important sectors (Deutsche Welle, 2016b). Although the deal proceeded, it showed the extent to which Germany’s ISM lagged the rapid growth in Chinese acquisitions. This was strongly supported by Economy Minister Sigmar Gabriel, who emphasized the need of safeguarding “key technologies that are of particular importance for further industrial progress” (Chazan, 2016). However, Gabriel attributed the inability to formally intervene in the Kuka case to the fact that the technology-related sectors were not included among the strategically relevant sectors where the state holds an intervening role (Deutsche Welle, 2016a).

Security concerns intensified when another high-profile deal involving Chinese investment was proposed. Fujian Grand Chip, a Chinese firm, sought to acquire Aixtron, a German semiconductor equipment supplier, in a deal valued at approximately €676 million (Chazan, 2016). Although the German government initially approved the takeover, it later reversed its decision and, for the first time, initiated an in-depth review (Chazan, 2016). This shift was driven by Aixtron’s involvement in sensitive technologies, particularly through its U.S. subsidiary, which provided critical nitride technologies to NATO defense contractors (U.S. Department of the Treasury, 2016). Ultimately, U.S. authorities blocked the deal under the CFIUS process (U.S. Department of the Treasury, 2016). Amid growing concerns about inadequate scrutiny of foreign acquisitions, particularly in high-tech sectors, Germany enacted its first major reform in July 2017 (BMWK, 2017). The reform introduced a 25% threshold for reviewing foreign investments in critical infrastructure sectors, such as energy, telecommunications,

finance, and healthcare, thereby enhancing protections for national security (BMWK, 2017). At the same time, Germany, along with France and Italy, called on the European Commission to encourage member states to block foreign investments on national security grounds (Joint Letter, 2017).

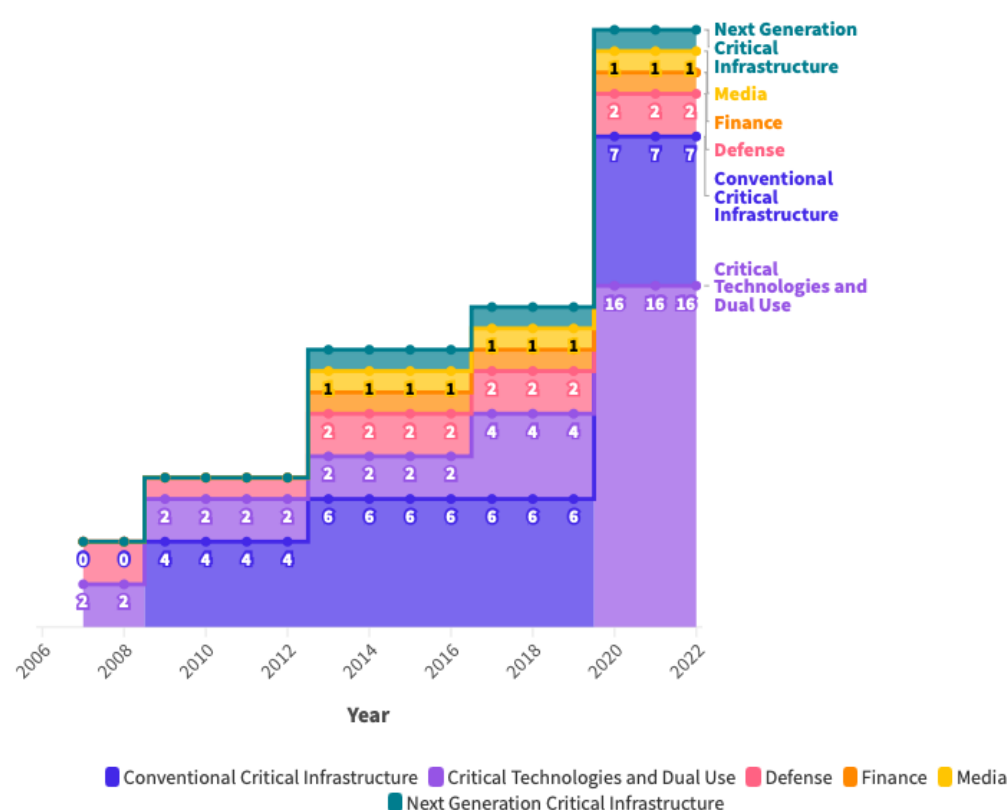
As Germany tightened FDI screening regulations at both the national and EU levels, the period 2017-2018 was marked by a series of controversial takeover cases, some of which underwent lengthy, in-depth reviews before ultimately being cleared, while others prompted more direct government intervention (Krause et al., 2018). For instance, when Chinese investors MLS, IDG, and Yiwu submitted a bid to acquire Osram's lighting division (Thomasson & Schuetze, 2017), the German government initially withheld approval before granting clearance after a three-month review (Thomasson & Schuetze, 2017). Similarly, the acquisition of Cotesa, a Saxony-based aerospace supplier, by Changzhou QFA Composite Material required a seven-month review before receiving clearance (Nienaber, 2017).

In other instances, the government intervened after the acquisition was already complete. For example, after Hytera, a Chinese firm, acquired the British company Sepura (whose German subsidiary supplies radios to public authorities) the government entered security-related negotiations with Hytera to safeguard Sepura's German operations as a condition for final clearance (Krause et al., 2018). However, the most significant move during this period was the German government's first-ever prohibition order. The government blocked the sale of Leifeld Metal Spinning AG, a leading supplier to the aerospace and nuclear industries, to Chinese investor Yantai Taihai (Deutsche Welle, 2018). Following this period of heightened attention, in December 2018, an amendment lowered the foreign ownership threshold from 25% to 10% in critical sectors such as military equipment, IT security, and media companies essential for public opinion formation, specifically targeting non-EU and non-EFTA acquirers (BAFA, 2018).

A major revision occurred in 2020, with further expansion of the mechanism in the context of the COVID-19 pandemic. The 15th and 16th amendments to the AWW ensured a strong healthcare system by requiring prior government approval for foreign acquisitions of at least 10% in companies involved in vaccines, medicines, and medical equipment (BMWK, 2020a). This was followed by the July 2020 1st amendment to the

AWG, which broadened the criteria for government review of foreign investments (BMWK, 2020b). Previously, reviews could be triggered only if there was an “actual and serious risk” to public order or security. The amendment replaced this standard with the more flexible “likely to affect” test, allowing acquisitions to be screened even if there was only a possibility of a threat to public order or security (BMWK, 2020b). As a result, Germany’s ISM scope has evolved into a more comprehensive model through a series of successive amendments since 2017.

Figure 13. Changes in Sectoral Coverage Under Germany ISMs (2007-2022)



Source: Author’s elaboration based on PRISM dataset (2023)

The figure above illustrates the significant expansion of Germany’s investment screening scope. While ISM’s coverage was relatively modest before 2010, with only a limited number of sectors regulated primarily conventional critical infrastructure, the landscape shifted dramatically in the latter half of the 2010s.

From 2015 onward, the scope of investment screening broadened considerably, encompassing a far wider range of sectors. A major driver of this expansion is the inclusion of critical technologies and dual-use sectors, as shown by the prominent light

purple bars in the figure. This category, the largest among those regulated, includes advanced technologies such as artificial intelligence, semiconductors, quantum technology, and cybersecurity. This trend reflects rising concerns about national security and technological sovereignty, especially following high-profile foreign acquisitions in critical sectors such as robotics.

These concerns are particularly salient given the country's prominent position in high technology as the largest European economy and a leading high-tech manufacturer (Eurostat, 2024). According to Eurostat, over the past three years, value added at factor cost for high-tech manufacturing in Germany totaled over €80 billion (Eurostat, 2024). Moreover, in addition to producing high-tech goods, Germany invests heavily in innovation. For instance, in 2021, Germany allocated 3.13% of its GDP to R&D, 1.1% above the EU average of around 2.2% (European Commission, 2023a, p. 56). In particular, the private sector plays a key role in driving innovation in the country, with Business Expenditure on R&D accounting for 67.8% of total R&D spending (European Commission, 2023a, p. 56). Furthermore, with 12.5% of the total patent applications filed in 2023, Germany holds a leading position in intellectual property (EPO, 2023).

A closer look at Germany's industrial initiatives further reinforces this point. The critical technology sectors under the ISM are central to "Industrie 4.0," a vision launched in 2015 to secure Germany's leadership in global industrial production (BMWK, 2024a). This initiative relies heavily on integrating technological innovation into industrial processes. This also explains heightened concerns about the acquisition of technology-intensive companies, as in the Kuka case, where foreign takeovers threaten the country's ability to achieve its "Industrie 4.0" objectives and maintain industrial leadership (Corrocher et al., 2018; Germann, 2023).

This comprehensive investment-screening logic and the fear of losing critical technology are also evident in other German initiatives. For example, in 2019, Germany's Economic Minister Peter Altmaier presented the "National Industry Strategy 2030," which focuses primarily on promoting technological innovation, fostering national champions, and shielding them from foreign takeovers. The strategy was designed to ensure Germany's

control over key technology sectors and, in turn, to reinforce the country's position as a global leader in advanced industries. The strategy explicitly states:

“Technological autonomy is a key foundation for the functioning of our highly developed industrial society. It can only be maintained in the long term if the relevant industrial substance is available and controllable in Germany and Europe. This is particularly true of sensitive technologies, such as dual-use technologies. In particular, it is necessary to avoid losses of expertise and to retain self-determination in key fields of technology. There is a need for more comprehensive screening in the field of sensitive technologies.”
(BMWK, 2019b, p.27)

Similarly, France and Germany introduced the proposal “European Industrial Policy Fit for the 21st Century,” which explicitly states, “We will only succeed if we are the ones creating, developing, and producing new technologies. We will only succeed if we are capable of defending our technologies, companies, and markets” (BMWK, 2019a). To provide another example, the Federal Minister for Economic Affairs and Climate Action, Robert Habeck, announced a new industrial strategy titled “Industrial Policy in Changed Times: Safeguarding our Industrial Base, renewing our Prosperity, Boosting our Economic Security” (BMWK, 2023). This strategy seeks to enhance investment-screening laws to make it easier to protect critical technologies from foreign acquisitions. To achieve this, the strategy aims to modernize industry case groups, update sectors subject to stricter regulations, and improve detection of IP transfers (BMWK, 2023, pp. 43-44). Moreover, to ensure that foreign entities cannot access critical innovations and prosperity, the new regulation monitors even indirect forms of technology transfer, such as licensing agreements (BMWK, 2023, p. 44).

In summary, this process-tracing analysis confirms that Germany's decision to adopt a broad screening scope was strategic. Because its economy relies heavily on high-tech industrial production, it is particularly vulnerable to losses when high-value technological assets are transferred to foreign entities. High-profile foreign takeovers of strategically important high-tech firms have shown that the technologies underpinning “Industrie 4.0” were not adequately protected and thus exposed to risk. In response, policymakers have explicitly and progressively expanded the scope of the German ISM, as demonstrated by the reforms in 2017, 2018, and 2020, to cover this broader technological ecosystem.

5.3.2. Explaining High Threshold

The second core feature of its “Wide-Selective” design is the high threshold. Examining a series of key M&A cases and policy debates, the main argument in this section is that the strategic deployment of an extensive public banking system gives the state a powerful capacity to serve as both a reactive financial backstop and a proactive promoter of industrial resilience, possibly reducing the need for a lower, more restrictive screening threshold. To contextualize this argument, it is necessary to situate this capacity within the German financial system, specifically within its primary federal instrument, the Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau, KfW). Established in 1947 and tasked with administering most of Germany’s Marshall Plan funds, it evolved, by controlling the allocation of scarce capital, into the key institution of the reconstruction process (Shonfield, 1965).

This study focuses on the institution’s position within the financial system and its financial capacity. First, Germany’s financial landscape is distinct from Anglo-American models, built on a three-pillar structure of public, cooperative, and private banks. Within this system, institutions such as the Sparkassen (local savings banks) and Landesbanken (regional banks) focus on regional development, while the national development bank, KfW, is considered the state’s most potent instrument for national and international strategy (Griffith-Jones & Tyson, 2013; Griffith-Jones et al., 2018). Its capacity for strategic action stems from its direct integration with the German state (Marois, 2022, 2024; Mertens, 2021). It is owned by the German states (20%) and the Federal Government (80%) and supervised by the Federal Ministry of Finance and the BMWK. More importantly, under its legal mandate, KfW is explicitly mandated to act on behalf of the government, directing its activities toward the public policy objectives and political priorities of its state shareholders. This legal framework gives the state a direct line of political instruction, backed by financial strength and a broad operational scope that provide the means to act (Mertens et al., 2021).

KfW stands out in the European banking sector for both size and reach. With approximately 8000 employees and assets exceeding 550 billion euros (KfW Capital, 2024), KfW is identified as the largest development bank in Europe and the third-largest bank in Germany (Mertens et al., 2021). Historically, KfW first leveraged this power

during the post-WWII reconstruction period by providing vast amounts of credit to the “Mittelstand” (German SMEs). Today, its portfolio spans domestic lending to small and medium-sized enterprises, municipalities, households, and other credit institutions, as well as export, project, and development finance (KfW Capital, 2024).

Moreover, KfW’s financial strength is further anchored in an explicit guarantee from the Federal Republic of Germany, which grants it a top-tier AAA credit rating and enables it to raise enormous volumes of capital in global markets at highly favorable rates (Fitch Rating, 2025). These funds can then be channeled indirectly through locally embedded commercial banks to firms, especially SMEs.

Despite the modern constraints of globalization and EU competition rules, KfW’s role has remained central (Volberding, 2021). In fact, KfW has leveraged globalization by actively participating in international capital markets (Naqvi et al., 2018). Its continued strategic importance lies in the adaptability of its broad operational scope to evolving state purposes, ranging from acting as a countercyclical stabilizer in crises and developing domestic capital to advancing national missions such as the green transformation (Griffith-Jones & Tyson, 2013; Griffith-Jones et al., 2018).

In this research, the most significant aspect of KfW is its role as the primary financial instrument through which the German state is pursuing a strategic recalibration. This recalibration reflects a shift away from Germany’s historical hands-off approach, driven by the increasing pressures of a more confrontational global order. The most tangible manifestation of this recalibration is KfW’s deployment as a “financial backstop,” a role that will now be examined through a series of key M&A cases.

5.3.2.1. Public Banking as Backstop

The logic of the financial backstop is evident in a series of high-profile cases. The first case concerns 50Hertz, Germany’s critical power grid operator. In 2018, an Australian investor sought to sell 20% of Eurogrid, 50Hertz’s parent company, to the State Grid Corporation of China (SGCC). Although the German government lacked the formal authority to block the deal under the investment screening law, which applied only to acquisitions of 25% or more, it instructed the state-owned development bank KfW to

purchase the stake, using Elia, the Belgian majority shareholder, as an intermediary (Drucksache 19/4382, 2018). This transaction was authorized through extra-budgetary measures reviewed by the Bundestag's Budget Committee (Haushaltsausschuss) and the Economic Affairs Committee (Drucksache 19/9657, 2019).

Preventing a Chinese state-backed entity from acquiring a stake in Germany's critical power grid was significant for two primary reasons. First, the intervention was driven by geopolitical and security concerns rather than a conventional bailout. It aimed primarily to mitigate risks posed by a potential foreign owner of a strategic national asset (Drucksache 19/4382, 2018; Drucksache 19/9657, 2019). Second, this incident marked the first instrumentalization of a financial tool, administered through the KfW bank, in the context of foreign investment screening. The 50Hertz intervention thus set an important precedent, highlighting KfW's potential as a policy tool in future high-technology security cases.

The 50Hertz case prompted a significant policy debate in parliament about deploying the KfW bank to acquire stakes in strategically important firms. This debate became particularly relevant in late 2018, when another takeover was proposed for the aerospace supplier Cotesa by a state-backed Chinese company. In this instance, the FDP questioned whether the government was considering direct intervention, similar to the 50Hertz case (Drucksache 19/4216, 2018). The government confirmed that a formal investment screening was underway but declined to comment on "hypothetical considerations" regarding a state shareholding (Drucksache 19/4216, 2018). Although the Cotesa acquisition was ultimately approved after a seven-month review, the case shows that using KfW as a financial backstop was no longer viewed as an anomaly, as it was immediately raised as a potential policy tool.

While the FDP's inquiry focused on a specific case, the broader and the long-term institutionalization of such interventions raised more concerns for the Alliance 90/The Greens party. They argued that lowering the investment screening threshold would be a "more efficient and expedient" solution than using public funds to purchase shareholdings (Drucksache 19/4382, 2018).

The government's response to these concerns was cautious. It framed the 50Hertz acquisition as an exceptional and temporary "bridge solution" (Brückenlösung), insisting

that the primary path forward is to strengthen formal screening laws rather than create a permanent defense instrument (Drucksache 19/4382, 2018). Meanwhile, the government expressed strategic flexibility, arguing that the choice of instrument must be “decided on a case-by-case basis” and “could not be judged in the abstract” (Drucksache 19/4382, 2018).

However, the government’s next major policy initiative stood in stark contrast to this cautious posture. In February 2019, German Economy Minister Peter Altmaier presented the draft “National Industrial Strategy 2030” (Nationale Industriestrategie, 2030), which sought to institutionalize a capacity for case-by-case intervention. The proposal included the creation of a “National Participation Facility,” a dedicated fund that would allow the state to acquire strategic corporate stakes (Nationale Industriestrategie 2030, February 2019).

Such an active and systematic role prompted immediate reactions. In April 2019, the FDP specifically asked whether the proposed “National Participation Facility” would be used to “bail out or rescue companies for national interest” (Drucksache 19/9657, 2019). Amid opposition to the proposal, the government was forced to clarify its intent. By stating clearly that the facility was not intended to bail out companies in economic distress (Drucksache 19/9657, 2019), it explicitly separated the tool’s rationale from commercial rescue. Nevertheless, political pressure ultimately led to significant moderation in the final version of the strategy (Drucksache 19/16453, 2020).

In an updated version from November 2019, the proactive “participation facility” was replaced with the more defensive “National Recourse Option,” which explicitly framed a temporary state shareholding via the KfW as a “last resort” measure to be used only in “individual cases involving sensitive or security-related technologies” (BMWK, 2019b, p. 28). To make the KfW backstop effective, the strategy even proposed creating a “National Recourse Option Standing Committee” to enable the state to act quickly and make decisions more rapidly and efficiently. The document states:

“As a last resort, and only if all the other instruments do not apply, a temporary state shareholding in companies via the KfW can be considered and realized in individual cases involving sensitive or security-related technologies (“national recourse option”). This has already occurred in isolated cases in the past. [...] In the past, however, it has been found that such

operations have to take place quickly. It is therefore necessary to put structures in place which allow the necessary decisions (by the federal cabinet) to be taken more rapidly and efficiently than has been the case.” (BMWK, 2019b, pp. 28)

The “last resort” instrument outlined in the 2019 strategy was activated in subsequent years, as demonstrated by a series of high-profile interventions. The most prominent example occurred in 2020, at the height of the COVID-19 pandemic. Amid concerns that the U.S. might acquire the German biotech firm CureVac, a key player in mRNA vaccine development, the federal government mandated KfW to invest €300 million for a 23% stake (CureVac, 2020). The explicit objective was to prevent a foreign takeover and secure the company’s critical technological capabilities within Germany (CureVac, 2020). Later that year, KfW again intervened by providing stabilization financing to the wind turbine manufacturer Nordex, to shield a high-tech renewables firm from takeover risk during a period of financial stress (Nordex SE, 2020). The same logic extended into 2021, with national security motivations becoming more pronounced. The government instructed KfW to acquire a 25.1% blocking minority (sufficient to veto key corporate decisions) in the defense electronics firm Hensoldt (KfW, 2021b). This intervention was particularly significant because it occurred after Germany’s formal screening law had already been strengthened. This case highlights the role of a financial backstop as a last resort alongside the legal regime. Together, these takeovers illustrate a consistent pattern in the application of the public banking backstop. These cases are summarized in Table 12.

Table 12. Evidence Matrix for Public Banking Backstop Claim

Episode/year (sector)	Instrument Used	Implications
50Hertz 2018 (Critical grid)	KfW acquired 20% stake	✓ Financial Backstop
Cotesa 2018 (Aerospace)	Screening only	✓ KfW option recognised in the parliamentary debate but not used → case cleared through the ISM review
CureVac 2020 (Biotech)	KfW acquired minority stake ~23%	✓ Financial Backstop
Nordex 2020 (Clean Tech)	KfW stabilisation finance	✓ Liquidity backstop to lower probability of sale
Hensoldt 2021 (Def. Elect.)	KfW acquired blocking minority 25.1%	✓ Financial Backstop

Source: Author's compilation based on German parliamentary records (Drucksache), KfW press releases, and media reports from 2018-2021

These cases do not suggest that KfW itself sets the 20 percent activation trigger. Instead, they show that when concrete risks arise, whether involving ownership and control in critical companies or public finance, the market can be mobilized to absorb or reconfigure those risks. The following section shifts focus from managing risks after they emerge to reducing the likelihood of their emergence in the first place.

5.3.2.2. Public Banks as Promoter

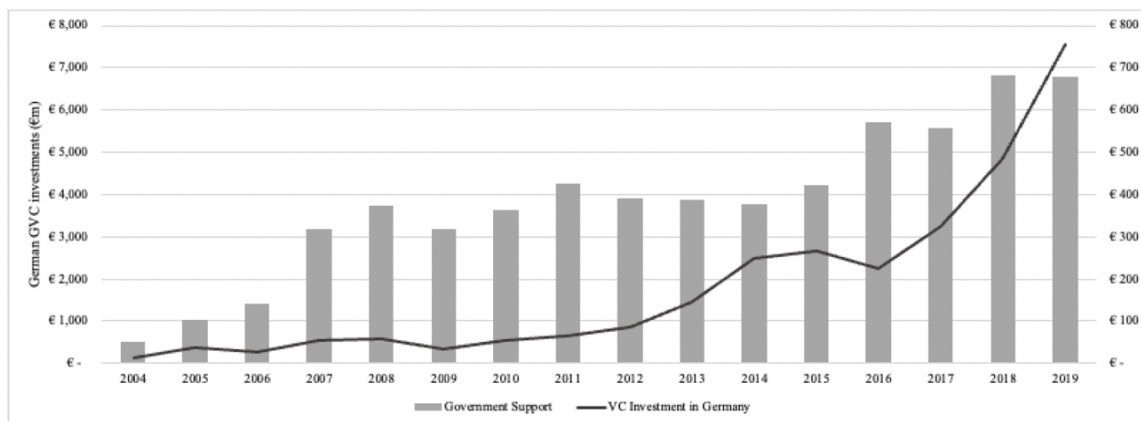
Beyond its role as a financial backstop, KfW often plays another crucial proactive role: enhancing domestic industrial resilience to prevent strategic vulnerabilities from emerging. This promotional strategy addresses the root cause of many undesirable foreign takeovers, namely the structural “scale-up gap” (EIB, 2024). This term refers to the scarcity of domestic late-stage growth capital, which often forces emerging firms to either sell to foreign buyers or relocate abroad to access the financing needed for global expansion. This often leads to a so-called “technology drain” of critical intellectual property and a “brain drain” of talent. EIB research (2024, pp. 16-18) confirms this structural reliance on external capital for scaling, showing that European targets of foreign-owned acquirers exhibit significantly higher growth post-acquisition than those acquired by domestic firms.

To address this, the German state seeks to shape and bolster the domestic ecosystem of innovative financing through public finance. Building on historical instruments such as the ERP Special Fund, the federal government established KfW Capital in 2018 as a KfW subsidiary to complement the traditional credit-based model and improve access to venture and growth capital for “innovative, technology-oriented growth companies” (KfW Capital, 2024). This institutional innovation was designed to channel public capital systematically into venture markets and expand Germany’s role in the European start-up ecosystem. Between 2018 and 2023, KfW Capital invested €1.9 billion across more than 100 VC funds, with plans to expand its pool of growth capital to €30 billion by 2030 through private commitments (KfW Capital, 2024).

Another important element of this new architecture is the “Future Fund” (Zukunftsfonds), a state-backed initiative launched in 2021 with €10 billion in public resources (KfW, 2021a). The fund’s objectives underscore its strategic rationale. According to the BMWK (KfW, 2021a), its primary aim is to prevent the emigration of high-tech firms to jurisdictions with deeper capital markets by closing financing gaps in large-scale growth rounds. Likewise, the Federal Ministry of Finance stresses the need to avoid the outflow of innovation, talent, and intellectual property abroad, explicitly linking the fund to Germany’s technological sovereignty (KfW, 2021a).

The evolution of Germany’s venture capital ecosystem reflects not only an expansion in public resource mobilization but also a more profound institutional transformation that aligns with what Moretti (2024) terms the “Market Creator State.” Moretti (2024, p. 77) defines this as arm’s-length partnerships in which public banks either delegated investment to private intermediaries through ERP–EIF facilities or engaged in co-investments via hybrid entities (such as KfW Capital). In this way, the state did not simply shield firms from foreign acquisitions but instead created conditions for domestic capital markets to grow, thereby mitigating vulnerabilities before they materialized. This policy reorientation is reflected in the data shown in Figure 14, which shows the increase in government-backed funding alongside the broader VC market’s expansion.

Figure 14. Growth of Government Venture Capital Support and Total VC Investment in Germany (2004-2019)



Source: Moretti 2024, p. 112

This perspective is directly relevant to the dissertation’s central argument that public banks function not merely as protectors but also as proactive promoters of domestic resilience. As seen in this German case, public banks can also act as market creators, mobilizing VC, attracting private investors, and building the horizontal capacities (capital, talent, networks) on which long-term resilience depends.

5.4. Alternative Explanations

Several alternative explanations may appear plausible for the Wide-Selective ISM design. These include (1) the COVID-19 effect and (2) institutional legacies associated with CME. Evaluating these competing accounts helps clarify the logic underpinning Germany’s ISM design.

First, the COVID-19 pandemic provides an intuitive starting point for alternative explanations of Germany’s tightening investment-screening regime. One might argue that these design choices reflect a “COVID-19” effect that required government intervention. Indeed, at first glance, KfW’s acquisition of CureVac appears to support such an interpretation. However, KfW’s role as a strategic policy instrument predates the pandemic, as demonstrated by its 2018 intervention to protect the electricity grid operator 50Hertz from a foreign takeover during a generally liberal policy period. Similarly, parliamentary debates in the Bundestag indicate that, even before COVID-19, policymakers discussed KfW’s potential involvement in high-tech or security-sensitive

cases, and the government had already accepted limited, case-by-case interventions (Drucksache 19/4382, 2018). Moreover, a proposal to fully institutionalize acquisitions by public banks within the industrial policy framework was discussed (Drucksache 19/4382, 2018; Drucksache 19/9657, 2019). Although it was not ultimately approved, the debate itself stresses the policy's broader trajectory. Furthermore, KfW's subsequent interventions, some occurring after the pandemic and following amendments to the ISM thresholds and scope, confirm that this mechanism serves as a last-resort financial tool alongside the ISM.

Second, the characteristics of Germany's CME might offer an alternative explanation. The CME model emphasizes negotiated consensus, patient capital, and institutional complementarity among firms, banks, and the state (Hall & Soskice, 2001). From this perspective, the ISM could be viewed as an extension of corporatist coordination, in which the state intervenes selectively and predictably to preserve stability within a network-based economic system. Yet, on closer inspection, the CME framework cannot fully account for the form and function of Germany's contemporary ISM. This is because, historically, hostile takeovers were virtually absent in the German CME context, as the corporate system was shielded by a dense network of cross-shareholdings, bank representation on supervisory boards, and a political culture that valued stakeholder consensus (Jürgens & Rupp, 2002; Jenkinson & Ljungqvist, 2001). This system was designed to deter threats before they materialized. When takeovers did occur, they were expected to result from negotiation within established networks rather than direct state action (Jenkinson & Ljungqvist, 2001).

Today, however, this logic no longer holds. As the preceding case studies show, when confronted with security-sensitive acquisitions, the German government acted swiftly, deploying KfW as an intervention instrument of last resort. By sidestepping the corporate networks that historically underpinned coordination, this approach points to a move towards more strategic state action. This does not mean that Germany has abandoned its coordinated model altogether; rather, it has recalibrated it. Existing institutions, most notably KfW, have been repurposed as instruments of geoeconomic statecraft, serving as both a financial shield in national-security crises and a catalyst for technological innovation. This adaptive use of traditional institutions extends beyond the explanatory

reach of the CME framework. Therefore, I argue that while the CME framework illuminates Germany's institutional heritage, the interaction between technological intensity and public banking more convincingly accounts for the geoeconomic logic underpinning its wide-selective ISM design.

Conclusions

This chapter examined Germany's ISMs as a prime example of the "Wide-Selective" model. Through a detailed examination of its legal framework and a process-tracing of its evolution, the analysis shows that this design is not coincidental. The evidence points to two core factors that shape Germany's ISM type. First, the broad scope constitutes a direct and necessary response to the country's high technological intensity and the strategic imperative to safeguard the vast industrial commons upon which its economic security and prosperity depend.

Second, to understand Germany's high threshold, one must consider the reverse question: why did the government not adopt the more restrictive 10% rule across all technology sectors? The evidence presented in this chapter suggests that the answer lies in the capabilities of its public bank. The KfW equips the German state with a dual capacity, acting as both a financial "backstop" in moments of crisis and a strategic "promoter" of domestic industrial resilience. Evidence from M&A interventions and explicit parliamentary debates further demonstrates that the existence and proven effectiveness of this backstop made a more restrictive regime unnecessary. Moreover, this approach proved both politically sustainable and ideologically preferable, as it allowed Germany to reconcile its pressing security imperatives with its long-standing commitment to open markets.

CHAPTER 6. RESTRICTIVE INVESTMENT SCREENING MECHANISM: ITALY

“Golden Power is a government tool to prevent the transfer of strategic assets to foreign powers; it should be used when necessary.”

Mario Draghi, Former PM of Italy, 2021

Among EU member states, Italy’s ISM exemplifies the Restrictive ISM. This configuration combines very broad sectoral coverage with exceptionally low ownership thresholds, resulting in one of the most interventionist screening regimes in the EU. Unlike Wide-Selective models, such as Germany’s, where state oversight is expansive in principle but typically activated only at higher acquisition thresholds, the Italian framework brings even marginal equity transactions within the government’s scrutiny.

The chapter proceeds in four steps. First, it traces the historical evolution of Italy’s ISM, situating the Golden Power within the broader shift from golden shares to golden powers. It then outlines the mechanism’s legal-institutional design and identifies the defining characteristics of its Restrictive type. The third section applies the dissertation’s theoretical framework to explain these design choices. Italy’s broad scope reflects high technological stakes, whereas low thresholds reflect the relative weakness of its public banking sector. The chapter concludes by assessing alternative explanations to further substantiate the claims.

6.1. Legal Framework for Italian ISM

The current investment screening regime, known as Golden Power, emerged from the progressive dismantling of the earlier golden share system. During the 1990s privatization wave, the Italian state retained special rights in a range of strategic firms, enabling the government to veto foreign acquisitions or appoint board members (Mauro, 2023, pp. 250–251; Papadopoulos, 2021, pp. 9–13). Over time, however, this framework was revised to comply with EU law (Pugliese, 2024). The European Court of Justice had ruled that such arrangements were incompatible with the free movement of capital under Article 63 TFEU (Cases C-58/99 and C-326/07, *Commission v Italy*), criticizing in particular the discretionary character of golden shares and the legal uncertainty they generated (Szabados, 2015).

To preserve state oversight while complying with EU law, the Italian government introduced Decree-Law No. 21 of 15 March 2012, which was later converted into Law No. 56/2012, establishing the Golden Power regime. Unlike golden shares, this new instrument was sector-based and empowered the state to scrutinize or block acquisitions in designated areas of defense and national security (Art. 1, Law Decree 21/2012) and in energy, transport, and communications (Art. 2, Law Decree 21/2012).

Over the subsequent decade, however, reforms gradually broadened this framework considerably. The first significant amendment was introduced through Decree No. 148/2017, which expanded coverage to high-technology industries and critical infrastructure, reflecting growing concerns across the EU about foreign acquisitions in strategically sensitive sectors (Scarchillo, 2023). These sectors include critical infrastructure (such as data storage, data management, and financial transaction systems); critical technologies (including AI, robotics, semiconductors, dual-use technologies, cybersecurity, space and nuclear technology); the security of supply of critical inputs; and access to or control over sensitive information (Art. 2, Decree Law No. 21/2012, as amended by Decree Law No. 148/2017 and Decree Law No. 105/2019).

Concerns about the emergence of 5G networks and their potential misuse further accelerated this expansion. The Italian government adopted Decree Law No. 22 of 25 March 2019, extending the Golden Power framework to 5G-based broadband electronic communication services. This move positioned Italy as one of the first EU member states to subject 5G networks to systematic investment screening, explicitly recognizing their direct relevance to national security (Hanemann et al., 2019). Later that year, Decree Law No. 105/2019, which introduced a national “cybersecurity perimeter,” extended the scope of Golden Power to ICT supply chains and strategic data infrastructures. The reform also aligned Italian legislation with the EU FDI Screening Regulation (Reg. 2019/452), facilitating coordination between national review procedures and the emerging EU screening framework.

The most significant expansion occurred in 2020 with the adoption of Decree Law No. 23/2020 (the Liquidity Decree), enacted in response to the COVID-19 crisis. The decree temporarily added biotechnology, health, finance, and food security to the list of strategic sectors and lowered notification thresholds to 3% for listed companies and 10% for non-

listed firms. Notably, these measures were non-discriminatory, applying equally to both EU and non-EU investors. Although initially justified as emergency measures, these changes were later consolidated through Law No. 21/2022, which made them a permanent part of the Italian regime. In 2023, Decree Law No. 104/2023 introduced technical refinements to strengthen the regime’s internal coherence. This amendment addressed potential avenues of circumvention by specifying how the rules apply to intra-group transactions in key high-tech sectors and by clarifying the rules governing the acquisition of intellectual property rights in strategic assets.

Table 13. Evolution of Italy’s Golden Power Regime (2012–2023)

Year	Legal Act	Key Changes	Features Added
2012	Decree Law No. 21/2012 (converted Law No. 56/2012)	Establishment of <i>Golden Power</i> after the ECJ struck down <i>golden shares</i>	Defense and national security (Art. 1); energy, transport, communications (Art. 2)
2017	Decree Law No. 148/2017	First major expansion	High-tech industries and critical infrastructures (robotics, AI, aerospace)
2019 (March)	Decree Law No. 22/2019	Insertion of Art. 1-bis	5G broadband networks are designated as strategic
2019 (Sept.)	Decree Law No. 105/2019	Broadened cybersecurity perimeter	ICT supply chains, data infrastructures; alignment with EU FDI Regulation (Reg. 2019/452)
2020	Decree Law No. 23/2020 (<i>Liquidity Decree</i>)	Emergency expansion during COVID-19	Added biotech, health, finance, food security; lowered thresholds (3% listed, 10% unlisted); equalized EU/non-EU investors
2022	Decree Law No. 21/2022	Consolidation of temporary measures	Made COVID-era rules permanent; stabilized the broad scope and low thresholds
2023	Decree Law No. 104/2023	Technical refinement and closing of loopholes	Added specifications for intra-group transactions in high-tech sectors and the acquisition of IP rights

Source: Author’s elaboration based on Italian legal framework (Law Decree 21/2012 and subsequent amendments).

6.1.1. Institutional Setup and Screening Process

Italy’s investment screening regime is administered by the “Presidenza del Consiglio dei Ministri” (the Presidency of the Council of Ministers, PCM). Operational coordination is handled by the “Dipartimento per il Coordinamento Amministrativo” (Department for

Administrative Coordination, DICA) and its dedicated Golden Power Office. Final decisions are issued through the Prime Ministerial Decree (DPCM), typically based on an assessment by an inter-ministerial coordination group.

Companies must notify the Italian government when undertaking transactions involving strategic assets. These transactions go beyond traditional equity acquisitions to include asset sales, mergers, demergers, transfers of headquarters abroad, and changes of corporate purpose. For acquisitions, the obligation to notify generally applies to both the investor and the target. Depending on the sector and the investor's nationality, the regime applies to Italian, EU, and non-EU investors.

Italian law sets out the types of transactions subject to prior clearance and the thresholds that trigger notification. All relevant transactions in the defense and national security sectors must be notified, irrespective of the investor's nationality (Art. 1, Law Decree 21/2012). In the energy, transport, communication, health, agri-food, and financial sectors, notification requirements also apply to EU investors (Art. 2, para. 2, Law Decree 21/2012). By contrast, in other strategic areas (excluding defense, security, and 5G technology) non-EU investors must file a notification (Art. 2, para. 2-bis, Law Decree 21/2012). The thresholds reflect this sectoral differentiation: in defense and security, acquisitions of 3% or more of shareholdings require notification (Art. 1, Law Decree 21/2012). In the other key sectors listed above, EU investors must file upon acquiring a controlling interest (Art. 2, Law Decree 21/2012); for non-EU investors, acquisitions of 10% or more (and further increases above 15%, 20%, 25%, and 50%) must be notified if the transaction is valued at least €1 million (Art. 2, para. 2-bis, Law Decree 21/2012).

Once a filing is submitted, the Prime Minister's Office has 45 days to decide, which may be extended if further information is requested. If no decision is issued, the transaction is automatically authorized under the rule of "silenzio-assenso" (Art. 2, para. 4, Law Decree 21/2012). The government may approve the transaction unconditionally, with conditions (for example, requiring the retention of strategic assets or limiting access to sensitive technologies), or block the transaction entirely (Art. 2, para. 3, Law Decree 21/2012). Non-compliance with the notification requirements may result in penalties, including the suspension of voting rights, the annulment of corporate resolutions, and imposed divestments (Art. 2, para. 6, Law Decree 21/2012), as well as administrative

finances of up to twice the value of the transaction, but never less than one percent of turnover (Art. 4, Law Decree 21/2012).

The overall Italian regime grants the executive a high degree of preventive control, reinforced by penalties and short deadlines. At the same time, the regime's breadth and reliance on relatively indeterminate legal categories create legal uncertainty, which incentivizes firms to engage in precautionary over-notification to minimize regulatory risk.

6.2. Typological Assessment of the Italian ISM

At first glance, Italy's ISM appears internally fragmented, with successive reforms layering differentiated thresholds and sectoral rules over time (Table 14). Yet, when viewed through the dissertation's typological framework, the regime's underlying logic becomes clear.

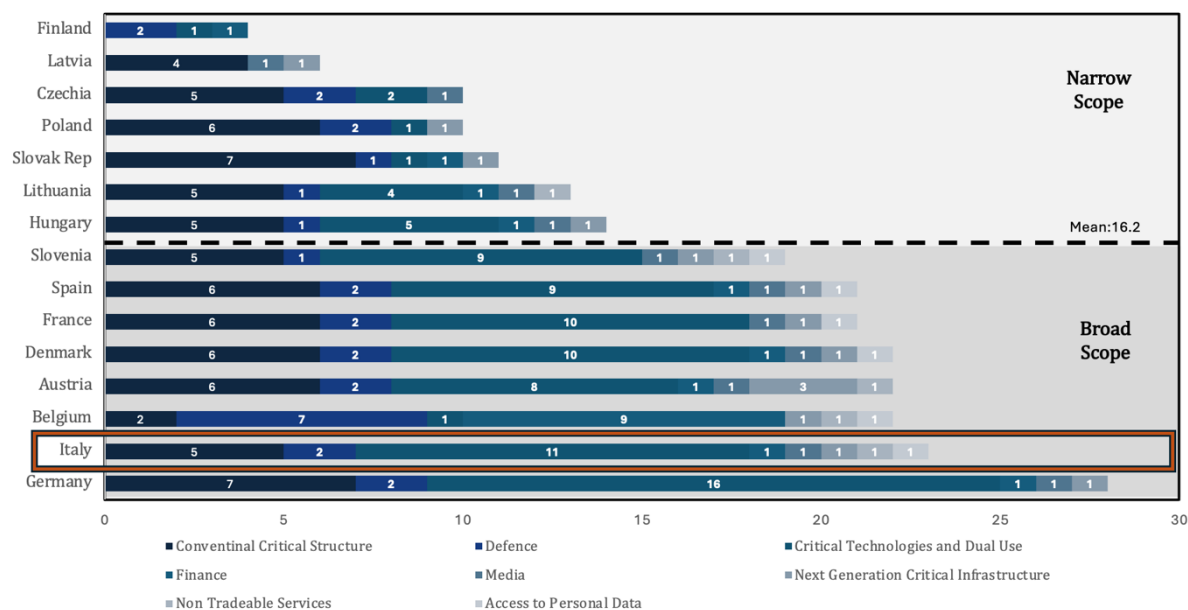
Table 14. Overview of the Italian Investment Screening Mechanism (Golden Power)

	Defense & Security	Broader Strategic Industries	5G & Cybersecurity
Investors	All (Italian, EU, non-EU)	Non-EU	Non-EU
Threshold	Listed: >3% Non-listed: >5%,	Non-EU: $\geq 10\%$ (if $\geq \text{€}1\text{m}$)	Any agreement, no % threshold
Covered Activities	Defense industries, military material, dual-use goods	Energy, transport, communications, finance, health, agri-food, AI, robotics, semiconductors, aerospace, biotech, other strategic assets	5G networks, ICT supply chains, cybersecurity perimeter

Source: Author's elaboration based on Italian legal framework (Law Decree 21/2012 and subsequent amendments)

Italy's Golden Power regime combines a broad scope with exceptionally low activation thresholds, placing it firmly in the restrictive category. Both dimensions are evident not only in the regime's design and practice but also in its operation. The first defining feature is its expansive scope. Compared with other EU countries, Italy operates one of the broadest screening regimes (Figure 15).

Figure 15. Italy's Broad Sectoral Scope in Comparative Perspective



Source: Author's own illustration based on a selected indicator from the PRISM (2023) dataset

The second defining feature is the regime's low thresholds for scrutiny. In the defense and national security sector, screening is triggered at 3% of voting rights in listed companies and 5% in non-listed firms, with additional reporting steps at 10%, 15%, 20%, 25%, and 50% (Art. 1, Law Decree 21/2012). More generally, the ultra-low notification triggers of 3% for listed companies and 10% for non-listed firms place Italy at the bottom of the EU range. As the PRISM dataset indicates, from a comparative perspective, no other member state imposes such a low level of threshold (Bauerle Danzman & Meunier, 2023a). In practical terms, these thresholds enable state intervention in a wide array of transactions, ensuring that foreign investors cannot acquire "even minor footholds in strategic firms" without prior governmental oversight (Lampo, 2022).

Within the broader strategic sectors, EU investors are captured once they acquire control. By contrast, non-EU investors are subject to review if they hold 10% of equity or voting rights (provided the transaction exceeds €1 million), with additional thresholds at successive ownership increments. In the 5G and cybersecurity domains, notification is required for any agreement with a non-EU party, regardless of the size of the equity stake.

Taken together, these design choices position Italy as a case of a Restrictive ISM. The regime combines maximum breadth with minimum thresholds, enabling the state to intervene across almost all sensitive sectors and at the earliest possible stage of an ownership change. In contrast to Germany's wide-selective type, where scope is broad but the main thresholds remain high, Italy intensifies both dimensions in a restrictive direction.

6.3. Theoretical Assessment of the Italian ISM

Italy's broad sectoral scope and low notification thresholds firmly place the Italian Golden Power regime in the "restrictive" quadrant of the typology developed earlier. The question, therefore, is not whether Italy screens intensively (this is clearly the case), but how this institutional choice aligns with the broader configuration of the Italian political economy. This section addresses the question by examining the explanatory factors underpinning Italy's specific design choices, drawing on the analytical framework developed in earlier chapters. The following subsections unpack this configuration.

6.3.1. Explaining Broad Scope

Italy's Golden Power has expanded incrementally over time. Beginning in 2014, the investment screening regime underwent five significant reforms (in 2017, 2019, 2020, 2022, and 2023), each progressively broadening the scope of the ISM. This cumulative expansion closely aligns with the country's structural position within Europe's industrial ecosystem. As explained in Chapter 4, Italy ranks alongside core economies such as Germany and France on several key high-technology indicators. Building on this premise, this case study examines how Italy's technological assets and associated vulnerabilities were translated into investment-screening scope. The analysis traces how successive takeover episodes and policy interventions framed advanced technologies as matters of national security. By systematically pairing contested acquisitions with official policy documents, this section shows how the regime evolved from a narrow focus on traditional strategic sectors (such as energy, transport, and defense) toward a more comprehensive approach encompassing high-technology, digital infrastructure, and data-driven domains.

The first amendment to Italy's Golden Power framework occurred in 2017 with the adoption of Decree-Law 148/2017. This reform was primarily driven by the controversy surrounding Vivendi and Telecom Italia (TIM). The French media conglomerate Vivendi gradually acquired nearly 25 percent of TIM's share capital, a stake Italian regulators later certified as "de facto control" (Reuters, 2017; Gruppo TIM, 2017), despite Vivendi's insistence that it was a minority stake and therefore exempt from notification requirements. The situation was particularly controversial because TIM manages strategic national assets through subsidiaries such as Sparkle, which operates sensitive submarine communication cables, and Telsy, which provides encryption and cybersecurity services to public authorities (Fontanarosa, 2017). Crucially, the Italian government became aware of Vivendi's controlling position only after regulatory authorities investigated the case for potential media pluralism violations (Vagnoni, 2017), not through a voluntary Golden Power notification.

This sequence revealed a key weakness in the pre-2017 framework. It lacked effective sanctions for non-notification and provided limited scrutiny of strategic risks within complex ownership structures. In response, the Italian government activated the Golden Power mechanism for the first time in the telecommunications sector and imposed security and transparency conditions on the deal (Fontanarosa, 2017). To prevent similar incidents, the government introduced Decree-Law 148/2017, which includes explicit penalties for failing to notify the acquisition of control in strategic sectors. This was the first substantial revision of the Golden Power regime.

Externally, this domestic turning point coincided with similar controversies in Germany and France, where foreign acquisitions in strategic and high-technology sectors also raised political concerns. These developments contributed to the joint Franco-German-Italian initiative of February 2017, which called for a European framework to safeguard critical assets across sectors such as technology, telecommunications, and energy (the Joint Letter, 2017). Although Italy's position on EU-wide investment screening shifted after the formation of the yellow-green government in 2018, a broad cross-party consensus persisted on the need to closely scrutinize inward investment in high-technology and security-relevant sectors (Calcara & Poletti, 2023). The political conflict centered not on whether such investments should be screened, but on the appropriate institutional level for screening: whether through an EU-centered instrument ("external

re-bordering”) or through further expansion of national mechanisms (“internal re-bordering”) (Calcara & Poletti, 2023).

However, the key point for this study is that, despite disagreements over the institutional venue for screening governments consistently converged on the objective of scrutiny of high-technology and security-sensitive investments. The evolution of Golden Power’s scope under successive governments – Conte I, Conte II, Draghi, and Meloni – illustrates this continuity in practice. Under Conte I, the yellow-green coalition initially granted telecommunications operators substantial discretion in selecting 5G suppliers (Foschini, 2021). Although TIM, the country’s largest operator, eventually excluded Huawei from its tender for the 5G core network (Longo, 2019; Zorloni, 2019), growing concern over the prospective involvement of Chinese Huawei and ZTE’s role in core networks transformed the issue into “noisy politics,” forcing the government to adopt visible and symbolic forms of action (Calcara, 2022). In this context, the second major amendment was introduced by Decree Law No. 22/2019, which established a national cybersecurity perimeter and explicitly brought 5G and ICT supply chains within the scope of Golden Power.

The subsequent Conte II government further broadened the scope during the COVID-19 crisis, serving as both a catalyst and a justification frame. Decree-Law 23/2020 temporarily extended Golden Power to an expanded set of sectors, including health, food, finance, and high-tech activities such as AI, robotics, and semiconductors, and tightened scrutiny even for certain intra-EU acquisitions.

Although initially presented as a temporary, emergency-driven measure, the 2020 expansion laid the groundwork for a more assertive and interventionist exercise of Golden Power. This shift became especially evident from 2021 onward. When Mario Draghi assumed office in February 2021, the Golden Power veto had reportedly been invoked only twice in the preceding decade. However, in the following year, the Italian government exercised veto powers four times, blocking several high-tech acquisitions (Camera dei Deputati, 2021, p. 2; 2022, p. 24; 2023, p. 23). Between 2021 and 2023, the regime was increasingly used to block or condition acquisitions in high-tech sectors, particularly in response to prospective Chinese involvement in advanced technology firms. In 2021, the government repeatedly used Golden Power to veto or attach conditions to 5G contracts involving Huawei and ZTE with operators such as Vodafone

and Fastweb (Foschini, 2021). It blocked Fastweb's agreement with Huawei for core network equipment. In contrast, collaboration in less sensitive parts of the 5G infrastructure, such as the radio access network, was permitted only under strict transparency and monitoring requirements (La Repubblica, 2021b). The Vodafone–Huawei deal was authorized on similar terms (La Repubblica, 2021b). In these cases, conditionality functioned as a governance technique, balancing technological dependence and exposure in core infrastructure while managing openness and security (Ghiretti, 2021).

During this period, one of the most notable applications of veto powers concerned the acquisition of Lombardy-based semiconductor equipment producer LPE by Shenzhen Invenland Holdings (Marson & Legorano, 2021). In publicly justifying this decision, the Italian PM Mario Draghi highlighted the “strategic importance” of the semiconductor sector and explicitly cited global supply shortages that had disrupted Italy's automotive industry (La Repubblica, 2021a; Maccari, 2021). This stance was reinforced less than a month later when the government blocked another transaction in the same sector, preventing the buyout of the Italian branch of a US company (Fonte & Cao, 2021).

Furthermore, during this period, the Italian government for the first time invoked its newly introduced ex officio review power, which authorizes the review of a transaction on its own initiative without prior notice (McConnell, 2022). This power was used to retroactively investigate and ultimately annul the 2018 acquisition of the drone manufacturer Alpi Aviation by a Chinese investor in 2021 (Fonte et al., 2022). The decision followed an investigation by Italy's tax police that uncovered transparency failures in the transaction (Fonte et al., 2022). The case attracted heightened public and political attention because Alpi Aviation was a key supplier to the Italian Ministry of Defense and operated at the frontier of sensitive technologies, including aircraft, spacecraft, and military drones (McConnell, 2022; Fonte et al., 2022).

Since taking office in October 2022, the center-right government led by Giorgia Meloni has maintained this assertive stance, particularly in high-profile cases. One notable case is the Pirelli–ChemChina dossier. The 2015 acquisition, valued at approximately €7 billion, granted the Chinese state-owned company ChemChina a 37% stake and de facto control of the firm (Molinari, 2023). Because the shareholder agreement governing

ChemChina's control was subject to periodic renewal, it created a recurring point of leverage. When the agreement was renewed, the government used its Golden Power to recalibrate Pirelli's internal governance architecture and constrain ChemChina's influence in 2023 (Governo Italiano, 2023). These restrictions aimed to prevent ChemChina from consolidating control over Pirelli (Kazmin & Borrelli, 2023). Specifically, the government limited ChemChina's voting rights on strategic decisions. The decision ensured that key board positions were held by independent directors, and safeguarded sensitive corporate information (Kazmin & Borrelli, 2023; La Stampa, 2023).

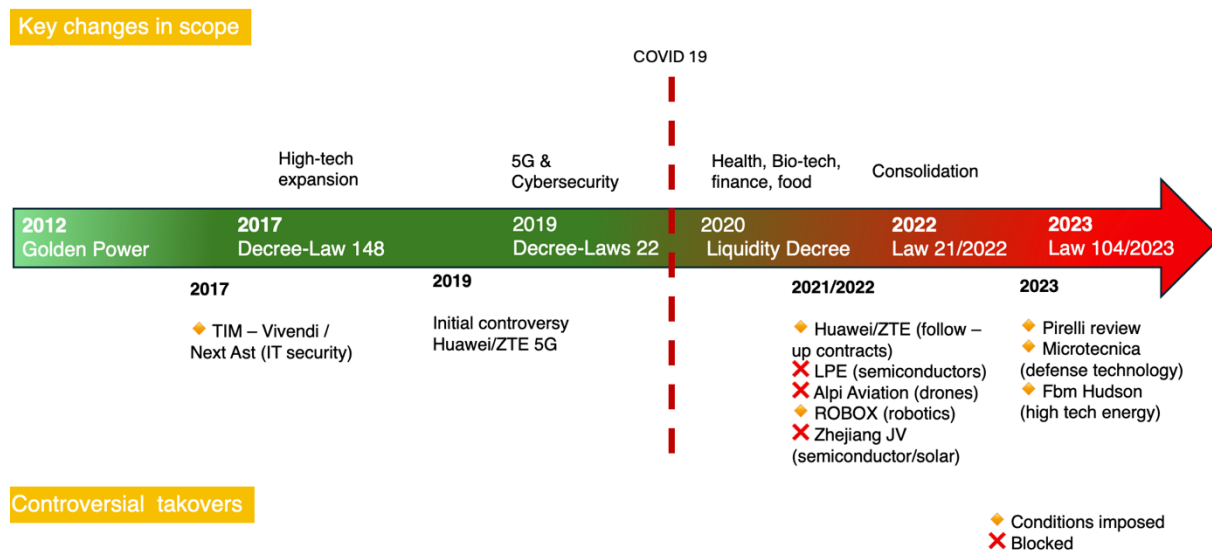
The government framed this intervention in explicit security terms. As articulated by Minister for Foreign Affairs Antonio Tajani, the decision was based on the strategic nature of Pirelli's "cyber-tyre" technology (Rainews, 2023), which integrates sensors that collect and transmit sensitive vehicle and road data. From this perspective, protecting the integrity of that data became an extension of national security (Rainews, 2023; La Stampa, 2023). Similarly, the government's official statements make clear that the objective was to solidify a network of measures to preserve the autonomy of Pirelli & C. S.p.A and its management, secure internal procedures, and safeguard strategically significant information and know-how (Governo Italiano, 2023).

This approach was further consolidated through legislative refinement. Two months after Pirelli's intervention in June 2023, a new decree was adopted in August 2023 to clarify and tighten the perimeter of Golden Power, particularly addressing potential loopholes in intra-group transactions in key high-tech sectors and in the transfer of intellectual property rights over strategic assets (Decree Law No. 104/2023). Previously, transactions within the same corporate group were generally insulated from the exercise of special powers, even if a notification could still be required. Under the revised framework, the government may apply special powers to intra-group reorganizations involving non-EU entities, subjecting them to the same level of scrutiny as external acquisitions (Decree Law No. 104/2023).

Later in the same year, the government further asserted its technology-focused stance by exercising two outright vetoes to protect tangible technological assets and capabilities. It blocked the French firm Safran's proposed acquisition of the Turin-based defense technology supplier Microtecnica (La Repubblica, 2023). It vetoed the sale of FBM

Hudson Italiana, a high-tech energy manufacturer, to Emirati Petro Mat Fzco (Carrubba, 2024). These interventions reflect a consistent policy of safeguarding critical industrial capabilities through a regulatory toolkit and case-by-case decisions.

Figure 16. Expansion of the Italian Golden Power Regime



Source: Author's elaboration

Figure 16 charts the progressive expansion of Italy's Golden Power regime, a trajectory driven by specific acquisition attempts and broader geopolitical anxieties. In this context, the contested takeovers in telecommunications, semiconductors, and drones (bottom timeline) served as catalysts, prompting legislative extensions to the screening framework (top timeline). The highlighted cases such as 5G, semiconductors, and drones are critical because they occupy a central position in the innovation ecosystem by connecting core network infrastructure and data-intensive applications. From an analytical perspective, the observed comprehensive scope suggests a preemptive strategy to protect Italy's high-technology industrial ecosystem against "diffuse" and interconnected vulnerabilities (H1). This sequence of contested transactions aligns with the theoretical profile of a high-tech economy, showing how Italy addressed emerging vulnerabilities by incrementally and cumulatively expanding the scope of its ISM.

6.3.2. Explaining Low Threshold

The second core dimension of Italy's restrictive ISM is its exceptionally low thresholds. Within the framework outlined in Chapter 3, such low thresholds are expected when the state has limited presence in financial institutions and therefore lacks the structural capacity to serve as a financial backstop of last resort against unwanted foreign acquisitions or to promote industrial transformation and scaling actively. Italy closely conforms to this configuration. Formally, it possesses one of Europe's oldest and most symbolic public financial institutions, Cassa Depositi e Prestiti (CDP), whose origins predate the Italian nation-state itself (Bulfone & Di Carlo, 2021). In practice, however, CDP operates in a highly marketized and institutionally constrained setting that sharply limits its capacity to function as a proactive "financial backstop" and a proactive developmental "promoter".

In this setting, despite CDP's centrality and its common perception as the cornerstone of Italy's public finance, it does not resemble a classic state development bank in either ownership or mandate. It is a joint-stock company controlled by the Ministry of Economy and Finance (CDP, 2024a). However, a sizable minority stake is held by private banking foundations that hold veto rights over certain strategic decisions. According to CDP's own reporting, the Ministry of Economy and Finance holds 82.77%, the private banking foundations 15.9%, and only a small residual portion (around 1.3%) is Treasury-owned (CDP, 2024a, p. 8).

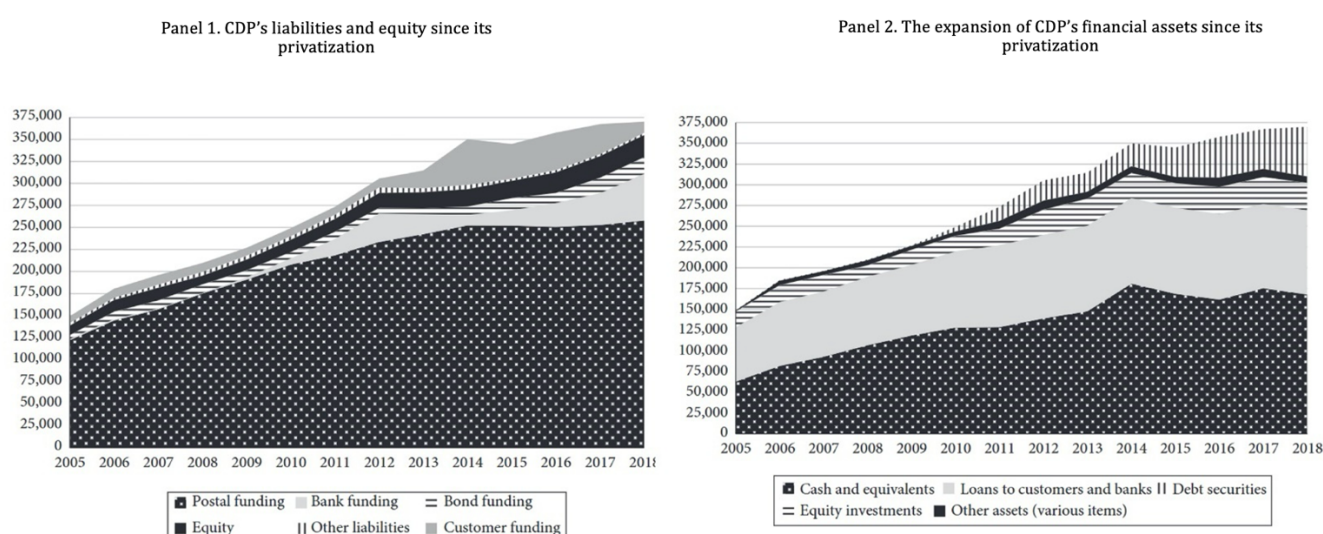
This hybrid corporate form originated in a 2003 fiscal policy decision to keep postal savings formally outside public debt accounting (Decree Law 269/2003). As a joint-stock company, CDP is subject to corporate law and EU state-aid constraints, which reinforce requirements for commercial criteria and the preservation of capital. In particular, the presence of dividend-seeking private institutional shareholders further intensifies the pressure to operate as a profit-oriented intermediary rather than a classic development bank willing to socialize risk in pursuit of long-term industrial policy (Bulfone & Di Carlo, 2021; Quas & Vandone, 2024).

This institutional design does not imply that CDP lacks a promotional role or that it does not pursue broad public objectives. Over time, CDP has become the state's principal

holding and investment company. As of today, it holds minority stakes in firms deemed strategic across sectors, ranging from energy and network utilities (ENI, Snam, Terna) to biopharmaceuticals (Kedrion) and ICT (Maticmind) (CDP, 2024b, p. 15). It also administers a portfolio of instruments that support investment and strategic sectors, including the Fondo Italiano d'Investimento (Italian Investment Fund) for SMEs, the Fondo Strategico Italiano (Italian Strategic Fund, FSI, later rebranded as CDP Equity) for larger enterprises, and turnaround vehicles such as QuattroR (CDP, 2024a, 2024b).

Despite this expansion of its portfolio, structural constraints continue to limit CDP's ability to play a more active developmental role. A central reason is that CDP broadly shares the Italian state's risk profile (S&P Global, 2025). Its assets and liabilities are closely tied to the Italian sovereign, and its funding costs are higher than those of AAA-backed promotional banks (S&P Global, 2025). This contrasts with Germany's KfW, whose entire balance sheet benefits from a statutory federal guarantee issued by a AAA-rated government (Fitch Ratings, 2025). By comparison, CDP relies primarily on state-guaranteed postal savings and does not enjoy a blanket guarantee covering all market debt (Cumming & Johan, 2015). Because most CDP resources derive from state-guaranteed postal savings (Figure 17, Panel 1), the institution is structurally inclined to prioritize liquidity and capital preservation.

Figure 17. CDP Balance Sheet



Source: Bulfone & Di Carlo, 2021, pp. 163 – 164.

More importantly, this results in an asset structure closely tied to the sovereign, where capital is largely cycled back to the Treasury via liquidity deposits and government bond purchases (Figure 17, panel 2). This financial interdependence also leads CDP to avoid high-risk investments and reinforces a preference for low-risk, financially sustainable projects over open-ended industrial restructuring or frontier technological upgrading (Gronchi & Ughi, 2025; Bulfone & Di Carlo, 2021; Moretti 2024). As a result, CDP's core support instruments have historically centered on public loan guarantees and subsidized credit. While these tools are valuable for easing access to finance, they are inherently conservative and less well suited to very high-uncertainty, high-growth trajectories. Equity-based vehicles, such as Invitalia Ventures and later CDP Venture Capital, were eventually created but remained modest relative to the size of the economy (Gallo et al., 2025; Testa et al., 2024).

Under this institutional configuration, CDP's promotion and protection functions are more constrained than KfW's, as discussed in the previous chapter. First, the "marketized" structure shapes investment behavior, making CDP's investment patterns harder to instrumentalize as a lender or investor of last resort in takeover battles. This became particularly salient after high-profile foreign acquisitions, most notably the 2011 purchase of Parmalat by the French group Lactalis. The immediate policy response was the establishment of the Fondo Strategico Italiano (FSI, the Italian Strategic Fund) within the CDP Group in 2011. Though created too late to prevent the Lactalis takeover, the FSI was explicitly supported by the government to counter the loss of strategic national companies and help them compete globally (Bulfone & Di Carlo, 2021, p. 157). However, the fund's legal statute confined interventions to companies of "significant national interest" that were financially stable and had adequate profitability prospects (FSI, 2015, p. 16). In practice, this stipulation effectively precluded FSI/CDP Equity from acting as a rescue mechanism or as an effective instrument to block unwanted foreign takeovers.

The Ansaldo case illustrates this dynamic clearly. National and regional policymakers sought to use FSI to retain Finmeccanica's three strategic subsidiaries (Ansaldo Energia turbines and power-generation equipment; Ansaldo STS rail signaling systems; and AnsaldoBreda rolling stock and train manufacturing) under Italian control (La Repubblica, 2013). However, only Ansaldo Energia met the fund's profitability and stability requirements, so it was the only asset CDP could acquire (Il Giornale, 2013). The

transport-related subsidiaries, AnsaldoBreda and Ansaldo STS, were ultimately sold to the Japanese company Hitachi (Reuters, 2017). A comparable pattern emerged in the repeated attempts to stabilize Alitalia between 2016 and 2017. Despite intense political pressure, CDP's management and the banking foundations resisted deploying postal savings to support a firm without a credible path to profitability (Cingolani, 2018). As ACRI president Giuseppe Guzzetti warned, "Cassa [CDP] must not become a means to solve any industrial crisis. If people want to do strange things, as they tried with Alitalia, we will oppose them in every conceivable way" (Cingolani, 2018). Considered together, these cases underscore the practical limits CDP faces when attempting to counter contested takeovers or to serve as a financial backstop for distressed yet strategically salient firms, even when political consensus favors intervention.

Similar limitations are evident in CDP's more proactive, promotional activities. As explained previously, enhancing domestic industrial resilience against hostile takeovers requires preventing strategic vulnerabilities from crystallizing in the first place (EIB 2025). This requires a promotional strategy that addresses one structural driver of undesirable foreign acquisitions: the "scale-up gap" in innovative and high-technology sectors (EIB, 2024). In this context, the critical form of capital is patient, risk-tolerant finance that can support firms over long, uncertain growth trajectories. Such capital is significant in "transformative" sectors, where returns depend on complementary ecosystems and difficult-to-predict technological pathways, and where strong public involvement is typically needed to nurture a domestic venture capital industry (EIB, 2024; Gallo et al., 2025). In many countries, states expand this capital through large fund-of-funds programs, in which a public institution invests in private venture funds with the explicit aim of expanding the overall supply of risk capital and crowding in private investors (EIB, 2024).

In Italy, by contrast, available evidence (Gallo et al., 2025; Testa et al., 2024; Moretti, 2024; Berger et al., 2024; Gronchi & Ughi, 2025) suggests that CDP's existing promotional toolkit is, by design, poorly aligned with the needs of the country's innovative industrial ecosystem. Although CDP consolidated its venture capital arm, CDP Venture Capital SGR, in 2019 by taking control of Invitalia Ventures, comparative studies (Gallo et al., 2025; Testa et al., 2024) indicate that the resulting instruments remain relatively small and fragmented compared to the size of Italian economy. For instance, a comparative study

covering Germany, France, Italy, and Spain reports fund-of-funds commitments of roughly €330 million in Italy, compared with approximately €955 million in Spain over the same period in the mid-2010s (Moretti, 2024, p. 530). One line of criticism emphasizes that Italy is a latecomer to government-backed venture capital, nearly a decade after comparable initiatives in France and Germany, and that public support in Italy remains modest relative to its economic size (Gallo et al., 2025).

While scholars (Moretti, 2024) also emphasized additional obstacles, such as burdensome administrative procedures and broader features of Italy's political-bureaucratic environment, these appear secondary in this analysis. The more fundamental constraint is the lack of political mandate, which severely restricts the state's capacity to act. Post-privatization, the CDP has focused more on safeguarding its own capital (postal savings) than on assuming state-led strategic risk, which has left investment tools such as CDP Equity and CDP Venture Capital SGR small and fragmented.

These structural characteristics of Italy's public banking architecture have significant implications for investment screening design. When CDP and related instruments cannot reliably serve as financial defenders of strategic firms (either through rapid recapitalization or by acting as a counter-bidder) the Italian state has fewer credible options to protect critical assets through financial intervention. As a result, low notification thresholds serve as a functional substitute for limited public financial capacity, enabling the government to monitor, condition, or block foreign acquisitions at an early stage without mobilizing scarce fiscal or quasi-fiscal resources. In other words, the Italian state compensates for weak state financial capacity with a comparatively strong regulatory apparatus, helping to explain the restrictive ISM design observed today.

6.4. Alternative Explanations

Several alternative explanations might initially seem plausible when assessing Italy's Restrictive ISM. A first perspective draws on VoC arguments. Given that France, Italy, and Spain cluster in the "restrictive" quadrant of the typology developed in Chapter 4, one might infer that this reflects their shared classification as Southern or mixed market economies (Molina & Rhodes, 2007), which are often associated with more

interventionist states and politicized forms of industrial coordination. On this view, low thresholds would follow from a broader logic of state-centered coordination.

VoC and related state–firm relations typologies (Doppen et al., 2024) are therefore useful as a first-cut baseline. They help locate Italy within a regime family in which broad screening authority is politically and institutionally plausible, and recent classifications (Doppen et al., 2024) indeed place Italy accordingly.

However, this baseline does not explain the specific design parameters examined here. The dissertation focuses on two concrete features, sectoral scope and thresholds. VoC operates at a higher level of abstraction, so it has limited leverage over the technical engineering of ISMs. The empirical pattern also points in this direction. Low-threshold, broad-scope screening is not confined to Southern or mixed market economies. It is also found in cases such as Denmark and Belgium. VoC is therefore best read here as a useful baseline, while explaining these design choices requires additional, more proximate mechanisms, such as the one proposed in this dissertation.

Second, one might argue that the Golden Power represents a path-dependent continuation of Italy’s extensive ownership and golden share system. After EU jurisprudence limited the golden share, Golden Power was introduced in 2012 as part of subsequent reforms that broadened its scope, echoing earlier concerns about maintaining national control over strategic firms. Therefore, the current restrictiveness could be read as an extended institutional legacy. However, from this perspective, this is not a competing explanation but an amplifier of the mechanism identified in this dissertation. Italy’s fiscal position constrains its public financial institutions and, by extension, CDP’s capacity to serve as a dependable financial backstop in strategic sectors. When CDP cannot systematically defend key firms through timely capital injections or counterbids, the government is pushed toward regulatory instruments. In this sense, very low thresholds become a tool to protect strategic assets.

Conclusions

This chapter has examined Italy as a case of a Restrictive Screening Mechanism, showing how the Golden Power regime combines one of the broadest sectoral scopes in the EU

with the lowest activation thresholds. Empirically, it traced the mechanism's transformation from a relatively narrow post-golden-share arrangement in 2012 into one of the EU's most comprehensive screening regimes, driven by five major reform between 2017 and 2023.

The chapter then evaluated these institutional choices using the theoretical framework developed earlier in the dissertation. Italy's broad scope aligns with expectations, given its high technological intensity. The repeated expansion of Golden Power's scope into data infrastructure, AI, cybersecurity, and related sectors is therefore interpreted as a response to increasingly diffuse and interconnected risks arising from operations in technologically dense sectors.

The second mechanism helps explain the exceptionally low thresholds that distinguish Italy's ISM. The chapter showed that Italy's public financial institutions, particularly CDP, lack the scale and flexibility to serve as reliable financial backstops for strategic firms. Its limited risk-bearing capacity also restricts their ability to support counterbids, stabilization finance, or rapid recapitalization.

From a comparative perspective, Italy's public banking sector is structurally weaker than Germany's, and its promotional instruments remain modest and fragmented relative to Italy's economy and needs. As a result, regulatory instruments have become the state's primary means of controlling the ownership structure of strategic assets.

CHAPTER 7. TOLERANT INVESTMENT SCREENING MECHANISM: POLAND

There is too little “Polish economy” in the Polish economy.
Mateusz Morawiecki, Former PM of Poland, 2018

This chapter analyzes Poland’s ISM as an example of a Tolerant type of investment screening, characterized by a narrow scope and a high threshold. To demonstrate this empirically, the chapter first outlines the legal framework of Poland’s ISM and then defines its main design characteristics, highlighting its tolerant nature. The discussion then turns to a theoretical assessment of these design choices. The ISM’s narrow scope is explained by its limited technological intensity, while the preference for a high threshold is analyzed in light of the high public ownership of banks. Relevant M&A cases illustrate real-world applications of these mechanisms. The final section reviews alternative explanations to provide additional support for the argument.

7.1. The Legal Framework of Polish ISM

As Poland transitioned from a socialist to a market economy, it undertook a fundamental recalibration of its legal framework for foreign investment. Under socialism, inward foreign investment was subject to highly politicized and strict controls, typical of a state-controlled system. With the shift to a market economy, particularly between the late 1980s and throughout the 1990s, Poland progressively dismantled this discretionary model in favor of rules-based openness. This transition was solidified by two steps: the 1991 Europe Agreement, which bound Poland to extend national treatment to EU investors, and the 2004 accession to the European Union. These steps were decisive in establishing a broadly open FDI regime (Górski, 2022, pp. 483-484).

For a considerable period, state ownership in strategic sectors often served as a de facto substitute for regulatory screening (Soloch, 2023). Additionally, complementary restrictions were introduced, including requirements for ministerial consent for strategic land leases of maritime/port infrastructure (Act of 20 December 1996 on Seaports and Harbors, 1996), real estate acquisition in border zones (Act of 24 March 1920 on the Acquisition of Real Estate by Foreigners, 1920), and extractive hydrocarbon production

(Geological and Mining Law, 2011). However, these measures remained complementary, and no comprehensive mechanism was in place.

This institutional landscape shifted in 2015 with the enactment of the Act on the Control of Certain Investments. Adopted amid growing concerns about national security risks and fears of opportunistic acquisitions by Chinese investors, the act introduced an ex-ante control regime described in the legal literature as a “designated-entity screening mechanism” (Stradomska & Pietkun, 2025). Its scope is deliberately selective. It covers only those companies the Council of Ministers explicitly identifies each year as operating in critical sectors, including energy generation and distribution, telecommunications, conventional defense, and oil and gas storage and transmission (Art. 3(1); Art. 3(2)). Screening is triggered when an investor acquires “significant participation” at thresholds of 20%, 25%, or 33% (Art. 13(1)) or attains “dominance,” defined as 50 percent or more (Art. 13(2)). Importantly, the act captures indirect acquisitions or corporate restructurings (Art. 13(3)) and applies irrespective of the investor’s nationality (Art. 2(2)).

During the COVID-19 pandemic, the 2015 Act was expanded through a temporary control mechanism. Initially envisioned as a two-year measure, it was later extended for an additional three years in light of the war in Ukraine and geopolitical tensions and ultimately made permanent in 2025. This permanent screening mechanism primarily applies to non-EU/EEA/OECD investors (Art. 12b(2)) and targets acquisitions of Polish companies that either generated at least €10 million in domestic sales in any two of the previous financial years (Art. 12a(1)) and are listed on the Warsaw Stock Exchange (Art. 12a(1)(1)), or operate in legislatively enumerated sensitive sectors, ranging from the medical, pharmaceutical, and food-processing industries to critical technologies such as artificial intelligence, robotics, and cybersecurity (Art. 12a(1)(2)). The mechanism is triggered when a foreign investor acquires “significant participation,” defined as at least 20% of voting rights (Art. 13(1)), or “dominance,” understood as a majority holding or otherwise decisive influence over the undertaking (Art. 13(2)).

7.1.1. Institutional Set-Up and Screening Process

Until July 2025, the sectoral ISM was administered by the Office of Competition and Consumer Protection (UOKiK), whose involvement reflects Poland's preference for anchoring screening within a technocratic and evidence-based framework (Stradomska & Pietkun, 2025). By contrast, the entity-specific mechanism was entrusted to politically accountable sectoral ministers, primarily the Minister of State Assets and the Minister of National Defense (Art. 3). However, the institutional balance shifted with the Act of July 9, 2025, which amended the Act on the Control of Certain Investments (2025) and transferred responsibility for the sectoral mechanism from UOKiK to the minister competent for economic affairs (currently the Minister of Development and Technology). This change brought Poland's institutional design closer to the broader European trend of situating ISM within ministries of economy or industry.

Under both mechanisms, the screening process begins with a notification submitted by the foreign investor (Art. 5). Once a filing is made, the competent authority conducts a preliminary check, followed by an in-depth review if risks cannot be credibly excluded; consultations with sectoral ministries and security services may accompany the review (Art. 10, 11). Although the overall architecture is similar, procedural timelines differ between the two mechanisms: under the sectoral regime, the review typically begins with an initial period of approximately 30 days, followed by an extended phase if necessary. Under the designated-entity mechanism, by contrast, an opposition decision must be issued within ninety days of the initiation of proceedings (Art. 7). Upon completion of the assessment, the competent authority may approve the transaction, approve it subject to conditions, or issue a prohibition (Art. 11). Non-compliance carries substantial consequences: transactions implemented without the required notification may be declared null and void, and the investor may face administrative sanctions or, in cases of intentional evasion, criminal liability (Art. 15, 16).

7.2. Typological Assessment of the Polish ISM

Poland's ISM combines a narrow scope with relatively high thresholds, placing the country in the tolerant type. Both features are clearly reflected in the design of its two-track system. The first defining characteristic is its limited scope. The entity-specific mechanism established by the 2015 Act applies only to a short list of "protected entities" designated annually by the Council of Ministers. In practice, this list has rarely exceeded around twenty firms operating in areas such as electricity generation and defense-related production (Appendix C). The introduction of the 2020 sectoral mechanism did not fundamentally alter this restrictive orientation. Although it broadened the range of potentially covered firms by adding further sensitive sectors, its effective reach remains tightly constrained. This is because screening applies only to companies that simultaneously meet three conditions: they exceed a relatively high turnover threshold, operate in specified sensitive sectors, and are targeted by investors from outside the EU, the EEA, or the OECD. Compared with many EU regimes that apply screening to all non-EU or non-EEA investors, Poland adopts a narrower definition of foreign investors. Screening is limited to investors from outside the EU, EEA, and OECD. As a result, only a small subset of foreign investors falls within the scope of review, reinforcing the overall tolerant character of the Polish regime.

The second defining characteristic is the use of relatively high thresholds. Under the entity-specific mechanism, screening is triggered only when an investor acquires "significant participation" at 20, 25, or 33 percent, or "dominance" at 50 percent or more. The sectoral mechanism introduced in 2020 does not substantially lower these thresholds. This stands in contrast to more restrictive regimes, such as Italy, discussed in the previous case study, which employ single-digit thresholds. As a result, in Poland, small shareholdings are not subject to review, and state intervention is reserved for transactions involving a substantial stake.

Given these typological characteristics, Poland's ISM is best classified as a tolerant regime, with a narrow scope and high thresholds. This contrasts sharply with more restrictive models, particularly Italy. The next section examines theoretical explanations for this configuration.

7.3. Theoretical Assessment of the Polish ISM

This section examines the design of Poland's Tolerant ISM through the lens of the two structural determinants derived from the theoretical expectations. The following subsections examine each factor in turn. First, the analysis shows that the regime's narrow scope is rooted in Poland's comparatively limited concentration of high-technology assets and, consequently, in a relatively small set of sectors where national-security vulnerabilities are perceived to arise. Second, it shows how Poland's strong public banking capacity helps account for the preference for high intervention thresholds by providing the state with an alternative institutional instrument to support or shield strategically important firms.

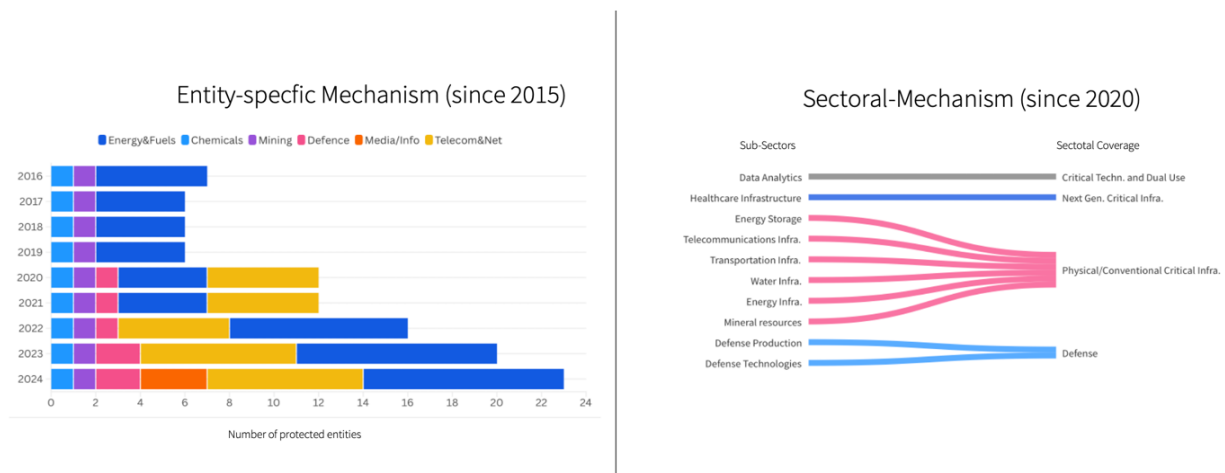
7.3.1. Explaining the Narrow Scope

The narrow scope of Poland's ISM closely aligns with the country's structural position in Europe's technological hierarchy. As Chapter 4 shows, Poland systematically scores below core high-technology economies. Although Poland's high-tech exports appear substantial in absolute terms, they are generated with comparatively low domestic R&D effort. This pattern reflects specialization in lower-value-added segments of global value chains rather than in frontier, R&D-intensive activities. This model is consistent with the literature on "dependent market economies," which characterizes Poland primarily as an assembly and manufacturing platform for technologies developed elsewhere (Nölke & Vliegenthart, 2009; Bohle & Greskovits, 2012; Toplišek, 2020; Naczyk, 2022). Within this model, the emphasis is on "imitation and the absorption" of technology than on the development of domestically anchored, R&D-intensive firms that own strategic intangible assets (Piatkowski, 2018, p. 297). Most high-tech activity therefore consists of adopting and adapting foreign technologies within foreign-owned corporate production networks (Piatkowski, 2018).

Viewed through this lens, Polish policymakers' preference for a narrow scope becomes clearer. If the principal risks associated with foreign acquisitions are concentrated in a relatively small set of infrastructure and defense-related assets, then a narrow, targeted mechanism can be regarded as sufficient, as shown in Figure 18 below.

A closer examination of the entity and sector-specific mechanisms suggests that screening is primarily concentrated on sectors linked to conventional critical infrastructure and defense, and that successive reforms have extended scrutiny incrementally, yet still within a narrow scope. The domestic debate on FDI and the evolution of the mechanism further contextualize and shed light on the logic underpinning these choices.

Figure 18. Entity-specific and Sectoral ISMs in Poland



Source: Author's own compilation. Left Panel- based on Polish Council of Ministers regulations under the Act of 24 July 2015 on the Control of Certain Investments (Dz. U. 2016, 2020, 2022, 2023, 2024); Right Panel- based on sectoral mapping based on PRISM (2023) data.

First, the policy shift on FDI occurred in 2015, following the Law and Justice Party (PiS) electoral victory. As a conservative-nationalist party, PiS turned against several key economic policies associated with the liberal preceding government, including tolerance for foreign ownership of sensitive assets (Toplišek, 2020; Naczyk & Eihmanis, 2023). Most notably, the 2015 Act empowers the Council of Ministers to designate a small number of partially state-controlled or re-nationalized companies to prevent foreign bids in predefined strategic sectors. Accordingly, inclusion on this list was justified based on sensitivity to public policy and security, market share and scale, and proximity to what were deemed “fundamental interests” of society (Art. 4(2) of the 2015 Act).

In this sense, the listed companies were used less to broaden screening across the economy and more to lock in or, in some cases, to restore state control over a very small

set of infrastructural nodes deemed strategic (Ozsvald, 2019). The list was expanded incrementally, most often in response to politicized takeover attempts or external shocks. For instance, the initial 2016 listing which focused on energy, chemical, and mining firms, emerged directly from politicized controversies over ownership in these sectors. Most notably, in the chemicals sector, Grupa Azoty was added to the list after a series of hostile takeover bids by the Russian group Acron in 2012 (Acron, 2023). Given Azoty's position as Poland's principal domestic fertilizer producer and a major industrial gas consumer, the state's subsequent decision to retain a controlling stake and place the firm under the 2015 Act was framed as a means of preventing comparable bids in the future (Acron, 2023).

A similar logic applied to KGHM, a majority state-owned company in the mining sector. Recurrent discussions in the mid-2010s about its susceptibility to acquisition by large foreign mining multinationals reinforced the view that such raw-materials assets should be embedded within a protected category (Kot-Niewiadomska et al., 2021; Lewandowski, 2016, pp. 488-489). In the same year, the controversial sale of PKP Energetyka, a key operator in electricity distribution and traction power for rail, to the private equity fund CVC was criticized as giving up control over critical rail infrastructure (Reuters, 2022).

Although the PiS government repeatedly acknowledged the benefits of FDI, it focused on rebalancing ownership of selected assets rather than preserving openness as such (Ozsvald, 2019). Subsequent measures remained consistent with this trend. In 2016, new regulations restricted foreign purchases of agricultural land and introduced State Treasury pre-emption rights over forest land, explicitly linking land ownership to long-term control over food production and natural resources (Demuth & Bisiorek, 2016). In domestic discourse, such interventions were often framed as part of "repolonization," yet they did not amount to an attempt to replace foreign investment. Instead, they served to restore and reassert state influence in a small set of sectors (Naczyk, 2022; Ozsvald, 2019). The logic behind these interventions was explicitly justified by reference to the vulnerabilities revealed by the global financial crisis. As a senior official in the Development Ministry explained (Pacula, 2016):

"Foreign capital is extremely important and welcome, but there has to be a balance ...We need to become less dependent on foreign capital, especially in

such crucial, strategic sectors like media, banks, or energy. Therefore, we need to support and mobilize national investments.”

In the scholarly literature, these policies are often interpreted as efforts to “escape the middle-income trap” by constraining foreign capital in strategic sectors focused on the core domestic market (Naczyk, 2022; Toplišek, 2020), while continuing to subsidize foreign multinational corporations engaged in export-oriented manufacturing.

The same underlying logic shaped the later sectoral mechanism, initially introduced as a temporary COVID-era measure and subsequently retained and recalibrated. Although the mechanism extended screening to acquisitions in selected sectors (such as certain IT services, medical technologies, and critical infrastructure), it did so deliberately in a tightly circumscribed manner. As Figure 18 suggests, and as the Polish regulation itself makes clear, the sectors covered by the newer regime largely overlap with those in which firms already operate under the 2015 entity-specific mechanism. They cluster around energy, fuels, gas, and key network and communication services.

Later expansions of the list also followed this logic. Although some amendments were formally introduced by reference to the COVID-19 pandemic and the entry into force of the EU FDI Screening Regulation, they largely reproduced the existing approach. This pattern is precisely what the theoretical framework associates with lower-intensity technological economies, in which perceived security risks are more likely to be concentrated in a narrow set of conventional sectors rather than diffused across the economy-wide technological base.

More recent additions to the list occurred in 2022–2023, specifically in the wake of Russia’s full-scale invasion of Ukraine and heightened tensions along Poland’s eastern border, further emphasizing the same logic. The list was expanded to include the Gdańsk refinery and associated fuel-logistics companies amid intense controversy over the partial sale of refinery assets to Saudi Aramco (Supreme Audit Office of Poland, 2024). The official justification centered on fuel and energy security and the need to prevent uncontrolled resale of shares in key refining and storage facilities (Supreme Audit Office of Poland, 2024). Subsequent amendments have reportedly brought major media broadcasters and mobile network operators within the regime’s proactive ambit, framed in terms of hybrid warfare and information security (Florkiewicz & Włodarczak-

Semczuk, 2024). Given Poland's proximity to an ongoing war and the salience of informational and infrastructural resilience, these additions are unsurprising.

For the purposes of this analysis, however, the crucial point is that, Poland's principal vulnerabilities are still located in conventional sectors. Because the country's technological profile is limited, risks are not diffuse. The Polish ISM has therefore evolved through gradual, cautious layering around a consistently narrow core. It seeks to rebalance openness and security not by generalizing screening across the economy but by securing a small cluster of critical infrastructure. This pattern aligns with the theoretical expectation that lower-intensity technological economies will adopt narrow-scope investment screening focused on a limited set of clearly identifiable strategic sectors. In contrast to high-tech economies such as Germany and Italy, where denser innovation ecosystems can push policymakers toward broad horizontal screening. Poland's "integrated-periphery" (Krpec & Hodulák, 2019) profile translates into a narrow, infrastructure-centered scope characteristic of the Tolerant ISM type.

7.3.2. Explaining High Threshold

A second defining feature of Poland's Tolerant ISM is its relatively high threshold for intervention. In practice, screening is typically triggered only when an investor reaches "significant participation" at 20, 25, or 33 percent, or attains "dominance" at 50 percent or more. Compared with the single-digit thresholds of several other ISMs, Poland's choice is thus notably moderate.

At first glance, this architecture may seem puzzling given Poland's critical public discourse on foreign capital and repeated calls for "repolonization". One might therefore expect a more restrictive screening regime with low trigger points. Yet the factor-centered logic developed in this dissertation points to a different mechanism. Where public banking capacity is substantial, governments can manage ownership risk through alternative channels such as stabilization and ownership interventions. In this context, a high-threshold ISM is consistent with a strategy of selective intervention that preserves formal openness while retaining the ability to act when stakes become consequential.

This section argues that Poland closely aligns with that expectation. The combination of a historically embedded state-bank nexus, post-crisis "managerial developmentalism"

(Naczyk, 2022) centered on finance, and the creation of a powerful development finance complex (BGK–PFR–PZU–PKO) has equipped the state with precisely the institutional “backstop” capacity outlined in the theoretical framework. Rather than tightening the legal threshold, state financial instruments are selectively used to recalibrate ownership structures in sectors deemed strategic, while leaving the formal ISM relatively open.

7.3.1.1. A historically entrenched state–bank nexus

During the 1990 transition period, Poland’s financial architecture was pulled in contradictory directions. Under the guidance of the International Monetary Fund (IMF) and the World Bank, policymakers adopted “shock therapy” reforms and rapidly opened the banking sector to foreign ownership (Epstein, 2006). Within this framework, the share of foreign-owned capital in the Polish banking sector rose from 3.4% in 1994 to 17.4% in 1998, then climbed sharply to 49.3% in 1999 and over 70% by 2000, before stabilizing at roughly 70–74% through the mid-2000s (EBRD, 2020). The sector was thereby transformed into one dominated by foreign strategic investors. At the same time, as part of EU accession and the EU’s broader state-building agenda, BGK was re-established in 1989 and positioned as a development bank. Nevertheless, unlike Western development banks that had evolved incrementally to serve national interests, post-socialist institutions such as BGK were “engineered” to fit EU legal and Single Market rules from the outside (Piroska & Méró, 2021, p. 231). As a result, their developmental mandates, such as infrastructure financing and support for SMEs, have been pursued within a tightly liberal regulatory framework (Piroska & Méró, 2021, p. 231).

Although this trajectory resembled broader post-socialist patterns, the manner in which privatization was carried out and institutions were subsequently built diverged from those of Poland’s neighbors (King & Sznajder, 2006; Schoenman, 2014; Johnson & Barnes, 2014; Ban, 2019). For instance, unlike the Czech Republic, which pursued “voucher privatization” that dispersed ownership and diluted state capacity, Poland adopted a more gradual, bank-centered privatization path (Naczyk, 2022; Schoenman, 2014). Rather than withdrawing from ownership, the state used partial privatizations, debt–equity swaps, and investment funds to make banks and state-linked funds pivotal owners of large firms, producing a hybrid ownership structure rather than a clean divide between public and private (Schoenman, 2014, pp. 94-97).

In this bank-centered configuration, the state remained structurally embedded in broad ownership networks rather than pushed to the margins of the economy (Naczyk, 2022). Scholars argue that this bank-centered, hybrid configuration sustained the state's coordinating role in large-firm governance and kept public agencies close to corporate decision-making (King & Sznajder, 2006; Naczyk, 2022). This institutional legacy of dense ties among banks, the state, and major firms enabled credible commitments to investors about the future direction of policy, thereby attracting FDI in the early 2000s (Schoenman, 2014, p. 97). However, the same state-bank nexus would later be redeployed to reassert state control, particularly in the aftermath of the 2008 financial crisis.

Despite being relatively less affected by the global financial crisis than other countries (Méró & Piroška, 2016; Scheiring, 2021; Bluhm & Varga, 2019), Poland's structural constraints became increasingly visible during and after the shock (Ban et al., 2021; Bruszt & Vukov, 2024; Johnson & Barnes, 2014; Naczyk, 2022). Reliance on a foreign-dominated banking sector model raised concerns about its long-term sustainability. With industry often functioning as a low-cost "location for assembly" within global value chains, Poland risked becoming locked into a middle-income position, over-reliant on low-value-added segments, and with limited upgrading opportunities (Oellerich, 2021; Ozsvald, 2019). Escaping this trap by simply "moving up" technologically was difficult, as fiscal constraints limited the state's ability to increase public spending on R&D to levels comparable to those of wealthier core economies (Nölke & Vliegenthart, 2009; Bohle & Greskovits, 2012). These structural pressures, interacting with the limited decision-making autonomy of subsidiaries within foreign-owned banking groups during the crisis, fueled efforts to regain domestic control over foreign-controlled banks and to support the industrial upgrading of Polish-owned exporters (Naczyk, 2022).

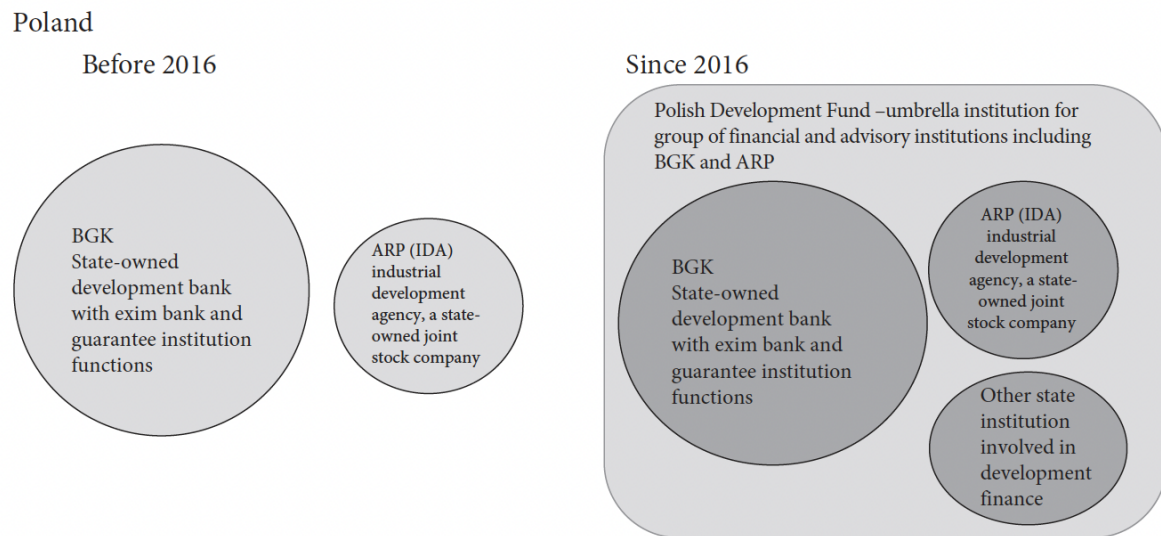
Notably, the instruments used to achieve these goals were predominantly financial rather than regulatory. Key steps included strengthening the national development bank, "repolonizing" key banks, establishing a powerful development fund, and mobilizing state-controlled enterprises as national champions (Pyka & Nocoń, 2018; Szlapka, 2017). With the change of government in 2015 and the arrival of PiS, these initiatives were intensified and reframed as an explicit strategy of "repolonization". Although the Civic Platform government (2007–2015), led by Donald Tusk, initiated some acquisitions that

increased domestic ownership in the banking sector, these moves were justified mainly on market and stability grounds rather than as components of an overt nationalist agenda (Naczyk, 2022, p. 1652).

With the 2015 change of government and the arrival of PiS, this trend intensified and was politicized into an explicit project of financial “repolonization”. PiS leaders adopted a discourse of “economic patriotism,” placing domestic control over banks and the strengthening of development institutions at the center of their political program. This agenda was operationalized through a series of high-profile acquisitions. In 2016, the state-controlled insurer PZU expanded its stake in Alior Bank (later merged with BPH), and in 2017, PZU, together with the newly created Polish Development Fund (PFR), acquired Bank Pekao from UniCredit (Naczyk, 2022, pp. 1659-1660).

Within this newly reorganized structure, PFR was designed as an umbrella entity coordinating a cluster of state financial institutions, with BGK positioned as the central development bank within this emerging complex (Figure 19). This re-scaling served at least three purposes: (i) it enabled the state to deploy instruments (especially equity investments, restructuring vehicles, and dedicated funds) outside BGK’s regulated balance sheet and supervisory perimeter; (ii) it centralized decision-making and strengthened the government’s steering capacity over BGK; and (iii) it created a more coherent interface with EU development-finance constraints and programs (Piroska & Móró, 2021, pp. 226-228).

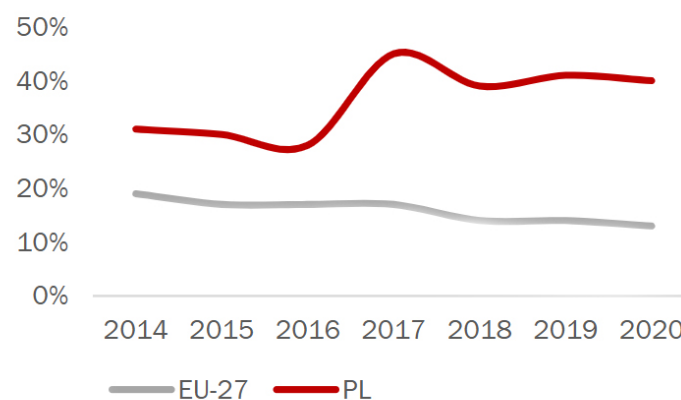
Figure 19. Institutional Restructuring of Financial Institutions



Source: Piroska & M  r  , 2021, p. 228

As a result of the “repolonization” of banks, domestic investors controlled a majority of banking assets by the end of 2017 (for the first time since 1999) and by 2020 the State Treasury had become the most important shareholder bloc in Polish banking (Figure 20).

Figure 20. State Assets as a Share of Total Banking Assets



Source: EBRD, 2023, p.10

Behind this structural change, the academic literature also highlights the close entanglement of political and financial elites, who cooperated and mutually reinforced one another during the process of repolonization (Table 15). Among other studies,

Naczyk's (2022) process-tracing shows that a cohort of "comprador bankers" – Polish-born top managers of the Polish subsidiaries of foreign-owned banks – was a central actor. Far from acting as passive intermediaries, they actively encouraged the state in this direction and used their expertise and personal networks to help design new domestic financial instruments and institutions. Table 15 captures these dynamics by mapping prominent career trajectories and significant transactions, linking former senior managers of foreign-owned banks to leadership roles in state-controlled financial institutions and to key deals that advanced repolonization.

Table 15. Selected career moves and transactions in Poland's post-crisis state–bank nexus

Person	Pre-2010 role (often in foreign finance)	Later role in state or state-linked finance	Illustrative mechanism or deal
Jan Krzysztof Bielecki	CEO of Bank Pekao (controlled by UniCredit)	Economic adviser to PM Tusk;	Promoted the idea that "capital has a nationality" and argued for repolonisation of key banks, helping place repurchase of banking assets on the policy agenda.
Mateusz Morawiecki	CEO of BZ WBK (first AIB, later Santander)	Minister of Development and Finance, then Prime Minister	Co-designed the development-finance architecture and "Strategy for Responsible Development", promoted a stronger domestic banking core and the creation of PFR as a Polish KfW-type hub.
Zbigniew Jagiełło	Banking manager in private sector, then CEO of state-controlled PKO BP	Long-standing CEO of PKO BP	Used PKO BP as an acquisition vehicle in state-backed deals, including the purchase of Nordea Bank Polska, strengthening the domestic, state-anchored banking core.
Andrzej Klesyk	Former McKinsey and Citibank manager, then CEO of PZU (state-controlled insurer)	CEO of PZU during key repolonisation steps	Under his leadership PZU acquired Alior Bank and later, together with PFR, moved to buy Pekao from UniCredit, bringing major banks back under domestic and partly state control.
Mariusz Grendowicz	CEO of BRE Bank (Commerzbank's Polish subsidiary)	First CEO of Polish Investments for Development (PIR), a state development vehicle	Brought private-sector banking expertise into a new public investment institution designed to support large projects and national champions.
Paweł Borys	Senior manager at PKO BP and in private finance	President of the Polish Development Fund (PFR)	As head of PFR, coordinated state-backed investment and nationalisations, including the rescue and effective nationalisation of rolling-stock producer PESA.

Source: Author's elaboration based on Schoenman (2014); Méré & Piroska (2016); Piroska & Méré (2021); Naczyk (2022); Oellerich & Bohle (2024)

Taken together, these studies show that the very same state–bank–business networks that once supported a foreign-dominated financial model were reactivated after the

global financial crisis to dismantle it, facilitating the re-nationalization of key assets and the expansion of the state's development capabilities.

Here, banks and other financial institutions are central because, unlike individual non-financial firms, they occupy structurally superior positions in the economy and exert control over credit allocation, thereby engaging all other firms (Hilferding, 1983; Davis & Mizruchi, 1999). This is why the scholarly literature has long maintained that restructuring finance can give the state leverage over financial flows essential for broader economic transformation programs (Bertay et al., 2015; Davydov, 2018; De Haas et al., 2012; Barrowclough & Marois, 2025). In Poland, an overreliance on foreign-owned banks contributed to tensions in industrial upgrading, as key decisions on lending, risk, and exit were often made at the group level abroad (Naczyk, 2022; Schoenman, 2014). By contrast, restructuring the financial sector toward domestically controlled banks and development institutions provides the state with an opportunity to direct capital toward strategic developmental goals (Johnson & Barnes, 2014; Oellerich, 2021; Naczyk & Eihmanis, 2023). This helps explain why PiS emphasized bank repolonization and the rebalancing of foreign and domestic capital, rather than closing the economy. In this study's factor-centered framework, domestic finance is a key instrument. It helps explain how Poland can sustain high ISM thresholds while retaining control over strategic assets. The next subsection examines the protective and promotional uses of state finance that make this possible.

7.3.1.2. Protecting and Promoting through State Finance

At first glance, Poland's preference for a high threshold may seem counterintuitive, given the prominence of nationalist rhetoric and repeated political calls for "repolonization." Consistent with the broader argument of this dissertation, however, I argue that Poland's public banks and state-aligned financial institutions provide the protective and promotional capacities that allow the state to remain formally open and retain a tolerant ISM, while still retaining the ability to reshape ownership in strategic sectors when circumstances demand it. This is precisely the configuration captured by the "tolerant" type in the theoretical framework.

Crucially, this approach does not imply replacing foreign capital with domestic capital or withdrawing from global markets. Such a strategy would be constrained by the volume of fiscal resources currently available and by the need to maintain a heavy FDI presence, particularly in technologically advanced, export-oriented manufacturing (Nölke, 2023, p. 178). Poland's growth model remains strongly FDI-led and export-oriented, and political elites across parties continue to stress that foreign investment is both needed and welcome (Scheiring, 2021; Avlijas et al., 2023). The literature likewise suggests that even under populist governments, competition for FDI has persisted alongside nationalist rhetoric (Toplišek, 2020; Oellerich & Bohle, 2024).

What changed after the 2008 crisis is therefore less the underlying growth model than the terms on which Poland participates in it. Post-crisis reforms aim to rebalance Poland's relationship with global capital by increasing the share of domestically controlled finance, thereby expanding the state's capacity to shape ownership structures when necessary. Rather than a complete break with neoliberalism, this shift is better characterized as a recalibration within it. Scholars variously describe the pattern as "pragmatic nationalism" (Schoenman, 2020), "national neoliberalism" (Ban et al., 2021), "selective economic nationalism" (Bohle & Regan, 2021), or a "developmental turn" (Naczyk, 2022). Each label captures a pattern in which openness to foreign capital is preserved while state intervention becomes more targeted, selective, and assertive. Seen through this lens, hostile rhetoric about foreign capital and repeated references to "repolonization" become less puzzling, and Poland's high thresholds clearer.

Public banks and state financial institutions provide the state with an alternative to investment screening. This instrument performs two tightly coupled functions. First, it supplies protective capacity. The state can rescue or recapitalize a strategically relevant firm to prevent a distressed "fire sale," or it can buy back assets from foreign owners to stabilize ownership and re-embed the firm within domestically steerable networks. Second, it supplies promotional capacity. By channeling patient capital and co-investing alongside domestic actors in key suppliers and infrastructure assets, public finance can deepen and strengthen domestic ownership coalitions and reduce the structural conditions that make strategic firms vulnerable to unwanted takeovers in the first place. In Poland, this dual capacity is anchored in a development-finance complex centered on

BGK and consolidated under the PFR umbrella, reinforced by state-controlled or state-aligned financial groups such as PZU and PKO.

Public Banking as Financial Backstop

Empirically, the mechanism becomes visible in repeated interventions in which the state uses this financial arm to reshape ownership in sectors closely aligned with Poland's conventional vulnerability profile particularly in sectors energy, infrastructure, defense-linked industries, and critical suppliers. Table 16 summarizes how Poland increasingly relied on public finance to influence ownership structures and strategic governance.

Table 16. State Direct Acquisitions in Strategic Firms

Year	Target	Sector	Transaction type	State financial vehicle	Strategic logic
2017	Ferrum S.A.	Steel / critical supplier	Recapitalisation	PFR	Protective: avert distress and “fire-sale” dynamics; stabilise a strategic supplier.
2017	WB Electronics	Defense tech	Share acquisition	PFR	Protective: scale domestic defense-tech capabilities while keeping control anchored domestically.
2018	PESA Bydgoszcz	Rail manufacturing	Share acquisition / takeover	PFR	Protective: rescue/recapitalise and opportunistic acquisition
2018–2019	PKL	Transport infrastructure	Share acquisition	PFR	Protective: buy-back/repolonization stabilise control in a sensitive infrastructure asset.
2021–2022	Trakcja S.A.	Rail infrastructure contractor	Refinancing	ARP / PKP	Protective: stabilise a key contractor in strategic rail modernisation
2023	HSW	Defense/industrial base	Asset acquisition	PFR	Protective: re-nationalise productive capacity previously transferred abroad;

Across the cases in Table 16, two patterns stand out. The first is repolonization through buybacks from foreign owners during ownership transitions in politically sensitive assets. PKL, which is a mountain cable-infrastructure operator with high symbolic and

territorial salience had been acquired by MidEuropa Partners in 2013 (Ministry of Infrastructure, 2018). PFR later purchased 99.77 percent of it, and the intervention was framed in public discourse as a means of restoring domestic influence over strategic infrastructure (Ministry of Infrastructure, 2018). In the railway–energy nexus, PKP Energetyka, owned by CVC, was acquired by PGE (Ebert & Zaras, 2022). Reports framed the transaction as a significant asset “back under state control” (Ebert & Zaras, 2022).

The second pattern is fire-sale prevention and capability protection through recapitalization and selective equity stakes. PFR’s restructuring involvement in PESA combined refinancing with the acquisition of the holding company that controlled the manufacturer, stabilizing a nationally significant rail producer and reducing exposure to opportunistic ownership changes during distress (Stuckey, 2018). Similar backstop logic appears in Ferrum, where PFR invested roughly PLN 100 million and became the dominant shareholder with 49.72 percent of voting rights—precisely the type of recapitalization designed to reduce the likelihood of distress-driven sales in a strategic supplier (Ferrum, 2022). Finally, within the security domain, PFR-managed capital took 24 percent of WB Electronics via a new share issue (PLN 128 million), explicitly linking state-backed investment to strengthening domestic defense-tech capacity (Gruppa WB, 2018). Collectively, these episodes show how Poland leverages public finance to adjust ownership structures and strengthen control in strategic sectors.

Public Finance as Industrial Promoter

Beyond its protective backstop role, Poland’s development-finance complex also performs a promotional function. It reshapes the domestic investment ecosystem and supports industrial upgrading within an otherwise FDI-led growth model. The political point of departure is “the Strategy for Responsible Development” (the Morawiecki Plan, 2016), which explicitly frames development finance as a mechanism to mobilize domestic savings and channel them into investment in Polish firms. The emphasis falls on flagship projects in strategically salient sectors, the expansion of domestic R&D capacity, and the development of industrial clusters. Within this approach, the PFR architecture is designed to improve domestic firms’ access to finance and coordinate public investment particularly in segments where private capital is scarce or unwilling to absorb early-stage risk (PFR, 2025).

While elements of state support via public banking such as SME finance have long existed, the Polish case is analytically significant for this study because of the recent political and institutional consolidation of development finance and its explicit aim to reconfigure the domestic investment ecosystem. A key institutional vehicle for this role is PFR Ventures, which operates primarily through a fund-of-funds model. It supports firms at different stages of development by investing through venture capital, private equity, and private debt funds, typically using blended resources that combine EU structural funding streams with domestically mobilized capital (PFR Venture, 2025). In this sense, PFR Ventures does not replace private finance but organizes it to mitigate risk, reduce failures, and extend investment horizons. PFR has also become a major institutional investor in Central and Eastern Europe (PFR Venture, 2025).

Recent initiatives under this promoter function are being institutionalized and increasingly linked to resilience, security, and competitiveness. PFR's 2026–2030 strategy, for instance, frames development finance as a long-run capacity for investment and co-investment, prioritizing innovation, technological autonomy, and the energy transition alongside capital-market development and fund-of-funds instruments (PFR, 2025). It also signals the intended scale of this role, projecting a substantial expansion in managed investment capacity by 2030 and emphasizing a crowding-in logic in which public capital is deployed to mobilize larger volumes of external financing (PFR, 2025, p. 4). This orientation is reinforced by new mobilization platforms aimed at deepening domestic risk-capital markets.

The late-2025 launch of Innovate Poland, for example, reflects an explicit attempt to pool institutional and public resources for scale-up finance at a materially larger scale. Its initial envelope of PLN 4 billion (around EUR 946 million) is intended to support hundreds of domestic firms through VC/PE and growth-finance vehicles, with participation from state-linked actors and European partners (Belcik, 2025).

The Polish VC Market Outlook 2024 reports EUR 493 million invested in Polish venture capital in 2024 and indicates that public–private capital remains a significant pillar (around 38% of transaction value), while international funds still account for a large share of total funding (around 51%) (PFR Venture, 2025). This pattern suggests that Poland remains integrated into international capital flows. In other words, even

ambitious promotional efforts for development finance do not eliminate Poland's dependence on foreign capital. Rather, they seek to rebalance that dependence by expanding domestically mediated sources of credit and equity for upgrading, scaling, and restructuring. State-backed institutions are deliberately widening domestic risk-capital capacity and stabilizing funding for firms operating in strategically relevant segments.

The promoter function acts alongside the aforementioned protective backstop to mitigate the pressure of politically salient acquisitions. By assuming this role, the state can sustain a high-threshold ISM without sacrificing its capacity to shape long-term industrial capabilities and ownership structures within strategic industries.

7.4. Alternative Explanations

One of the primary alternative explanations for Poland's tolerant ISM is rooted in the VoC literature, particularly its extension to Central and Eastern Europe as dependent market economies (Nölke & Vliegenthart, 2009). On this account, Poland's growth model relies heavily on foreign capital, export-oriented manufacturing, and deep integration into global value chains. A narrow-scope, high-threshold screening regime can therefore be interpreted as a functional complement to an FDI-dependent development strategy. This is based on the premise that extensive, easily triggered screening powers deter the capital, technology, and organizational know-how on which the model depends.

This interpretation captures an important structural constraint and offers some explanation for Poland's scope preferences. In comparative perspective, Poland—and several other economies commonly grouped within the same VoC family, such as Hungary and the Czech Republic tend to cluster toward the narrow-scope end of the spectrum. Positioned mainly in lower- and mid-technology segments of cross-border production networks, these economies are typically less exposed to security risks associated with acquiring domestically owned frontier technologies and more exposed to vulnerabilities concentrated in conventional critical sectors (for example, electricity, transport, communications networks, and other infrastructures essential for economic and societal functioning). Consistent with this logic, Poland's screening regime remains centered on critical infrastructure and a relatively small set of sensitive activities, rather than extending broadly across economy-wide technological domains.

However, this explanation is insufficient because it does not account for meaningful within-region variation in thresholds. Poland's regime is triggered only at comparatively high participation levels (typically 20–33 percent and above), whereas other dependent economies in the region operate with materially lower trigger points in key tiers of their screening systems (for example, the Czech Republic's 10 percent trigger in its main mechanism and Hungary's lower-threshold approach in parts of its regime). In other words, a shared dependent economy classification does not translate mechanically into a shared institutional design. This suggests that, even where countries face broadly similar constraints associated with FDI-led growth, they manage foreign-ownership risks through different institutional channels, and these differences, in turn, shape preferred trigger thresholds.

This is where the thesis's factor-centric approach becomes decisive. The key difference is not merely exposure to dependence but the availability of institutional substitutes, most notably, public finance institutions and state-linked ownership coalitions that enable governments to manage ownership and "fire-sale" risks through recapitalization, buybacks, or targeted equity interventions. When such instruments are credible and politically usable, governments can afford to maintain higher formal screening thresholds because they retain alternative means to secure strategically important assets without triggering reviews for minor shareholdings.

A second alternative explanation emphasizes domestic politics, particularly the rise of economic nationalism under the PiS government after 2015. From this perspective, Poland's investment screening reforms are part of a broader "repolonization" agenda aimed at reversing earlier privatizations, reasserting state influence in strategic sectors, and limiting foreign control. Domestic politics clearly shaped the timing, framing, and public justification of the reform. The shift in ownership of the banking system was politicized by PiS as a repolonization project, solidified through major acquisitions and the strengthening of development-finance capacities under the PFR umbrella.

However, this perspective also falls short in explaining Poland's tolerant ISM configuration. Although Poland expanded screening relative to its earlier approach, the mechanism retained a narrow, infrastructure-centered core and maintained comparatively high activation thresholds. If repolonization politics were directly driving

ISM design, one would expect systematically lower triggers and broader sectoral coverage. Instead, Poland's growth model has remained strongly FDI-led, and political elites across party lines have continued to signal that foreign investment is needed and welcome. Thus, while electoral competition would generate "noisy politics" and sharper rhetoric, it does not necessarily translate into a fundamental shift (Oellerich & Bohle, 2024). Domestic politics, therefore, helps explain shifts in rhetoric and the composition of the policy mix. However, it does not, on its own, account for why Poland retained a tolerant ISM configuration rather than adopting a broad, low-threshold regime.

Conclusions

This chapter has argued that Poland's ISM is best characterized as a Tolerant type, combining a narrow scope with comparatively high activation thresholds. Legally and operationally, this profile is evident in Poland's ISM. The entity mechanism applies to a short ministerial list of protected firms concentrated in conventional strategic domains, most notably energy networks and defense-related production. The latter sectoral mechanism—despite broader on paper—remains tightly bound by turnover requirements and sectoral definitions. Overall, these design features keep scrutiny focused on a limited cluster of critical infrastructures rather than extending it horizontally across the economy.

The chapter's explanation for this narrow scope is fundamentally structural. Poland's technological profile does not produce the "diffuse" vulnerabilities typical of high-tech economies. Instead, the vulnerabilities are confined to key industrial segments (fuels, energy, network services, defense-linked industrial assets). As the regime evolved, reforms largely layered additional provisions around this infrastructural core.

More importantly for the dissertation's central claim, strong public banking capacity provides alternative means to protect strategic firms, which helps explain Poland's comparatively high thresholds. Screening is typically activated only at "significant participation" (20/25/33 percent) or "dominance" (50 percent), leaving minor stakes largely outside routine review. Consequently, the Polish state's development-finance complex is treated as a functional substitute for low-threshold screening. Development finance here serves as an instrument to stabilize ownership, prevent fire-sale dynamics,

and re-embed firms within domestically steerable networks. At the same time, this strategy is not premised on replacing foreign capital. As both officials and the scholarly literature emphasize, foreign investment remains “important and welcome,” but it should be balanced by stronger national investment capacity especially in sectors such as finance, energy, and media.

The chapter assessed alternative explanations and showed why each is incomplete on its own. The dependent market economy perspective helps explain why Poland avoids a highly discretionary, economy-wide regime, given its export-oriented, FDI-dependent growth model. Yet it does not explain why Poland sustains higher thresholds than some comparable dependent economies. Likewise, domestic politics and PiS-era economic nationalism clarify the timing and public framing of reforms. However, a domestic politics account would predict lower triggers and broader screening if “repolonization” were directly driving ISM design - precisely what we do not observe.

CHAPTER 8. DEEP-SELECTIVE INVESTMENT SCREENING MECHANISM: CZECH REPUBLIC

*“The Czech Republic welcomes foreign investments, will not in any way
posit unnecessary administrative burden on risk-free investors.”*
Czech Ministry of Industry and Trade, 2021

This chapter analyzes the Czech Republic’s ISM as an example of a Deep-Selective ISM. This model combines narrow scope with a low threshold, a design that allows for in-depth, intensive scrutiny but only within a limited number of specifically designated strategic sectors. While the low threshold ensures that even smaller transactions in critical areas are captured, the narrow scope avoids imposing a heavy regulatory burden on the wider economy.

The chapter proceeds in three steps. First, it outlines the legal framework of the Czech Republic’s ISM. Second, it analyzes the design characteristics that define its Deep-Selective nature. Third, it assesses these choices through the theoretical framework of this dissertation, linking the narrow scope to the Czech Republic’s technological profile and the low threshold to its limited public banking capacity. The chapter concludes by assessing alternative explanations. This allows the Czech case to be situated within the broader comparative analysis.

8.1. The Legal Framework of the Czech Republic’s ISM

The Czech Republic established its first ISM with the “Foreign Investments Screening Act” (Act No. 34/2021 Coll.), which came into effect on May 1, 2021. This legislation was the culmination of a preparatory process that began as early as September 2018, prompted by the EU-level debate and the subsequent adoption of the EU’s FDI Screening Regulation. The Act’s objectives include assessing whether a foreign investment might harm the Czech Republic’s national security or public order, and transposing the requirements of EU Regulation 2019/452 into national law. Prior to this, the Czech state relied more on direct ownership, retaining significant stakes in key enterprises (such as its 70% holding

in the energy company CEZ) as its primary means of protecting essential security interests.

The mechanism establishes a sophisticated system that distinguishes between three main scenarios (Act No. 34/2021):

1. **Mandatory Ex-Ante Screening:** For the most sensitive sectors, foreign investors must receive approval before the completion of a transaction. This mandatory regime applies to investments in areas such as the development and production of military material, dual-use goods, and the operation of critical infrastructure and critical information systems, covering key parts of the energy, transport, healthcare, banking, and telecommunications sectors.
2. **Mandatory Consultation for Media:** A special regime with a mandatory consultation process is applied for certain investments in the media sector, specifically the acquisition of a nationwide television broadcaster, radio, or a major periodical publisher.
3. **Ex-Officio Screening:** For all other investments, no prior approval is required. However, the government reserves the right to review such investments ex officio for up to five years after their completion should security concerns arise. To mitigate this uncertainty, investors can voluntarily request a consultation.

Typically, when a non-EU investor acquires “effective control” over a Czech enterprise, the screening process is triggered. Effective control is defined as the acquisition of 10% or more of voting rights or the ability to exert significant influence through other means, such as securing a seat on a supervisory board or gaining access to sensitive information, systems, or technologies (Act No.34/2021, Section 5).

8.1.1. Institutional Set-Up and Screening Process

In the Czech Republic, the investment screening is administered by the Ministry of Industry and Trade (MoIT), which serves as the primary screening authority and national contact point (Act No.34/2021, Section 6(1)). However, the process is inter-agency, systematically involving opinions from other key bodies, including the Ministry of Defense, the Ministry of Interior, the Ministry of Foreign Affairs, the Czech Police, and intelligence agencies such as the Security Information Service (Act No. 34/2021, Section 7). Other government departments and agencies are either systematically or occasionally involved, depending on the institution (Act No.34/2021, Section 7).

The review process is structured in distinct phases. A voluntary or mandatory “consultation” may take up to 45 days (Act No.34/2021, Section 7(5)). For transactions requiring mandatory prior approval, an in-depth assessment is launched. An in-depth assessment may also be required if the initial review identifies a potential risk. The formal screening process may take up to 90 days, extended by an additional 30 days in particularly complex cases (Act No.34/2021, Section 14(3)– (4)). If concerns are raised by the Ministry or a relevant consulting body, an additional 45 calendar days are awarded to the government, during which the Ministry is instructed how to decide (Act No.34/2021, Section 13(4)). Crucially, during negotiations with investors over potential mitigation measures, the review period can be suspended. While it is also possible to negotiate conditional clearance with the Ministry, neither the terms nor the decision is disclosed publicly (Act No.34/2021, Section 15(1), (3)). In the event of a negative determination, the investor retains the right to contest the decision before the administrative courts (Act No. 34/2021, Section 16(2)).

Under the FDI Act, foreign investors may be sanctioned in two primary situations: failing to obtain the necessary government approval or breaching a screening decision once it has been issued. In the first case, an offence is committed if an investor undertakes an investment without first applying for permission or neglects the mandatory consultation process required in certain sensitive sectors, such as major media acquisitions (Act No.34/2021, Section 20(1)). In the second case, violations occur if an investor disregards a prohibition order or fails to comply with the conditions associated with a conditional approval. Non-compliance with screening obligations may result in a fine of up to 2% of the investor's most recent annual net turnover or a fixed amount ranging from CZK 100,000 to CZK 100 million (Act No.34/2021, Section 21(2)).

8.2. Typological Assessment of the Czech Republic's ISM

The Czech Republic's ISM establishes a two-pillar system that distinguishes between highly sensitive sectors and all other investments. In practice, this design concentrates the state's proactive regulatory power on a targeted set of assets and makes the mandatory screening regime the system's dominant feature. An analysis of this dominant tier reveals two defining features that align with the “Deep-Selective” model:

- **Narrow Scope:** The mandatory, ex-ante review is explicitly limited to a narrow group of the most sensitive areas. This includes a closed list of sectors such as military material, dual-use goods, and critical infrastructure. For all other investments, the state takes a more passive role, reserving the right to screen them ex officio up to five years after the transaction. This targeted focus on a few clearly delineated sectors is the essence of its narrow scope.
- **Low Threshold:** For these highly critical sectors, the mechanism is triggered by a very sensitive low threshold. A review is required upon the acquisition of 10% or more of the voting rights or when an investor gains “effective control” through other means, such as securing a seat on a board or gaining access to sensitive information. Therefore, the dominant tier of the Czech Republic’s ISM is defined by the combination of a narrow scope with a low threshold.

This design aligns with the “Deep-Selective” type, which is structured to apply deep, intensive scrutiny to a limited and well-defined set of strategic assets, while leaving the majority of the economy open to investment with less proactive oversight. This typological classification is strongly validated by the ISM’s implementation record since its establishment in 2021. The strongest evidence of the regime’s non-protectionist stance is the ultimate outcome of its reviews.

Across the entire period from May 2021 to the end of 2023, there were no prohibitions or conditional clearances issued by the government (MoIT, 2024). This consistent record demonstrates that while the low threshold enables a “deep look”, the mechanism is not used to block legitimate investments. This open stance is further reflected in how investors perceive and interact with the mechanism. Rather than being seen as a barrier, the screening process is increasingly used as a service to gain legal certainty. This is evidenced by the sharp increase in voluntary consultations, which nearly tripled from 7 in 2022 to 20 in 2023 (MoIT, 2024, p. 5). The Minister of Industry and Trade’s 2023 foreword frame this trend positively, highlighting the “growing awareness amongst investors” who use the system as a “preventive measure” (MoIT, 2024, p. 2).

8.3. Theoretical Assessment of Deep-Selective Design

Having outlined the legal framework and defined the main characteristics of the Czech Republic's ISM in terms of its scope and thresholds, the research now turns to examining the explanatory factors behind these specific design choices and theoretically assesses them according to the framework established in Chapter 2.

8.3.1. Explaining the Narrow Scope

The narrow scope of the Czech Republic's ISM aligns with the study's theoretical framework, linking the country's screening breadth to its technological intensity. The Czech Republic's policy choice to follow a focused approach—concentrating mandatory screening on a limited set of traditional strategic sectors like military material, dual-use goods, and critical infrastructure—is rooted in its specific position within the European political economy.

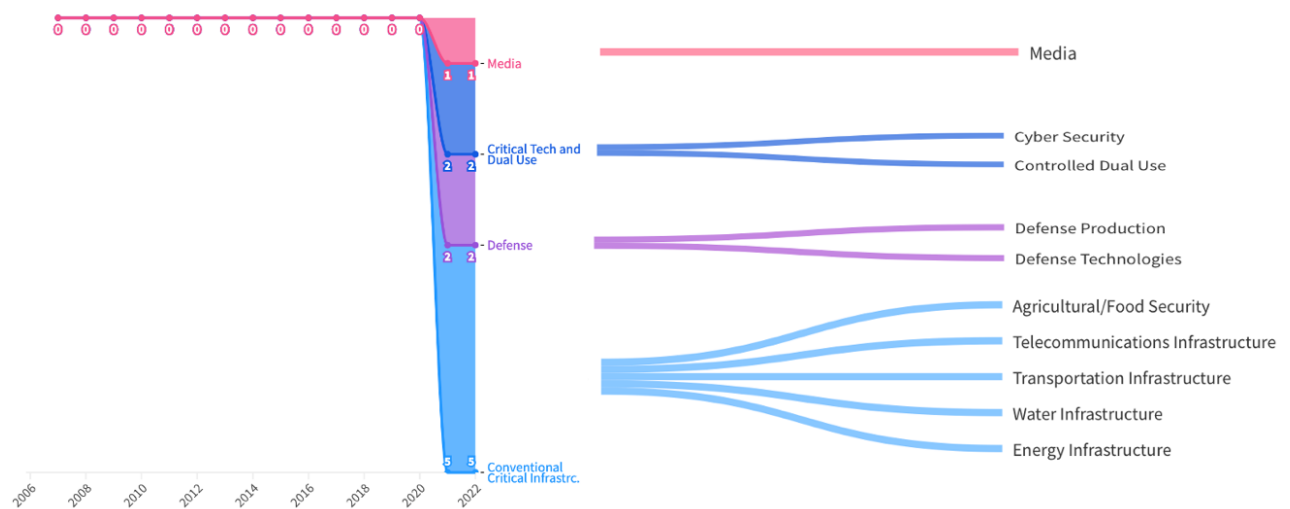
The Czech economy is best characterized as an “integrated periphery” within the European production system (Krpec & Hodulák, 2019; Myant & Drahokoupil, 2012). Multinational corporations have located assembly and medium-skill operations in the Czech Republic to take advantage of its cost-competitive yet skilled labor force, while retaining higher-value activities such as core R&D, strategic management, and brand ownership abroad (Nölke & Vliegenthart, 2009; Pavlínek, 2017). This has produced an “efficiency-driven” rather than “innovation-driven” model of competitiveness (Pavlínek, 2017; Myant, 2018).

The structural consequences are visible in a persistent low R&D intensity and limited capacity to generate patentable innovations. Even in export-oriented sectors such as electronics and automotive, Czech R&D largely takes the form of incremental “supporting R&D” (e.g., process improvements) rather than frontier technologies (Otsuka et al., 2023). As demonstrated by Krpec and Hodulák (2019), the Czech Republic exhibits one of the lowest levels of domestic value added content of exports within the OECD countries. Its developmental profile therefore parallels other semi-peripheral economies such as Mexico and Malaysia (Gereffi, 2018).

This structural position helps explain the politics of investment screening. Since the Czech Republic lacks strategic technologies of its own, domestic actors had limited grounds to frame inward FDI as a threat to technological sovereignty. In other words, securitisation pressures were muted and the debate over screening remained largely technocratic. Schubert (2025) explains this through the logic of “audience costs” (Fearon, 1994; Balzacq et al., 2016). In Germany, where high-tech industries represent core strategic assets, Chinese acquisitions such as KUKA Robotics were framed as a loss of “technological leadership” and fuelled discourse about the erosion of sovereignty, generating public pressure and prompting reforms to expand screening (Hanemann et al., 2019). By contrast, in the Czech Republic, permissive narratives carried limited political cost. Political elites, most prominently President Miloš Zeman, were free to present Chinese capital as a diplomatic success and a means of stimulating growth (Schubert, 2025).

In this political climate, the adoption of the Foreign Investments Screening Act of 2021 was less a response to domestic security concerns than an exercise in EU compliance. The mechanism was deliberately narrow and, as Schubert (2025) notes, implemented in a bureaucratic manner that produced minimal instances of intervention. Therefore, unlike in tech-intensive economies, where screening regimes are shaped by the need to protect advanced technologies, the Czech framework emerged as a limited mechanism focused on traditional assets and justified mainly by EU obligations. (Figure 21).

Figure 21. Changes in Sectoral Coverage and Sectors Covered Under the Czech Republic's ISMs (2007-2022)



Source: Author's elaboration based on PRISM dataset (2023)

As an emerging regime, the vast majority of sectors that were brought under mandatory screening in 2021 fell under the Conventional Critical Infrastructure category. These include tangible, foundational assets essential to state functioning, such as energy, water, transportation, telecommunications, and food security. By contrast, the category of Critical Technologies and Dual Use remained minimal, encompassing only two areas: cybersecurity and controlled dual use. This sectoral composition provides a stark contrast to more technologically advanced EU economies, where screening regimes are primarily concerned with systemic technological vulnerabilities, making critical technologies their largest and most dynamic focus. The Czech framework, however, prioritizes the protection of tangible, physical assets over frontier technologies.

As a result, the narrow design emerges as a logical outcome aligning with this study's theoretical framework. This is consistent with the research's core hypothesis that the breadth of a country's screening regime reflects its level of high-technology intensity. In contexts where the high-tech industrial base is limited, security threats are more contained. This is precisely the case for the Czech Republic. With vulnerabilities concentrated in a few well-defined sectors rather than spread across an advanced technological landscape, a broad screening mechanism would have added regulatory

costs while deterring benign investment; a limited scope was therefore a justified policy choice.

8.3.2. Explaining Low Threshold

At first glance, the decision to establish a 10% screening threshold by a country with a historically open investment environment and a relatively narrow set of strategic assets may appear counterintuitive. However, two clarifications help to explain this choice. First, the 10% benchmark corresponds to international standards for defining foreign direct investment and determining “significant influence.” Second, this threshold is explicitly stipulated in EU Regulation 2019/452, which sought to harmonize screening mechanisms across Member States. The analytical question, therefore, is not why the Czech Republic adopted this figure, but rather why it chose not to exercise upward discretion—as did other post-communist economies such as Poland—by setting a higher, more tolerant threshold. The answer, as this section will demonstrate, lies in the institutional toolkit available for the Czech state.

The roots of this institutional configuration are directly connected to the post-1989 economic transition of the Czech Republic. As part of a rapid shift to a liberal market economy, the country pursued a policy of radical deregulation. This strategy culminated in the large-scale privatization process carried out between 1991 and 1994, during which assets with a total value of CZK 1200 billion were primarily transferred through the voucher method (International Monetary Fund, 2001). While much of the industrial base was privatized during this period, the state initially retained majority shareholder control in the largest banks. However, following a severe banking crisis in the late 1990s, the government reversed course. Between 1998 and 2001, following an extensive and costly state-led rehabilitation of the financial sector, the state sold its shares in the major banks to banking groups from EU countries (Frait et al., 2011; Dubská, 2013). By the early 2000s, the privatization rate had risen to over 95 percent (Czech Statistical Office, 2013). This process resulted in a financial system overwhelmingly dominated by foreign capital, a defining characteristic of the dependent market economy (Nölke & Vliegthart, 2009).

During this period, privatization was considered vital for stabilizing the financial system and attracting foreign capital. It ultimately fulfilled these objectives, as the banking sector became profitable and professionally managed, enabling the Czech Republic's integration into export-oriented manufacturing supply chains (Dubská, 2013; Méró & Piroška, 2016). However, this success came at a significant long-term cost of the dismantling of the state's capacity for direct financial intervention, which in turn eliminated the institutional foundations upon which a strategic public bank or national champion could have been built (Havel et al., 2022).

As a result of this large-scale privatization, the public financial institutions remain structurally weak. For instance, the state's primary public financial institution, the National Development Bank (Národní Rozvojová Banka - NRB), holds less than 1% of banking assets and primarily administers EU funds and SME guarantees (NRB, 2023, p. 94). Another public institution, the Czech Export Bank (Česká Exportní Banka - CEB), provides export finance but lacks a domestic industrial development mandate (CEB, 2021). These institutions are primarily designed to correct market failures at the margins rather than to spearhead national development.

This stands in sharp contrast to states where powerful public banks serve as key instruments of industrial policy, directing capital toward emerging sectors and fostering innovation. In the Czech Republic, public banks are intended to complement the private sector, not to transform it. This purely complementary role creates a vacuum of domestic, state-driven actors capable of steering investment toward long-term national priorities. As Krpec and Hodulák (2019, p. 78) observe, this is precisely the gap the private sector will not fill, since foreign-owned banks "have no reason to prefer investments into the development of strategic national sectors," and Czech public banks lack both the mandate and scale to do so. The absence of a strong public banking sector did not paralyze the Czech state; rather, it necessitated a compensatory strategy, in which the government relied on regulatory and supervisory mechanisms to achieve control (Méró & Piroška, 2016).

The clearest expression of this strategy can be seen in the Czech Republic's stance toward the EU Banking Union. Despite the Czech banking system being highly internationalized and largely dominated by Eurozone parent banks, Czech policymakers chose to remain

outside the union. Structurally, the membership of the Banking Union should have been attractive, particularly under the ECB supervision, as it would have provided an additional layer of stability. Yet, the Czech Republic opted out. According to Méró and Piroška (2016), this decision constituted a form of “banking nationalism,” whereby the Czech state compensated for its lack of domestic capital by using prudential regulation as an alternative instrument of control. In this context, banking nationalism did not involve reclaiming ownership of foreign-controlled banks but rather deploying regulatory instruments to “ring-fence foreign capital” and ensure that certain subsidiaries remained resilient within Czech territory (Méró & Piroška, 2016) .

From this perspective, the decision to adopt a 10% screening threshold follows a similar logic. Just as in the case of the Banking Union, where policymakers utilize regulatory measures to keep foreign-owned banks liquid domestically, substituting rules for direct control, the ISM applies the same principle. By setting low thresholds in critical sectors, the government can scrutinize even minor acquisitions, maintaining continuous oversight over sensitive assets.

8.4. Alternative Explanations

An important alternative explanation for The Czech Republic centers on its status as a dependent market economy. Scholars of this thought (i.e., Nölke & Vliegenthart, 2009; Krpec & Hodulák, 2019; Pavlínek, 2017) emphasize that Central and Eastern European economies are deeply embedded in transnational production chains that are dominated by foreign multinationals. From this perspective, two competing expectations arise. On the one hand, governments may seek to remain attractive to foreign capital, implying a more open approach to ISMs. On the other hand, the same structural dependence can also generate heightened vulnerability. This, in turn, might strengthen the rationale for tighter scrutiny of foreign investment.

In this regard, the dependent market economy perspective remains suggestive but analytically limited. It explains the Czech Republic’s general openness to foreign capital and the limited salience of securitization, but does not fully explain the specific institutional design of the ISM. The framework only partially explains why the mechanism emerged with a narrow scope, while also helping to clarify why political elites such as

President Miloš Zeman framed inward FDI positively, prioritizing capital inflows over strategic control.

In practice, the result is a balancing act between these two logics. The Czech investment-screening framework developed as a modest mechanism focused on traditional assets and justified largely by EU obligations. By narrowing its scope to essential sectors, the government can exercise targeted scrutiny while avoiding major regulatory or administrative expansion, an approach that helps preserve the economy's overall openness to foreign investment. At the same time, the low screening threshold reflects the state's reliance on regulatory tools to compensate for the structural absence of more substantial policy instruments, such as strong public banks.

Crucially, this suggests that the Czech Republic's ISM reflects not an anomalous departure from its liberal tradition but a consistent strategy of managing dependency through light but targeted regulation. The dependent market economy perspective thus complements, but does not replace, the theoretical framework advanced in this dissertation. This becomes particularly evident in the case of Poland, which, despite sharing broadly similar structural conditions of dependent market economy with the Czech Republic, has adopted a different institutional design, as discussed in the previous chapter. In sum, while dependent market economy theory helps illuminate the structural context of Czech capitalism, the framework developed here offers a more systematic account of cross-national variation in ISM design.

Conclusions

The analysis of the Czech Republic case illustrates the logic of a Deep-Selective ISM, characterized by a narrow scope combined with a low threshold. This configuration is consistent with the theoretical framework developed in this dissertation. The country's limited technological base explains the targeted scope of its screening mechanism, while the absence of robust public banking institutions accounts for the adoption of a sensitive 10 percent threshold. Taken together, these two variables together capture the institutional design of the Czech regime.

At the same time, the case underscores both the relevance and the limitations of alternative perspectives. The dependent market economy framework usefully situates the Czech Republic within the broader structural context of Central and Eastern Europe. It clarifies why securitization pressures remained weak and why policymakers sought to balance EU compliance with continued openness to foreign capital. Yet the dependent market economy perspective alone cannot account for the institutional specificities of the Czech regime, particularly the interplay between scope and threshold.

Viewed through this lens, the Czech Republic's ISM can be understood as a pragmatic mechanism, tailored to the country's specific vulnerabilities and institutional constraints. Far from representing a departure from the Czech liberal tradition, it embodies a strategy of using regulation to manage structural weaknesses. The mechanism focuses on a limited range of sectors but applies intensive scrutiny within them, providing a regulatory safeguard. Having examined this final case study, the next chapter places these findings in comparative perspective, drawing together the dissertation's overarching conclusions.

CONCLUSIONS

The recent proliferation of ISMs in the EU member states suggests convergence at first glance. However, this dissertation demonstrates that such policy convergence masks substantial divergence in institutional design. The research addressed the question of what explains this cross-national variation in the design of ISMs across EU member states. ISM design was conceptualized along two analytically distinct, yet interrelated, dimensions: scope (broad or narrow coverage) and threshold (high or low). Cross-tabulating these dimensions produced four analytically distinct ISM types: wide-selective, restrictive, tolerant, and deep-selective. The dissertation subsequently developed and tested a comparative explanation for the clustering of member states within this typology.

Moving beyond macro-level generalizations, this research develops a factor-centric explanation for cross-national variation in ISM design. To this end, the study conducts a factor-centric comparative analysis of selected case studies: Germany (Wide-selective), Italy (Restrictive), Poland (Tolerant), and the Czech Republic (Deep-Selective). The research finds that the specific design of an ISM is closely correlated with a country's technological intensity and the capacity of its public banking system.

By explaining variations in ISM design through the interaction of technological intensity and public banking capacity, this dissertation demonstrates that the boundary between openness and protection is not defined solely by ideology or threat narratives. Instead, it is shaped by technological stakes and the state's capacity to repurpose existing tools, such as public banks, to navigate a competitive geopolitical world.

Empirical Findings

First, the dissertation provides a comparative perspective on how investment screening varies analytically across EU member states. By conceptualizing ISM design through scope and thresholds, the framework reveals the institutional logics that define the extent to which governments are autonomous or constrained in their ability to screen and, ultimately, block inward FDI. Specifically, by cross-tabulating scope (narrow vs. broad) and thresholds (high vs. low), the dissertation identifies four distinct configurations of

investment screening. This typology accommodates hybrid cases and makes cross-national comparison analytically tractable by moving beyond simple dichotomies.

The second major finding is related to the *scope* of ISMs. The analytical framework suggests that high-technology countries tend to adopt broader sectoral coverage. As high-tech sectors exhibit more diffuse vulnerabilities due to their intangible and complex nature in global value chains, broad coverage is more suitable for detecting risks across sectors (H1a). In contrast, a narrower coverage is likely sufficient to address the vulnerabilities that low-technology countries might face (H1b). These economies face fewer but more concentrated strategic vulnerabilities than highly advanced economies.

The final finding concerns ISM's *thresholds*: where the state can mobilize public banking instruments to stabilize ownership, recapitalize firms, or promote domestic capability formation, higher activation thresholds are feasible (H2a). In contrast, when financial capacity is limited, low thresholds serve as a functional substitute (H2b).

The research findings were evaluated in two analytical stages. First, a broad assessment of EU member states was conducted to examine the alignment of empirical data with theoretical expectations. This comparative mapping indicated that the proposed relationships were plausible, warranting deeper investigation. In the second stage, the dissertation utilized in-depth case studies of Germany, Italy, Poland, and the Czech Republic to further explore the specific institutional mechanisms shaping ISM configurations.

- Germany exemplifies the *Wide-Selective Type* in which screening comprehensively covers many sectors. However, it is activated only if the specified high threshold is exceeded. For the first dimension, the broad sectoral scope developed as a strategic response to protecting the high-technology industry from hostile takeover. Process tracing revealed that contested acquisitions in high-tech sectors led to successive legislative amendments expanding screening scrutiny. Second, Germany's high threshold choice is explained through the dual role of KfW as both a financial backstop in hostile takeovers and a promoter of domestic financial capacity for innovation and scaling. Evidence presented in Chapter 5 include high-profile interventions and stakes intended to block or deter unwanted takeovers, alongside a broader strategy of market creation through venture and growth capital instruments.

- Italy represents the *Restrictive Type*, characterized by a broad scope combined with exceptionally low thresholds. In terms of scope, Italy's design preference aligns with that of Germany. The Golden Power regime evolved amidst cycles of crisis coupled with takeover controversies in telecommunications and other technology-intensive sectors. The government addressed these challenges through several rounds of legislation to close loopholes and expand coverage. However, as detailed in Chapter 6, Italy's public financial institutions, particularly CDP's privatized architecture, are limited in acting as a last resort for strategic firms through counterbids or rapid recapitalization. Thus, its low threshold compensates for this weakness in this regard.
- Poland, by contrast, demonstrates the *Tolerant Type*, characterized by a narrow scope and comparatively high thresholds. Poland's scope remains focused on a limited set of conventional strategic sectors, which reflects its lower technology profile as discussed in the dissertation. Regarding thresholds, Poland serves as a second case, in which strong public finance correlates with high thresholds. Despite frequent nationalist rhetoric about "repolonization," Poland's screening thresholds remain high, consistent with the tolerant type. The dissertation accounts for this apparent tension by tracing how post-crisis state-bank-business networks and development-finance restructuring established institutional capacity to stabilize and reshape ownership structures. Thus, Poland's higher thresholds enable selective ownership while maintaining a formally open and targeted regulatory regime.
- The Czech Republic exemplifies the *Deep-Selective type*, combining a narrow scope with low thresholds. This type is structured to apply deep scrutiny to a narrow set of strategic sectors. Viewed through a theoretical lens, the Czech Republic's ISM can be understood as a pragmatic mechanism that allows the country to deeply scrutinize a limited set of strategic assets, while keeping the country broadly open for the other sectors.

In summary, these comparative case studies demonstrate how the interaction of scope and threshold produces distinct ISM configurations. These findings are further refined

through competitive testing against alternative explanations. This method is applied both to general variations and to country-specific contexts following each case study. Across these cases, alternative explanations (China-specific explanations, VoC, and domestic politics) revealed that they often account for timing, rhetoric, or background context. However, they fail to systematically explain the specific interaction of scope and thresholds that constitutes this dissertation's primary *explanandum*.

Implications and Contributions

First, the thesis contributes to the emerging literature on ISM in EU member states by proposing a novel typology along two dimensions: scope (narrow/broad) and threshold (low/high). Cross-tabulating these dimensions generates four analytically distinct configurations which accommodate hybrid cases as well. Therefore, rather than treating openness and restrictiveness as mutually exclusive, the dissertation offers a middle ground between the two extremes of excessive complexity and excessive simplicity of existing conceptualizations. In doing so, this conceptually clarifies what varies across screening regimes and offers a consistent basis for comparison in a highly confidential and technical field.

Second, the dissertation develops a structural-institutional account of how geopolitical pressures is mediated by domestic institutions in the design of foreign economic policy instruments. In this regard, much recent work treats the spread of investment screening as a regulatory response to geopolitical rivalry and crisis. Without disputing that background, this dissertation shows that the design of screening regimes varies systematically are mediated by domestic structures and policy toolkits. In this sense, the dissertation offers a mid-range, mechanism-oriented account that responds to "Second Image IPE" calls (Nölke, 2023) for explanations that sit between broad grand narratives and narrowly case-specific accounts. It also moves beyond approaches that treat outcomes as primarily a function of a country's capitalist "type." Rather than replacing existing accounts, the structural perspective advanced here offers a complementary framework that organizes and contextualizes existing explanations within a broader comparative political economy logic.

Third, it contributes to IPE debates on state power by re-centering the role of public banking in geopolitical competition. Public banks are often analyzed through the lenses

of development, industrial policy, or crisis management. The cases here show that public banks also function as instruments of national security. They might shape the design of regulatory regimes by also changing the state's opportunity set. This finding also attempts to bridge two literatures that are often separated, scholarship on the regulatory state and scholarship on financial statecraft. Last, the dissertation makes a methodological contribution by showing how technical policy designs can be compared in a field where many decisions are confidential. It combines a cross-national mapping exercise with process tracing in a factor-centric comparative design. This approach helps explain specific design choices that broader political accounts often miss. By testing alternative explanations and tracing the mechanisms linking techno-industrial exposure and public banking capacity to ISM design, the dissertation offers a replicable approach for comparative research on economic security instruments.

Limitations

This dissertation has several limitations that should be acknowledged. First, the research intentionally narrows the analysis to scope and threshold among other ISM institutional designs. While this choice strengthens comparability, it also sets aside other institutional features (such as the regulatory agency and investor protection), which might also shape the design. Second, empirically, the dissertation draws on four EU member states to facilitate comparison and meaningful variation. However, this design cannot represent the full diversity of national trajectories across all EU countries. Third, from a methodological perspective, the cross-national plausibility probe identifies patterned associations consistent with the thesis's expectations. Nevertheless, it does not in itself establish causal proof. For this reason, the plausibility probe should be interpreted as a supportive mapping exercise. More related, the operationalization of public banking capacity involves unavoidable simplification. Given that both banking operations and investment screening often proceed through confidential processes, this limits the ability to trace concrete pathways. Having said that, these constraints do not invalidate the dissertation's central argument, but they do set clear limits on what can be inferred and highlight the value of further empirical research once additional data and documentation become available.

Areas for Further Research

This dissertation's findings open several promising research avenues for future work. First, the proposed typology could serve as a starting point for studying how different investment screening designs operate in practice. Future work might connect institutional design to observable outcomes such as notification volumes, decision patterns, conditional approvals, and deterrence effects. This would allow assessment of whether different configurations (e.g., restrictive vs wide-selective) produce systematically different security and economic trade-offs. The same framework could also be extended to domestic political economy by analyzing whether design differences are linked to patterned variation in business lobbying, coalition formation, and other forms of organized interest mobilization around inward FDI. Second, scholars might extend the factor-centric explanation beyond the EU countries to provide a test of external validity for the generalizability of the analytical framework. For instance, comparing OECD cases such as Japan (characterized by high technological intensity and strong state-linked financial capacity) with the UK (high-tech but more reliant on market finance) would allow a systematic test of whether the Tech–Banking framework is also applicable across advanced capitalist economies. Third, future research could apply the same methodological approach of this study to other security-oriented domains with technical, tiered rules and limited transparency, such as export controls, and critical infrastructure governance which face similar challenges of measurement and cross-national comparability.

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Appendix A. Overview of ISM characteristics

	Year When Mechanism Established	Last update	Notification Requirements	Timeframe (days)	Threshold	Product of Lead Authority	EU vs. Non- EU Differences
Austria	2011	2022	mandatory	90	10/25%	Federal Ministry for Digital and Economic Affairs	0
Belgium	2022	2022	mandatory	60	10%	Inter federal Screening Committee	1
Czech Republic	2021	2022	mandatory for some transactions	120	10%	Ministry of Industry and Trade	0
Denmark	1937	2022	mandatory for some transactions	60	20%	Danish Business Authority	0.5
Finland	1939	2022	mandatory for some transactions	90	10%	Individual ministries	0.5
France	1966	2022	mandatory	105	10%	Ministry of the Economy and Finance	0
Germany	2004	2022	mandatory for some transactions	120	10/20/25%	Ministry of Economic Affairs and Energy (BMWi)	0
Hungary	2019	2022	mandatory	120	10%	Minister of Industry and Technology; Cabinet Office of the Prime Minister	0.5
Italy	2012	2022	mandatory	65	0%	Council of Ministers	1
Latvia	2000	2022	mandatory	120	10%	Cabinet	1
Lithuania	1995	2022	mandatory for some transactions/assets	25	25/30%	Commission for Coordination of Protection of Objects of Importance to Ensuring National Security	0.5
Poland	1920	2022	mandatory	150	20%	Individual ministries	0.5
Portugal	2014	2022	none	60	50%	Council of Ministers	0
Slovak Republic	2021	2022	mandatory	60	10%	Ministry of Economy	0
Slovenia	2020	2022	mandatory	60	10%	FDI Commission	0
Spain	1975	2022	mandatory	180	10%	Council of Ministers	0.5

Source: (Bauerle Danzman & Meunier, 2023a)

Appendix B. Sectors with Enhanced Screening

	<u>Defense</u>		<u>Physical/Conventional Critical Infrastructure</u>						
	Defense Technologies	Defense Production	Agriculture/ food security	Energy Infrastructure	energy storage	mineral resources or forestry	Telecom Infrastructure	Transportation Infrastructure	Water Infrastructure
Austria	1	1	1	1	1	0	1	1	1
Belgium	1	1	1	1	1	1	1	1	1
Czech Republic	1	1	1	1	0	0	1	1	1
Denmark	1	1	1	1	1	0	1	1	1
Finland	1	1	0	0	0	0	0	0	0
France	1	1	1	1	1	0	1	1	1
Germany	1	1	1	1	1	1	1	1	1
Hungary	0	1	1	1	0	0	1	1	1
Italy	1	1	1	1	0	0	1	1	1
Latvia	0	0	1	1	1	0	1	0	0
Lithuania	0	1	0	1	1	0	1	1	1
Poland	1	1	0	1	1	1	1	1	1
Portugal	0	0	0	1	0	0	1	1	0
Slovak Republic	0	1	1	1	1	1	1	1	1
Slovenia	1	0	1	1	1	0	1	0	1
Spain	1	1	1	1	1	0	1	1	1

(Continued)

	<u>Next Generation Critical Infrastructure</u>			<u>Non-tradeable Services</u>				
	Education and training	Healthcare infrastructure	Research Institutions	gambling	Tourism			
Austria	1	1	1	0	0	1	1	1
Belgium	0	1	0	0	0	1	1	1
Czech Republic	0	0	0	0	0	0	1	0
Denmark	0	1	0	0	0	1	1	1
Finland	0	0	0	0	0	1	0	0
France	0	1	0	0	0	0	1	1
Germany	0	1	0	0	0	1	1	0
Hungary	0	1	0	0	0	1	1	0
Italy	0	1	0	1	0	1	1	1
Latvia	0	1	0	0	0	0	1	0
Lithuania	0	0	0	1	0	1	1	0
Poland	0	1	0	0	0	0	0	0
Portugal	0	0	0	0	0	0	0	1
Slovak Republic	0	1	0	0	0	1	1	0
Slovenia	0	1	0	1	0	0	1	1
Spain	0	1	0	0	0	1	1	1

(Continued)

	Critical Infrastructure and Dual Use								
	Advanced computing technology	Advanced Materials	Advanced surveillance technologies	Artificial Intelligence and Machine Learning	Biotechnology	Brain-computer interfaces	civil nuclear	Controlled dual use	Cyber security
Austria	0	0	0	1	1	0	1	0	1
Belgium	1	0	0	1	1	0	1	1	1
Czech Republic	0	0	0	0	0	0	0	1	1
Denmark	1	0	0	1	1	0	1	1	1
Finland	0	0	0	0	0	0	0	1	0
France	0	0	1	1	1	0	0	1	1
Germany	1	0	1	1	1	0	1	0	1
Hungary	0	0	1	1	0	0	0	1	0
Italy	0	0	0	1	1	0	1	1	1
Latvia	0	0	0	0	0	0	0	0	0
Lithuania	1	0	0	0	0	0	1	0	0
Poland	0	0	0	0	0	0	0	0	0
Portugal	0	0	0	0	0	0	0	0	0
Slovak Republic	0	0	0	0	1	0	0	1	1
Slovenia	1	0	0	1	1	0	0	1	1
Spain	0	0	0	1	1	0	1	1	0

(Continued)

	Critical Infrastructure and Dual Use						
	Data Analytics technology	Hypersonic	Quantum information and sensing technology	Logistics technology	Microprocessor technology	Robotics	Space
Austria	0	0	1	0	1	1	0
Belgium	0	0	0	0	1	1	1
Czech Republic	0	0	0	0	0	0	0
Denmark	0	0	0	0	1	1	1
Finland	0	0	0	0	0	0	0
France	0	0	1	0	1	1	1
Germany	1	1	1	1	1	1	1
Hungary	0	0	1	0	1	1	0
Italy	1	0	1	0	1	1	1
Latvia	0	0	0	0	0	0	0
Lithuania	0	0	1	1	0	0	0
Poland	1	0	0	0	0	0	0
Portugal	0	0	0	0	0	0	0
Slovak Republic	0	0	1	0	0	0	0
Slovenia	1	0	0	0	1	1	0
Spain	1	0	1	0	1	1	0

Source: (Bauerle Danzman & Meunier, 2023a).

Appendix C. Evolution of Poland's "protected entities" list under the Act on the Control of Certain Investments (2015–2025)

In force from	Legal status / regulation (short)	# entities on list	Entities (short names)	Main sectors
2015	Act of 24 July 2015 on the Control of Certain Investments adopted; no list yet	0	–	– (only legal basis created; no entities designated)
June 2016	First list (Reg. of 21 June 2016)	2	Grupa Azoty, KGHM	Fertilizers/chemicals; mining/metals
July 2016 – end 2017	Amended list (Reg. of 26 July 2016, reissued Dec 2016)	7	EDF Polska, ENGIE Energia Polska, Grupa Azoty, KGHM, PKN Orlen, PKP Energetyka, Tauron	Electricity generation & distribution; fuels; fertilizers/chemicals; mining; rail traction power
Jan 2018 – end 2018	New list (Reg. of 6 December 2017, in force 2018)	7	Emitel, Grupa Azoty, KGHM, PKN Orlen, PKP Energetyka, Tauron, TK Telekom	Broadcasting network; fertilizers/chemicals; mining; fuels; electricity; rail telecoms
Jan 2019 – end 2019	New list (Reg. of 27 December 2018, in force 2019)	8	Emitel, Grupa Azoty, innogy/Stoen Operator, KGHM, PKN Orlen, PKP Energetyka, Tauron, TK Telekom	Broadcasting; fertilizers; electricity distribution (Warsaw); mining; fuels; rail power; rail telecoms
2020–2021 (approx.)	Series of regs. (2019–2020) consolidating list	13	Grupa Azoty, Emitel, HAWE Telekom, innogy/Stoen Operator, KGHM, Orange Polska, PKN Orlen, PKP Energetyka, Polkomtel, SGT EuRoPol Gaz, Tauron, TK Telekom, Telesystem-Mesko	Fertilizers/chemicals; mining; fuels; electricity; gas pipeline; broadcasting & backbone telecoms; mobile telecoms; rail telecoms; defense/dual-use R&D
Jan 2023 (after Dec 2022 reg.)	Reg. of 16 December 2022 (Dz.U. 2022 poz. 2838)	15	Previous 13, plus: Rafineria Gdańska, Unimot Terminale	As above, plus refinery and fuel storage/logistics (fuel security)
Mid-late 2023	Reg. of 17 March 2023 adding further fuel/chemicals node	17	Previous 15, plus e.g. Baltchem and one additional fuel/chemical logistics company	Energy & fuels, chemicals logistics added to existing core
Jan 2024 – Dec 2024	Reg. of 27 December 2023 (Dz.U. 2023 poz. 2812) – list for 2024	17	Core group of: Grupa Azoty, KGHM, Orlen, Rafineria Gdańska, Tauron, Gaspol, Unimot Terminale, Baltchem, EuRoPol Gaz, Emitel, HAWE Telekom, Stoen Operator, Orange, Polkomtel, TK Telekom, Telesystem-Mesko (plus 1–2 smaller fuel/infra entities)	Energy & fuels; fertilizers/chemicals; mining; gas; electricity; fuel logistics; backbone telecoms; mobile networks; rail telecoms; defense R&D
Jan 2025 – (new period)	Reg. signed 18–19 Dec 2024, in force 2025	23	2024 core plus: TVN, Telewizja Polsat, Cyfrowy Polsat, P4 (Play), T-Mobile Polska, WB Electronics, Liberty Częstochowa, Oktan Energy/VL Service	As 2024, plus major TV broadcasters, media groups, mobile operators and additional defense/industrial/fuel logistics nodes

Source: author's elaboration from annexes to the Council of Ministers regulations (annexes) issuing list of protected entities), published in *Dziennik Ustaw* (Dz.U.), pursuant to the Act of 24 July 2015 on the Control of Certain Investments