GEO-ECONOMIC FACTORS AFFECTING THE REAL ESTATE MARKET.

The case of Chinese FDI in the European real estate market.

Author: Anna Efstratiadi
Thesis Supervisor: Nikolaos Triantafyllopoulos

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Department of Planning and Regional Development
School of Engineering University of Thessaly

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ABSTRACT

As the world's second-largest economy, China's influence on the global economy is expanding rapidly. China is a significant source of foreign investment in Europe, with capital flowing into nearly every industry and market. Foreign investment has been essential to economic success, but the current influx of Chinese wealth into Europe has raised worries of disruptions to local and regional economies and markets, as well as dangers to the national security of each country. Although not as politically sensitive or directly affecting the national security as Chinese investments in technology or telecommunications, real estate is involved on multiple levels with policymakers. The potential geoeconomic determinants for the location choice of Chinese investment in European real estate have raised serious concerns. This research tries to provide an objective account of the following:

- Sources of Chinese capital flowing into the European real estate market
- Incentives and factors in Chinese foreign investment strategy making
- Benefits and obstacles resulting from this investment wave
- Analysis of European measures and regulations on risk and national security issues
- Suggestions for European and Chinese investors, policymakers, and stakeholders to keep investment routes open.

Keywords: Chinese FDI, geo-economics, real estate, Europe, national security, regulations

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1. INTRODUCTION

In this work, I investigate the geoeconomic factors that may influence the location decisions of non-European investors in Europe. This study issue is framed by the increasing Western distrust of foreign investments. Particularly China has received attention, since its external FDI has grown quickly for years, doubling over the previous decade (Haukland, 2021). Although the allegations are broad, the majority of accusers agree that the investments are not just financially motivated.

Chinese investment in European real estate is a relatively new phenomenon with substantial expansion potential. Although it is less politically contentious and has a less direct influence on national security than Chinese investments in European technology or telecommunications, real estate impacts more individuals and communities and engages politicians at several levels. This paper seeks to show objectively the following:

- Sources of Chinese capital flowing into European real estate;
- Motivations and drivers for various Chinese investors;
- Benefits and concerns posed by this wave of investment;
- Proposals for European and Chinese investors, politicians, and other interested parties to keep open investment channels.

1.1. The globalization of markets and the role of geo-economic factors in FDI

Geo-economic approach

In 1942, American scientist George T. Renner introduced the phrase "geo-economics" for the first time during World War II. In 1990, another American scientist, Mr. Edward Luttwak, in his paper "From geopolitics to geo-economics: the logic of warfare, grammar of trade," attempted to provide a theoretical justification for the term geo-economics (Kvinikadze, 2017).

According to Edward Luttwak (1990 and 1993), the US foreign policy expert who did the most to promote ideas about geoeconomics in the early 1990s, the word only designates the replacement system of inter-state rivalry that emerged in the wake of Cold War geopolitics. During the cold war, he claimed, the economy was not only a source of conflict between states but also a weapon (Sparke, 2007).

Luttwak claims that geopolitics embodies an increasingly obsolete global exchange logic. Even while the structure of national governments remains intact and powerful in the era of globalization, it is overtaken by a world economic rationale that transcends geopolitical strategy. According to Luttwak, globalization reflects the natural expansion of markets into bigger and more powerful bodies, and this eclipses the power of proximity and territory in and of itself. States must adjust their operational procedures correspondingly, from a territorial to an economic register (Cowen & Smith, 2009).

State power might be reinstated not in the name of strategy and security this time, but rather to preserve 'important economic interests' through geoeconomic defenses, geoeconomic offensives, geoeconomic diplomacy, and geoeconomic intelligence (Luttwak, 1993).

In contrast to geopolitics, which may be regarded as a technique of conquering territory for the purpose of amassing capital, geoeconomics aims directly to amass wealth through market domination. The acquisition or control of land is not immaterial, but it is more of a tactical choice than a strategic requirement (Cowen & Smith, 2009).

Consequently, intergovernmental competition must be conducted primarily through socioeconomic means. Considering that the employment of military force is already in its second phase, the international hierarchy of nations is currently determined only by economic might (Thirwell, 2010). Today, we can observe that geoeconomics has already partially superseded geopolitics. The primary battlefield is economic, not military; sanctions are replacing military attacks, rival trade policies are replacing military cooperation, currency conflicts are more common than the invasion of land, and the misrepresentation of the price of supplies is more crucial than arms races (Leonard, 2015).

The United States, Europe, and other developed economies are increasingly hesitant to advance foreign policy goals through the application of armed forces due to their tough budgetary positions and lack of national political backing for intervention. To compensate, major powers continue to exercise influence through their power over the world economy (including the dollar and euro) and their control over multinational companies (MNCs) based in their respective nations (World Economic Forum, 2015). States remained predominantly territorial, although the market and businesses grew internationally. The organizational structure of global marketplaces and businesses resembles a network rather than a hierarchy (Thirwell, 2010).

Based on the preceding, geo-economy may be described as the capacity of the political elite and state bureaucracy to employ primarily economic means to ensure the competence of a nation's economy and prepare the way for its development into international and regional markets (Kvinikadze, 2017).

Globalization of real estate

To evaluate the globalization of real estate markets, we will require a definition that is applicable to the setting of real estate markets. The globalization of a property market may be described in the broadest sense as a rising proportion of agents at increasing distances from the market region who are active in the production, ownership, use, and reproduction of the building sector (Clark & Lund, 2000).

Globalization is mostly pushed by foreign actors, such as property developers, investors, brokers/agents, and property consumers, resulting in the establishment of an international market sector with limited levels of participation by domestic firms (Adair et al., 1998). This trend is driven not just by the worldwide growth of property investors and advisors, but also by the growing integration of all real estate categories, from housing to infrastructure, into global financial flows (Weber, 2010).

As an internationally transferable investment or financial instrument, real estate has grown more integrated into the global economy (McGreal, Parsa & Keivani, 2001). In reaction to the globalization of investment markets, local property cultures in central Europe are adapting to institutional property market norms and needs (Adair et al., 1998). Numerous states have loosened property rules in order to attract overseas purchasers.

Along with changes in global networks, the lessening of national barriers via international trade agreements, the establishment of trading blocks, and the creation of interregional agreements induced by the deregulation of markets within and between countries increase the opportunities and challenges for cities as economic entities (Adair et al., 1998).

Typically, a city's prosperity depends on its capacity to provide institutionalizing procedures to attract flows of investment and entrepreneurship, as well as a range of external economies with adequate breadth and size to support business (McGreal, Parsa & Keivani, 2001). The extent to which city regions can compete directly and the organizational basis for that competition are dependent on factors such as city size, localization economies based on regional competition between cities, and urbanization economies including the development of facilities, development and investment opportunity, versatile planning regimes, and the quality and availability of specialized labor (Budd,1998). The institutional, legislative, physical, and infrastructural environment provided determines whether or not the free movement of capital is attracted (McGreal, Parsa & Keivani, 2001).

Chinese FDI as a geo-economic tool

Due to the interconnectedness of the global economy, foreign investments make for a considerable portion of the European economy. Foreign investments may provide benefits for both the senders and the recipients, such as obtaining access to global markets, leveraging competitive advantages, enhancing local capacity and competitiveness, generating a greater return on capital, or serving as a "catch-up strategy" (Amann & Virmani, 2015).

In recent years, foreign direct investment (FDI) in services has grown increasingly prevalent as a result of privatization and liberalization policies in the majority of nations. Within the realm of these services, the real estate industry has witnessed a substantial shift toward more globalization and deregulation (Topintzi et al., 2008; D'Arcy, 2009). In recent years, there has been a tremendous increase in direct real estate investments and portfolio investments in listed real estate securities, which demonstrates this trend (Topintzi et al., 2008).

Over the past decade, Chinese outward foreign investment has expanded significantly, with capital moving into a variety of industries and nations. Real estate is among the most targeted industries. Similar to other global investors, Chinese state-owned enterprises, private companies, and individuals are attracted to European real estate due to the return potential, variety of investment opportunities, economic and property market stability, a solid foundation for property rights, and the sheer size and maturity of the market (Gholipour & Masron, 2013).

What differentiates and distinguishes Chinese investment is the combination of the huge volume of investment, the breadth of its involvement across all real estate categories, the relatively unusual entry into residential purchases, and the variety of government, corporate, and private Chinese investors.

Due to its economic prosperity, China has tried to surpass the United States to become the geoeconomic powerhouse second to none. In 2015, China surpassed Japan as the world's second-largest overseas investor, and experts agree that their capital export is rising (Li, 2018). With these substantial capital outflows, China has become the primary geoeconomic target of global investors. Chinese foreign investments have expanded significantly during the past decade, both as a proportion of the gross domestic product (GDP) and in terms of aggregated statistics (Haukland, 2021). While no one asserts that all investments are mandated by the government, many consider investments to be part of national strategic objectives. Macikenaite (2020), who argues that "China employs or directs outward FDI to bolster its soft power and international image," succinctly summarizes the notion that China's investments are motivated by factors other than pure profit. According to Brautigam and Xiaoyang (2012), Chinese business and politics are frequently linked. Consequently, it is possible that Chinese enterprises are not profit maximizers or that they are "maximizing subject to government-led institutional forces" (Buckley et al., 2007).

I believe that foreign investments with particular characteristics should be regarded as a potential geoeconomic weapon, even if there are no direct connections between the investment and the geoeconomic objectives of the nation of origin.

Even if financial considerations are viewed as the most influential factor in determining overseas investments, they may be exploited to further a foreign policy goal. The Chinese scenario is especially intriguing because of the immense worth of assets at the disposal of state-controlled organizations and China's expanding political aspirations in international affairs (Kaminski, 2017).

The concept of investments as a geoeconomic instrument aligns with the description of 'strategic intent,' which characterizes acts that "focus on future prospects and long-term goals for global leadership beyond short-term strategic planning" (Cui, Meyer, & Hu, 2014

2. CHINESE FDI IN THE EUROPEAN REAL ESTATE MARKET

Europe is the world's greatest beneficiary of foreign direct investments, accounting for around 35 percent of the global total (UNCTAD, 2020). Conventional reasons for foreign investments in European markets include facilitating market access and boosting competitiveness, giving information about industrial techniques, technology, and overseas markets, and enhancing economies of scale and scope (Haukland, 2021).

China's subsequent expansion into more diverse outward foreign direct investment (OFDI) — beginning with extractive industries in developing countries and progressing to more advanced industries in developed nations — exemplifies the sophisticated, methodical evolution of Chinese foreign investment, which parallels the evolution of Chinese real estate investment in many ways.

This chapter will analyze China's early debut in global markets and the progress of Chinese foreign investment over the past several decades. Throughout this time period, Chinese foreign investment has shifted from extractive to more sophisticated industries, paving the path for investment in the real estate market.

2.1. The rise of Chinese FDI in the global market

The first significant outward investment wave began in the 1990s and surged in the 2000s, as China quickly increased its foreign exchange reserves. Due to large levels of foreign direct investment and enormous trade surpluses, Chinese enterprises earning foreign currency were compelled to convert foreign money to yuan in order to regulate the exchange rate. China swiftly became the world's largest holder of foreign exchange reserves due to direct involvement in the foreign exchange market and the adoption of capital restrictions to manage the yuan while retaining an autonomous monetary policy. The majority of China's foreign assets remain in the form of cash reserves. 63.3 percent of China's total foreign assets were foreign exchange reserves in June 2014, the highest month of China's foreign exchange holdings (Hanemann & Huotari, 2014).

Initial entry to global markets

It has been effective for China to gradually open its economy. In order to achieve quick growth and catch up with the developed economies, the Chinese Communist Party began combining free-market economic ideas with long-term and planned programs in 1978 (Guerrero, 2017). What distinguishes the Chinese model from other developmental and capitalist nations is the continued presence of the Chinese national state as a major agency in decision-making, particularly on issues pertaining to industrial (technological) upgrading and general economic strategy. Despite the advent of big global firms into the Chinese economy, the Communist Party and the government of China remain dominant.

The expansion in China's OFDI and its new role as a global investor did not occur suddenly, but rather as a result of Beijing's adoption of the 'Going Out' strategy as part of its long-term planning. State involvement and the Chinese government's ability to exert control over its economy have contributed significantly to the rapid internationalization of Chinese businesses and the country's ascent to economic powerhouse status. Premier Zhu Rongji used the term Going Out to describe China's policy for outward foreign direct investment in 2001 to supplement the previous strategy of Inviting In (inward FDI or IFDI) or attracting foreign capital to China in order to trigger economic growth (Guerrero, 2017). Both Inviting in and Going Out methods were implemented as policies to establish local businesses, grow the market for Chinese exports, and strengthen the ability and knowledge of Chinese multinational enterprises (TNCs).

The Chinese government promoted its "Going Out" program to encourage state-owned firms and Chinese businesses to participate in foreign direct investment abroad. Initial emphasis was placed on natural resources, mining, and energy in developing nations spanning Africa, Asia, and the Americas, with a sharp increase in 2004. China's construction and engineering enterprises, design firms, and conglomerates gained access to new markets as a result of China's direct investment in developing nations. This direct investment as a result of the ongoing reform and liberalization of the Chinese economy contributed to China's objective of becoming a global economic leader (Szunomar, 2016) with internationally competitive and established businesses.

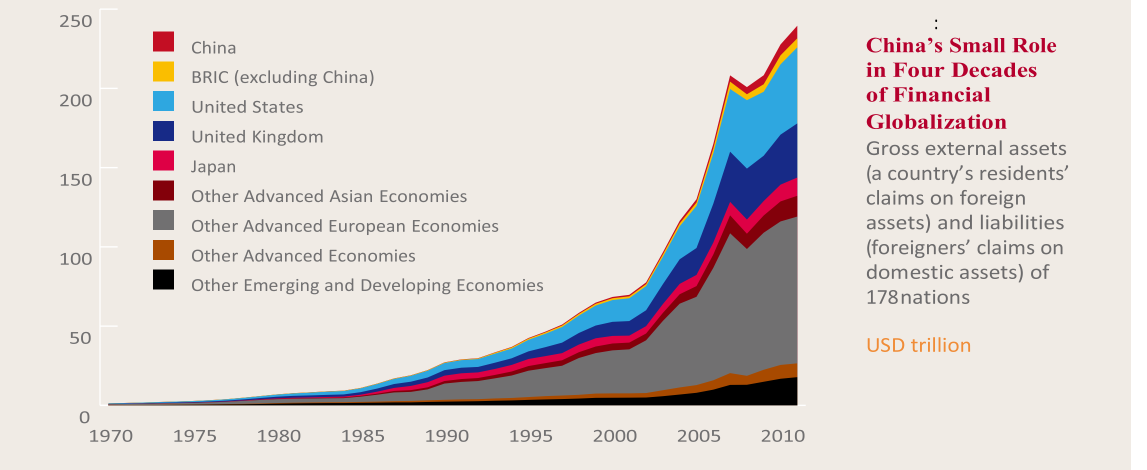
Chinese Investment in Europe

Chinese OFDI spread outside developing economies by the late 2000s. In contrast to its position in global commerce, China's contribution in financial globalization remained insignificant. China accounted for only 3.4% of global cross-border financial assets and liabilities in 2011, and only 2.1% if we exclude reserves administered by the central bank. This is the consequence of an investment-driven development strategy that demanded a closely managed capital account to prevent instability and capital flight (Hanemman & Houtari, 2014).

Europe welcomed Chinese investments with open arms, especially in the wake of the global financial crisis and plummeting economic development in the Eurozone (Szunomar, 2016). As a result of the global economic and financial crisis, Chinese enterprises have greater prospects worldwide.

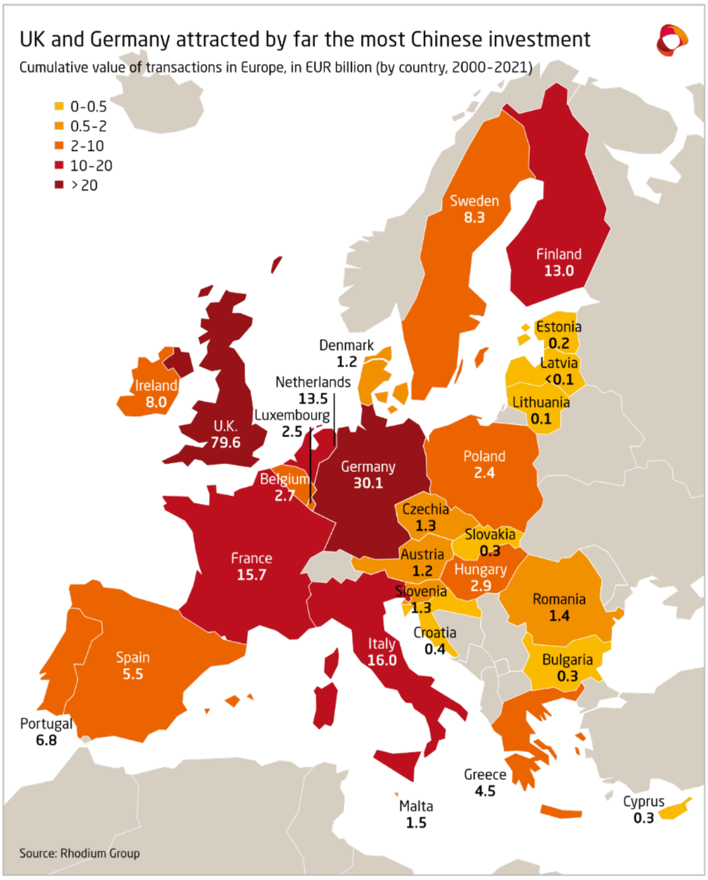
However, it took some time before Europeans and the Chinese began to collaborate. During its three decades of "open door policy" (1978–2008), China was first a manufacturing nation that drew European and other foreign investors into its industries and market. In 2008, Europe was included in China's "going out strategy" (Zou Chu Qu), and since then, an increasing number of state-owned corporations and some private companies have invested in the EU (Le Corre, 2018).

During the hardest days of the European sovereign debt crisis between 2008 and 2013, Chinese state-owned companies (SOEs) assumed the risk and entered European markets. The debt crisis of 2008 was a turning point because it allowed the Chinese government to purchase Eurobonds and engage in infrastructure projects at extremely low prices

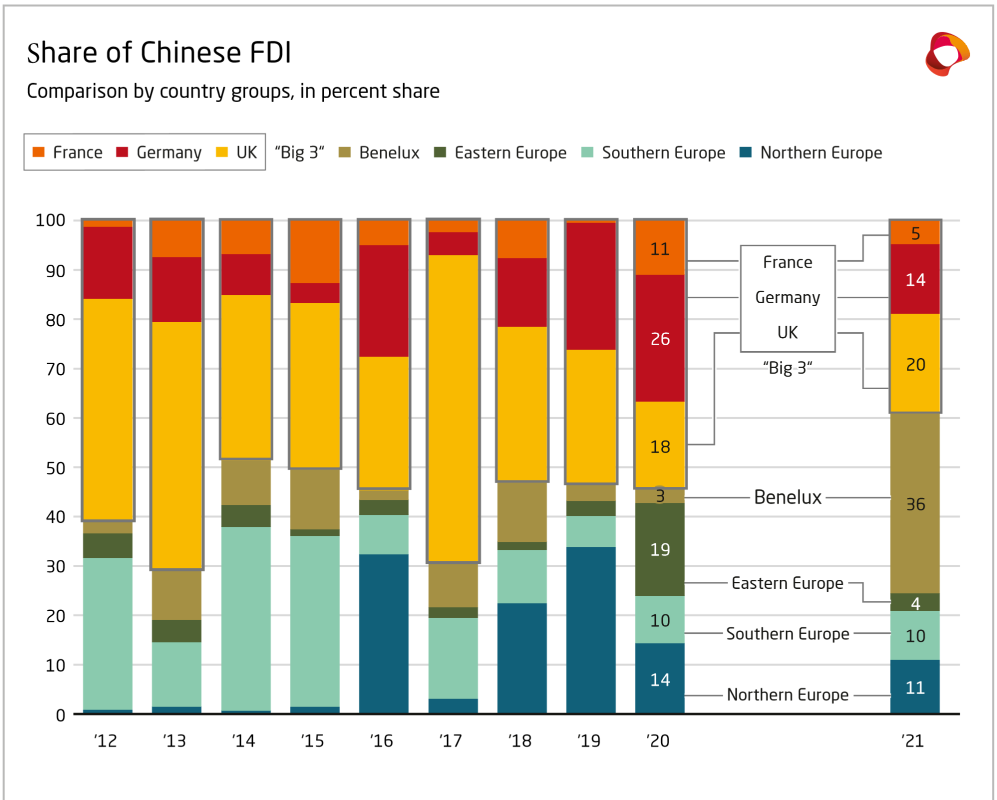


Source: Updated and extended version of a dataset constructed by Lane and Milesi-Ferretti (2007

(Guerrero, 2017). Chinese investors took advantage of the European Commission's push on crisis-stricken nations to sell state-owned enterprises and the subsequent firesale of public assets to privatize state-owned enterprises (Zacune, 2013). Ironically, and somewhat predictably, the "Troika" (consisting of the European Commission, European Central Bank, and the International Monetary Fund) pushed privatization of state-owned companies as a solution to financial crisis and for alleged efficiency savings, which in many cases led to Chinese SOEs purchasing Europe's assets (Guerrero, 2017). As the majority of Chinese companies are state-owned, government planning plays a vital role in determining where to invest. China's investment strategy includes investments in European enterprises, particularly in countries such as Germany, Italy, France, and the United Kingdom, which provide Chinese businesses the chance to study and acquire the most advanced technology in order to promote the global expansion of their multinational corporations (Guerrero, 2017). Since the flow of Chinese capital into Europe, energy, automotive, food, and real estate have received the greatest Chinese investment. Europe's "Big Three" economies are the principal receivers of foreign direct investment.



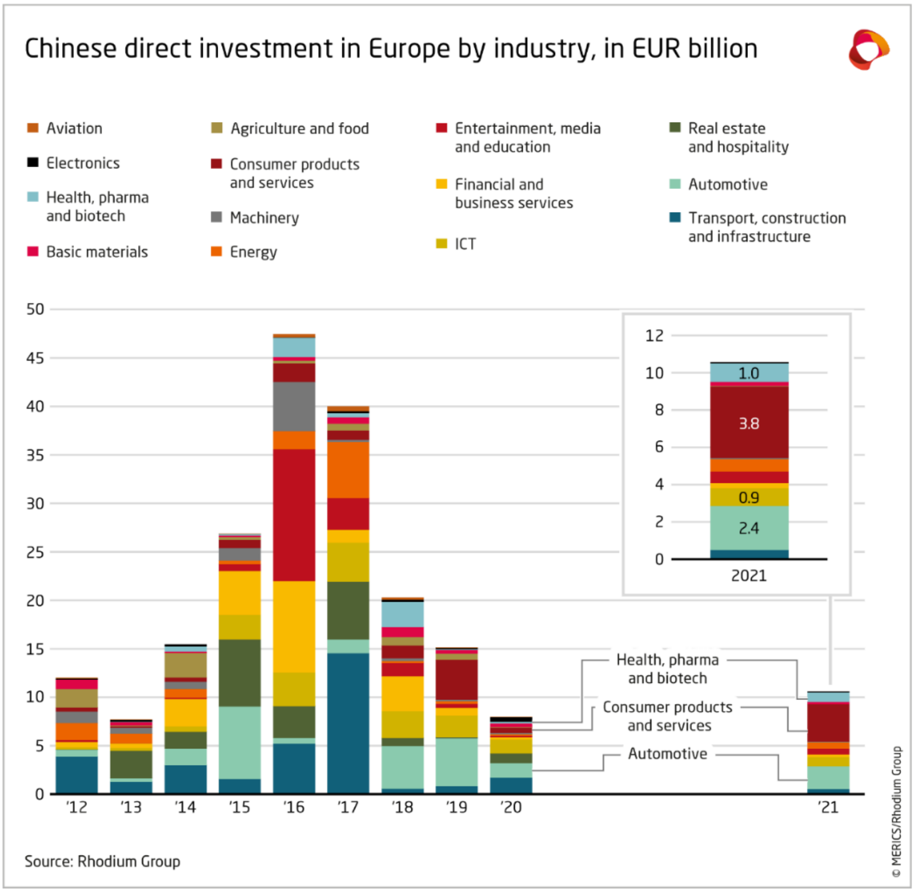
Since 2005, Chinese investors have invested $38 billion (£29 billion) in a variety of assets in the United Kingdom, including premium London real estate, banks, energy projects, and football teams. Due to the country's dependable, transparent, and rule-based legal system, real estate in the United Kingdom is very appealing. Chinese investors have invested over $12 billion in British real estate, representing over a third of China's total investment in Britain (Davies, 2016). In Europe, Germany is the second largest beneficiary of Chinese OFDI. From 2000 to 2014, Chinese investments in Germany totaled 6.9 billion euros. According to research conducted by the Mercator Institute for China Studies and Rhodium Group, Germany's yearly investment levels are constant at around €1-2 billion, in contrast to the fluctuating patterns observed in other European nations (Hanemman & Houtari, 2016) Their report describes how Germany's sophisticated manufacturing skills were the greatest draw for Chinese investors, with automotive and industrial equipment accounting for almost 65 percent of total Chinese investment since 2000. France received the third largest investment share with €5.9 billion. From 2000 to 2014, more than fifty percent of total investment flowed to the United Kingdom, Germany, and France (Guerrero, 2017).



Source: Rhodium Group. "Benelux" includes Belgium, Netherlands, and Luxembourg. "Eastern Europe" includes Austria, Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia. "Southern Europe" includes Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain. "Northern Europe" includes Estonia, Denmark, Finland, Ireland, Latvia, Lithuania, and Sweden.

Recent years have witnessed an expansion of Chinese investment into other European nations, resulting in an intra-European battle for Chinese money. In 2015, Southern European economies received nearly half of all Chinese EU investment for the first time due to the fact that these countries, which still had significant state-owned sectors, are simultaneously being forced to and choosing to privatize their assets due to their current financial crises (Guerrero, 2017).

This post-2008 investment wave targeted the manufacturing components of these businesses, but Chinese investors are increasingly focusing on the service components with significant added value. In addition to resource extraction, Chinese corporate investors expanded into more complex goods and industries, such as industrial equipment, consumer electronics, aircraft, biotechnology, communications equipment, and renewable energy (Amendolagine & Rabellotti, 2017). Chinese investors are also interested in real estate and financial products as entry points into Western economies.



The surge in Outward Foreign Direct Investment

Since 2012, Chinese state-owned enterprise (SOE) operators, commercial telecommunications firms, communications device suppliers, and real estate property corporations have all aggressively "gone out" in response to a series of policy modifications and massive government subsidies (Guerrero, 2017).

China's evolving economic conditions are fueling these investments. Beginning structural change and escalating volatility have raised the pressure on Chinese businesses to diversify and prepare for even greater domestic competition, which is encouraging a larger demand for overseas development and risk-taking. In 2015, Chinese interest evolved further toward a broader range of assets, such as technology, enhanced services, brands, and consumer-related assets. The automotive industry ranked first (Pirelli), followed by real estate and hospitality (Louvre Hotels, Club Med), information and telecommunications technology (NXP Semiconductors' RF business), and financial sectors (SNS Reaal's insurance unit, Banco Espirito Santo's investment banking unit) (Hanemman & Houtari, 2015).

China is currently nearly fully integrated into the global value, logistics, and industrial supply chains. A study from the Ministry of Commerce revealed that in 2016, Chinese investors invested $170.11 billion in non-financial firms in over 164 countries and regions (MOFCOM, 2017).

China's external FDI reached record lows of US$ 182.7 billion in 2015. This elevated China to the second-largest supplier of OFDI in the world. The United States remains the greatest investor with $300 billion, followed by Japan with $129.7 billion (Guerrero, 2017; Hanemann & Huotari, 2014).

In recent years, there has been continuous growth in the amount of money invested in the European market by both state-owned and private Chinese companies. Between 2000 and 2014, Chinese enterprises made 1,047 direct investments totaling €46 billion in the 28 EU member states. China's foreign direct investment in Europe reached around €21.7 billion in 2015 and exceeded €35 billion in 2016, a 77 percent growth from 2015 (Hanemman & Houtari, 2017) The EU is now China's largest trading partner, whereas China is EU's second-largest trading partner, behind the United States.

New ways of integration – the Belt and Road Initiative (BRI)

When President Xi Jinping advocated constructing a "China-EU partnership" in 2014, bilateral relations between China and EU institutions were also reinforced, and collaboration reached a new level. China might become the largest non-EU investor in the European Fund for Strategic Investments (EFSI), an initiative announced by the European Commission to produce 315 billion euros in order to promote economic and business growth. China is anticipated to contribute between 5 and 10 billion euros to

EFSI. Silk Road Fund, European Commission, and European Investment Bank have formed a working party to evaluate the prospect of co-financing (Mayer, 2018).

The Bridge and Road Initiative or BRI (formerly referred to as the One Belt, One Road initiative by Chinese policymakers), the largest avenue for overseas investments, is China's new strategy for uniting Eurasia. Through substantial infrastructure investments in high-speed trains, motorways, ports, dams, bridges, gas pipelines, power plants, IT connections, and electric power grids, it is connecting China to Europe via many pathways. China is connecting 66 nations, from Spain to Indonesia, through the BR (Guerrero, 2017).

The BRI, initially proposed by Xi Jinping in 2013, is a $3 trillion infrastructure project that also includes trade agreements and investments (PwC, 2016). It is reshaping international development cooperation and also influencing the geopolitics of energy. It now includes nations with 60% of the world's population (about 4,4 billion people) and almost 30% of the global GDP (Guerrero, 2017).

The political goal is significantly more significant and crucial than the economic rationale for the Belt and Road Initiative. The BRI is China's foreign policy initiative to reach parity in Asia and Europe with the United States. It provides the necessary security environment and political influence for its continuous ascent to superpower status.

China joined the European Bank for Reconstruction and Development (EBRD) in January 2016. This participation makes it easier for the EBRD to invest in "Belt and Road" projects in member nations, especially the creation of transport linkages between Asia and Europe.

Diversification is representative of Chinese OFDI to Europe in a number of ways. Initially, Chinese investors are drawn to new industries such as real estate, food, and financial services, but established industries like as energy and automotive remain popular. In addition, Chinese corporations invest throughout Europe: the majority of Chinese foreign direct investment (FDI) flows to the United Kingdom, Germany, and France, but all other EU member states, including those in Central and Eastern Europe, are also witnessing an increase in Chinese investment. Thirdly, Chinese state-owned companies (SOEs) continue to dominate Chinese outbound direct investment (OFDI), despite private firms closing the majority of agreements. In addition to greenfield investments and joint ventures, China's merger and acquisition (M&A) activity in the more economically robust European countries has recently gained momentum and continues to exhibit an upward trend, as an increasing number of Chinese companies are interested in acquiring foreign brands to bolster their own (Szunomar, 2016).

2.2. Sources of Chinese FDI Capital in the real estate market and their strategic objectives

Investing in real estate was the subsequent stage in the expansion of China's foreign economic activities for numerous reasons. Chinese developers, both state-owned and private, had amassed considerable expertise in the growing domestic real estate sector and were seeking to extend their operations. Insurance firms — a relatively new category in China – also sought portfolio diversification. Sovereign wealth funds had substantial sums to invest and sought to diversify their portfolios. Moreover, the expanding pool of Chinese high-net-worth people and the upper middle class as a whole wanted solid assets that might also grant their children overseas residence and educational possibilities. Frequently, these enterprises and investors have a rising amount of cash that might be invested outside of China.

There have been waves of investment from a variety of Chinese capital sources, with each wave utilizing new investment vehicles and adding to the rich complexity of Chinese investment in the broader European real estate market.

Capital sources

The funding sources for Chinese investment in European real estate are various and may be essentially divided into two groups: institutional investors and individual investors. Capital has poured from China in various waves among institutional investors, with the expertise of enterprises– together with regulatory reforms in China promoting investment – paving the way for succeeding waves of investors. Individuals have been a substantial source of investment, not just in the residential real estate market but also, as more investment vehicles become accessible, in the commercial real estate sector as well. The expanding range of capital sources exemplifies not just the development and growing maturity of Chinese investment, but also the fast adoption of sophisticated investment methods by Chinese investors (Amendolagine & Rabellotti, 2017). This diversification can also contribute to long-term stability, as the investment level is not dependent on a single investor class.

Institutional Investors

China’s sovereign wealth funds were one of the most important means of investment in the European real estate market. China Investment Corporation (CIC), SAFE Investment Company (SAFE), and the National Social Security Fund (NSSF) are the third-, fourth-, and ninth-largest sovereign wealth funds in the world, respectively, with nearly $1.5 trillion in combined assets as of 2015 (Preqin Ltd., 2015). Although sovereign wealth funds have not been active in European real estate acquisitions since the early part of the investment wave, they are a potential source of Chinese direct investment going forward. In 2015, the chairman of China Investment Corporation (CIC) stated an intention to increase its real estate holdings, particularly in the United States, Europe, and Australia, and diversify away from stocks and bonds, with CIC acquiring a portfolio of office assets in Australia for $1.8 billion in 2015 (Wei, 2015).

Another investment wave was spearheaded by real estate developers and property companies. This group is comprised mostly of the largest Chinese developers, including China Vanke, Greenland Group, Dalian Wanda Group, Landsea, Oceanwide, and a number of other prominent corporations. Developers have been the most active group of investors in Europe, yet, but they have a great deal of room for growth (CGIT, 2023).

The rise of insurance firms as active participants in the real estate sector played also an important role. The China Insurance Regulatory Commission's decision in 2012 to enable previously forbidden direct real estate investments overseas was the key impetus for investment among insurance companies. The insurance industry is a significant source of future investment in the European real estate market. In general, insurers have one of the longest investment horizons of all investors and want reliable, predictable returns. (CGIT, 2023).

Chinese construction enterprises are another component of the increasingly diversified wave of Chinese parties participating in the European real estate market, and a group with enormous investment potential in the future. As Chinese construction businesses established their names in Europe, however, and as the Chinese domestic construction industry stagnated, enterprises sought to expand their activities in Europe. Continued weakening in China's domestic real estate markets should compel construction firms to seek other revenue streams and grow their foreign operations.

Individual Investors

Individuals with a high net worth and family offices represent an even bigger proportion of Chinese investors seeking real estate assets in Europe. Foreign real estate, especially in Europe, is an excellent investment vehicle for individuals and families wishing to protect wealth and diversify their portfolios.

Wealthy individuals are already quite active in the European residential real estate market, but Chinese investors have just scraped the surface of their potential investment pool. The majority of single-family houses, condominiums, and small commercial buildings have often been acquired by Chinese people, as opposed to bigger corporate investors.

Estimates of the number of Chinese millionaires range from 1 to 4 million, second only to the United States, while the number of upper-middle-class families in China might reach 100 million by 2020, according to Boston Consulting Group (Boston Consulting Group, 2015). According to the Hurun Report, real estate is already the investment of choice for Chinese high-net-worth individuals, but the increased availability of residential mortgages for foreigners in Europe will make real estate an increasingly appealing alternative for the upper-middle class as well (Hurun Report, 2014).

For many Chinese, especially those in the middle- and upper-middle-income classes, a substantial amount of their household wealth consists of cash, deposit accounts, and real estate. The combination of real estate investment tendency and liquid cash is a favorable indicator of ongoing investment in international real estate. In addition, the preference of a segment of the Chinese people for real estate as a means of capital preservation over bank savings or the stock market, along with the stability of the European real estate market, should continue to encourage acquisitions in Europe by new Chinese investors.

The Chinese investment in the European real estate market comes from a large and diverse pool of institutional and individual investors, each with their own reasons for participating. In addition, reforms in China are creating more opportunities for foreign investors to enter global real estate markets. In addition, institutional and individual investors are gaining market experience, relationships are expanding, and new opportunities are emerging as China's market presence grows more established.

Sovereign Wealth Funds and China's Investment in Europe

In recent years, the conventional idea of nations as uninvolved participants in an investment whose primary effect is inside their administrative control borders has shifted. The state's role has been redefined as a sophisticated, directive, strategic player that intervenes in investing through its complete ownership and control of state-owned institutional investors (Aguilera et al., 2016).

Through sovereign wealth funds (SWFs), the states that have amassed substantial foreign financial reserves as a result of national resources or trade surpluses have become prominent institutional investors in the global economy (Vasudeva, Nachum, & Say, 2017).

Rozanov (2005) invented the phrase "sovereign wealth funds" in his book "Who Holds the Wealth of Nations?". SWFs are often characterized as government-owned and regulated funds (Knill, Lee, & Mauck, 2012b). SWFs are state-owned investment entities that invest internationally in a variety of financial, real estate, and alternative asset types. Typically, these investment entities are financed by "commodity export revenues or the transfer of assets directly from official foreign exchange reserves. In some cases, government budget surpluses and pension surpluses have also been transferred into SWFs" (Butt et al., 2008).

Since the late 2000s, sovereign wealth funds (SWFs), "government-owned investment funds established for a range of macroeconomic goals" (IMF, 2008), have attracted increased attention. Numerous nations have formed SWFs for a variety of macroeconomic reasons, including stability, saving for future generations, and investing in long-term economic initiatives, such as infrastructure or education (Alhashel, 2015).

Table 1

A list of the Top 10 SFWs by Assets, 2023

Country	Fund	Assets US$	Inception	Region
Norway	Norway Government Pension Fund Global	$1,350,865,967,808	1990	Europe

China	China Investment Corporation	$1,350,863,000,000	2007	Asia
United Arab Emirates	Abu Dhabi Investment Authority	$790,000,000,000	1976	Middle East
Kuwait	Kuwait Investment Authority	$750,000,000,000	1953	Middle East
Singapore	GIC Private Limited	$690,000,000,000	1981	Asia
Saudi Arabia	Public Investment Fund	$607,418,895,000	1971	Middle East
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	$514,223,020,000	1935	Asia
Singapore	Temasek Holdings	$496,593,722,700	1974	Asia
Qatar	Qatar Investment Authority	$475,000,000,000	2005	Middle East
China	National Council for Social Security Fund	$473,799,060,897	2000	Asia

Source: Sovereign Wealth Fund Ranking (2023).

The table above shows a list of the top 10 Sovereign Wealth Funds (SWFs) by assets under management (AUM) along with information on each AUM and year of inception.

Currently, there are 100 SWFs functioning globally, with $10,43 trillion in assets under control (SWFI, 2023). In Table 1, the 10 biggest SWFs are listed. The overall assets handled by the 10 largest funds amount to around $7,47 trillion, which represents approximately 71% of the total estimated assets managed by SWFs (AUM). Despite the fact that the majority of nations with SWFs are resource-rich countries with oil as their primary natural resource, the table reveals that the funding sources for some of these big SWFs are not always commodity-related. China, as an example of a commodity-independent nation, manages US$1.83 trillion through two funds, ranked in second and tenth place. As indicated previously, several nations have formed these funds to manage their foreign reserves and increase the return on traditional foreign exchange holdings (Beck & Fidora, 2008).

The scale and quick expansion of SWFs imply that these funds have become key participants in the world of finance, buying huge holdings in firms and exposing governments to areas they may not otherwise be able to access. However, their purpose and behavior are little understood. Specifically, the opaqueness of their structure and actions appears to be a big worry in host nations, since it is unclear whether SWFs operate like governments or institutional investors (Amar et al., 2019). SWFs are distinguished from other investors primarily by their independence, ownership, management, and control mechanisms. The government or its representatives own and manage them directly or indirectly.

Governments establish SWFs for two distinct purposes. The first objective is political and aims to achieve local and global political goals. The second relates to the country's economic growth and development (Lenihan, 2014; Wu & Seah, 2008). One may state categorically that they are "government-owned or -controlled funds that serve as the government's investment vehicles to pursue a variety of economic and political goals" (Sun et al., 2014).

Recent research analyzes in depth the aspects that may influence SWF investment decisions. For instance, because SWFs are state-owned investment funds that may be administered by the Ministry of finance or a board of government officials, their investment approach may be both commercially and politically biased (Amar et al., 2019). The great majority of research (Bernstein et al., 2013; Kamiski, 2017) concludes that SWF investments are linked to political relationships. This term refers to the pursuit of foreign policy objectives using economic methods. Thus, as state-sponsored actors, SWFs might theoretically be exploited for politically motivated goals by their mandators (Truman, 2010).

Obviously, one of the most important topics about the investment strategy of SWFs is how they choose which nations and firms to invest in. Are their investment plans based solely on monetary considerations, or do they also take into account macroeconomic, political, or institutional factors?

Despite the fact that sovereign wealth funds have existed for six decades, they face greater political scrutiny in many states Their explosive growth and highly publicized activities have brought them into the global spotlight (Bernstein, Lerner, and Schoar, 2013). Western policymakers are worried about the significant investments made by sovereign wealth funds and their non-economic purposes (Gilson & Milhaupt, 2009).

The majority of scholars conclude that SWF investment strategies are not only motivated by profit maximization objectives, but they offer varying justifications (Chhaochharia & Laeven, 2008; Knill et al., 2012). Hatton and Pistor (2012) found, that the major goal of sovereign wealth funds in political entities devoid of genuine democracy, such as China, is to maximize the benefits of leaders.

The most persuasive argument is presented by Shemirani (2011), who argues that the behavior of a given SWF is always a combination of three reasons, varying in quantities and subject to change. First, SWFs can serve as an instrument of a state's foreign policy. Second, funds are a "transformation of state-run enterprise" and, together with other state-owned or state-controlled businesses, are vehicles of states behaving as entrepreneurs, e.g., to enhance profits and minimize political risks. Lastly, SWFs function as different forms of "domestic compensation".

States have reasserted their position in global finance, not as regulators but as significant market players, through the establishment of sovereign wealth funds. From a liberal economic standpoint, this tendency has generated concerns. If these new investors base their judgments on government interests rather than the maximum of profits, the markets will become "politicized" (Helleiner, 2009). Particularly worrisome has been the possibility that governments may employ SWFs, many of which lack transparency and clear lines of responsibility, to accomplish geopolitical objectives. Not only may investments of this nature impede the effective international allocation of capital, but they could also provoke national security-based protectionist measures against capital inflows (Gieve, 2009).

Numerous stakeholders have accused these sovereign wealth funds (SWFs) of being politically motivated, of attempting to undermine the national security of the nations in which they invest, and of stealing their intellectual property by investing in vital industries (Alhashel, 2015). During the 2008 G-20 summit, the Santiago Principles for SWFs and the International Forum for Sovereign Wealth Funds (IFSWF) were announced (Bahoo, Alon, & Paltrinieri, 2020). This worldwide movement was sponsored by the IMF in 2008 to encourage SWFs to embrace greater openness, accountability, and a commitment to base investment choices primarily on economic and financial objectives, as opposed to political motivations (Helleiner, 2009).

The increased number of sovereign wealth funds has sparked skepticism, particularly in rich Western nations. Many SWFs originate from developing nations, and their expanding size and number, along with their perceived aggressive investments in the strategic and high-profile sectors of Western developed economies, have sparked nationalistic sentiments. With the exception of the Norges Bank, the majority of SWFs are not transparent, as their investment aims and strategies, as well as their operations and performance, are not disclosed (Jen, 2007). In terms of creating domestic political legitimacy, real estate is a particularly appealing investment for sovereign wealth funds (SWFs) since it is prestigious and its value is opaque compared to investing in a publicly traded corporation, whose value is continually and publicly watched (Ward, Brill, & Raco, 2022).

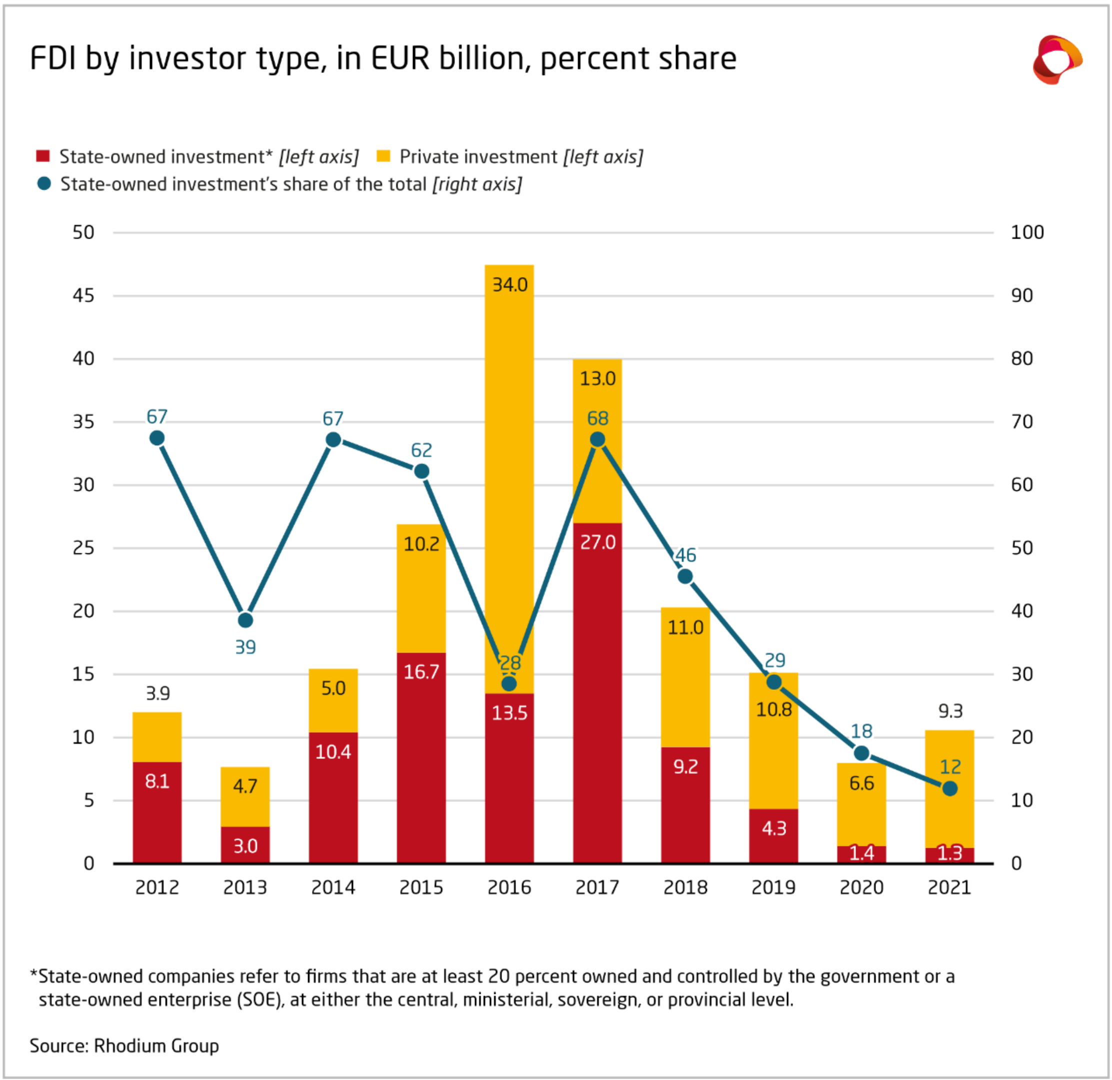
Two key issues are at the center of contemporary SWF worries. The first is that such government-owned funds would bring politically-motivated goals into previous economic concerns, with SWFs utilizing covert funds to acquire critical national assets and obtain excessive political influence in host states (Kratsas, 2007). The second issue is the economic effect of the increasing size and type of these obscure foreign assets on a host state's economy and the global capital markets overall.

SWFs are not new, but their significance and professionalization increased during the financial boom of the 2000s, when newly industrialized East Asian nations, particularly China, emerged as important participants in the Sovereign Wealth Fund scene (Huat 2016; Shih 2009). After the 2008 global financial crisis, the increasing significance of Chinese state-owned investment funds in the global economy reached a zenith, with state-backed businesses deliberately acquiring troubled assets and companies (Kaminski, 2017).

Historically, China’s state-owned enterprises (SOE) constituted the bulk of Chinese investment in Europe. According to a recent report by Deutsche Bank, state-owned enterprises accounted for 78% of investments in Europe between 2008 and 2013. (Hansakul, & Levinger, 2014).

Chinese State-Owned Enterprises or SOEs are distinct from conventional businesses. The Communist Party of China frequently selects the top executives of state-owned enterprises and major state-owned banks, including the Chief Operating Officer (CEO). There are informal ties between SOE CEOs and senior government officials (Guerrero,2017). Beijing frequently employs Chinese enterprises to accomplish its policy. The extent and scale of Chinese business activity overseas sometimes depend on state-provided financial resources in the form of subsidies and company credits (Kaminski, 2017).

By 2019, European investments by SOEs had fallen to 11 percent of total Chinese investment. Even with the dominance of the private sector whose share started to rise in 2014, the importance of state-owned companies is reflected in their focus on important and strategic acquisitions.



The People's Republic of China has a number of state investment vehicles that invest abroad, but two of the largest SWFs stand out. The first is the China Investment Corporation, which was formally founded in September 2007 to manage and diversify China's foreign exchange reserves beyond its customary investments in dollar-denominated bonds. The second is the SAFE Investment Company (SIC), a Hong Kong-based subsidiary of SAFE, which is largely tasked with managing Chinese foreign exchange (Thomas & Chen, 2011). State Administration of Foreign Exchange (SAFE) manages a far higher amount of overseas assets than the country's sovereign wealth fund (the China Investment Corporation). Because the former is subject to far less scrutiny than the latter, SAFE is much more likely to be utilized as a diplomatic influence channel (Helleiner, 2009).

A significant proportion of Chinese sovereign wealth funds have invested in real estate (mostly in the United Kingdom (UK)) and financial services. These two industries account for a third of all Chinese SWF investments in Europe. This sectoral distribution appears consistent with broad market trends in SWF activity — natural resources, finance, and real estate tend to dominate the portfolio allocation of non-Chinese SWFs as well. It shows that the investment priorities of Chinese SWFs change over time, validating Shemirani's (2011) argument that the strategic priorities and level of politicization of a particular fund may alter over time.

Nonetheless, for the purposes of this research, a fundamental classification of the manner through which Chinese SWFs may be utilized in foreign policy is required. First, they might be utilized directly to exert pressure on a foreign nation, employing the well-known "checkbook diplomacy" (Kaminski, 2017). Second, owing to SWF investments, China is able to enhance its political influence abroad. In a few nations, Chinese funding has proven so vital to their financial stability that a hasty withdrawal may be perilous. Thirdly, SWF investments might improve China's reputation. Particularly during economic crises, nations and businesses viewed China as a possible "white knight" who came to the rescue of struggling economies. Ultimately, through its SWFs, China may gain control of essential sectors or vital infrastructure (Kaminski, 2017).

In an increasingly turbulent geopolitical climate, geoeconomic factors like as trade conflicts with China are gaining prominence, boosting regulatory and public awareness that SWFs are ultimately sovereign actors strongly tied to their source state programs (Ward, Brill, & Raco, 2022).

3. THE FACTORS AFFECTING INVESTMENT LOCATION AND THEIR IMPACTS ON THE REAL ESTATE MARKET

3.1. Investment factors

3.1.1. European investment market conditions

The brief history of Chinese investment in European real estate, coupled with China's radically different economic and commercial climate compared to Europe, raises issues regarding the motives and motivations of enterprises and people investing in Europe.

Although the legal framework significantly impacts the type and volume of investment, Chinese investors are driven by various company objectives, macroeconomic conditions, and personal considerations.

This chapter will analyze Chinese investors' motivations. Firms evaluate individual investment options based on risk and return, however, like other foreign investors, they are attracted to the European real estate market due to a variety of benefits compared to other global real estate markets. In addition to offering important investment outlets in light of China's slowing economy and domestic real estate market, investing in European real estate provides appealing chances for knowledge transfer and worldwide brand creation.

Why Invest in Europe?

Central Europe is growing more appealing to foreign real estate investment. This region's investment market has the potential to attract institutional and long-term investors seeking to diversify their portfolios with reasonably high-yielding real estate. Both institutional and private investors perceive real estate as an investment medium, the relative attractiveness of which may be compared to other asset classes. In particular, the property reduces or spreads risk by diversifying a portfolio's asset base directly or indirectly into real estate (Adair et al., 1998).

Similar to their global counterparts, Chinese institutional investors evaluate investment options based on risk and return relevant factors as part of an international investment strategy. Yet, for some investors, the advantages of globalization and portfolio diversity may offset the diminished return potential brought on by a high acquisition price (Szunomar, 2016).

In nations with financially stable economies, such as Europe, Chinese investors consider economic development prospects in the region to be the most crucial criterion for investment (Ho et al., 2006). Real estate investments are logically tied to the economic activity and development of an area or country. Chin, Dent, and Roberts (2006) argue, based on survey data, that a region's capacity to attract international real estate investments is primarily influenced by a healthy economic structure and a projected robust and stable economy.

Real estate is a multifaceted industry that incorporates conditions dependent on the country's status. The degree of liquidity associated with a real estate investment, the extent of transaction costs, the quantity of accessible property, the level of institutional capital, and the number of market players vary throughout EU member states (Worzala & Bernasek, 1996).

Local markets' comparative advantages have a significant impact on their ability to attract investment flows. The value of most real estate is determined by local market conditions and local legislation that influence the supply, the demand for real estate, and hence the value of the property (Worzala & Bernasek, 1996). By allowing the availability of space for commercial and industrial activities, a well-functioning real estate market can attract more foreign investment through the opportunities generated (Parsa & Keivani, 1999).

In turn, the primary investment driver of national and international real estate inflows is the liquidity of the real estate market. A more liquid real estate market tends to affect cross-border flows more positively than any other barrier (Fuerst, Milcheva & Baum, 2014). Since we are concerned with real estate capital flows, the consideration of the liquidity metric is very significant. One of the greatest worries when investing in direct real estate is that it is less liquid than other asset types (Krainer, 2001). It implies that illiquidity offers a significant investment hurdle, particularly when investors are concerned about the market's exit possibilities. A more liquid real estate market will allow investors to rapidly sell their properties and exit the nation, reducing their risk of financial loss and attracting more foreign capital (Fuerst, Milcheva & Baum, 2014).

According to Adair et al. (1999) and Adlington et al. (2008), successful and sustained real estate markets require a liquid capital market and a secure finance and banking sector. With easy access to the financial market and a favorable macroeconomic climate, real estate exports expand. Due to the capital-intensive nature of real estate assets, it is intuitive that easing the ease and access to debt and credit facilities stimulates real estate investment activity, which is the most significant element according to "within" estimators (Groh, 2011). Access to local funding and credit facilities is essential for investors to manage cross-currency risks, according to Worzala and Newell (1997) even if this is not the case for Chinese investors in Europe. According to the data analysis of

Hanemman and Houtari (2017) Chinese state-owned banks offer a series of loans to developers to invest abroad.

Furthermore, FDI (foreign direct investment) flows into a country play a significant effect on the real estate investment climate. Mueller (1995) contends that the capital-intensive physical real estate market is dependent on foreign capital flows. Laposa and Lizieri (2005) demonstrate that the deregulation of foreign direct investment (FDI) in Europe for investments in retail enterprises has boosted the commercial real estate industry. Since commercial real estate assets are frequently used as collateral in leveraged buyout deals, Roulac (1996a) observes that private equity investors play an important role in thriving real estate markets.

On the other hand, La Porta et al. (1997 and 1998) in their key study, suggest that the legal framework greatly influences the size and scope of a country's capital market, as well as the capacity of local firms to get external funding. Investors attempting to engage in foreign nations are subject to restrictions on management and business activities as well as legislative restraints, which include restrictions on money flows and ownership controls imposed by specific government policies (Fuerst, Milcheva & Baum, 2014). Regulatory constraints, exchange restrictions, and the repatriation of money hinder international capital flows and are, thus, a primary cause of investor anxiety.

Due to the legal constraints in the EU–China trade and investment relationship, the EU and China agreed on a Comprehensive Agreement on Investment (CAI) on 30 December 2020. The CAI strengthens the level playing field (LPF) with additional laws on state-owned enterprises (SOEs), subsidy transparency, and forced technology transfers (FTTs), as well as incorporates significant commitments to sustainable development (Hu, 2021).

In 2009 Falkenbach investigated the factors investors utilize to pick overseas investment markets. Using a questionnaire survey among real estate investors (who have performed international property investments in Europe), their findings indicated that the most significant market selection factors were safety for title/property rights, expected return on property investments, liquidity of property markets, market size, taxation, availability of professional services in the real estate sector, expected economic growth in the country/area, and availability of market information.

With limited domestic investment alternatives in China and a very short history of overall overseas investments by Chinese enterprises, however, the increase in global real estate activity is a crucial diversification step for many Chinese investors. Like other real estate investors, Chinese enterprises are considering worldwide investment options, evaluating specific properties and the investment climate in each region. In addition to profits, they evaluate the diversity of business and financial institutions, infrastructure, highly liquid capital markets, stable real estate market conditions, ease of doing business, and, most crucially, a huge real estate market with diversified investment prospects. Europe is viewed by Chinese investors as a premier location for real estate investment across all metrics and is large enough to absorb substantial capital flows.

The international sale of property across nation-state borders more broadly is only possible because of the regulatory rules and laws that are enabled by nation-state sovereignty. Without the nation-states, there would be no foreign investment laws and immigration policies, and therefore, no loopholes for the global wealth and real estate industries to seek out and manipulate (Rogers & Koh, 2018).

The effects of the regulatory settings in the home countries of foreign investors are important. More than a decade ago, Smart and Lee (2003) argued that Hong Kong was moving toward a financialized regime of accumulation where ‘the government, the business sector, and individual households have … treat[ed] buying and selling real estate as a central part of their investment activities … and in which real estate has become a key driving force in the economy’. Indeed, the embodied practice of investing in real estate and capitalizing on the returns has contributed to the development of local and foreign real estate investment mentalities (Rogers & Koh, 2018), which are increasingly essential to the regulatory settings that underwrite the ‘global economies’ of cities such as London, New York, Vancouver, and Sydney.

The government and its institutional framework play a key role in creating incentives and policies that influences the real estate market and the articulation with the global network. In diverse sectors and territories, property rights, governance structures, control schemes, and exchange rules define the legal and institutional infrastructure that shapes and organizes the overall level of "interactive capacity" of economic and political actors in the real estate markets (Gotham 2006).

They developed the idea of a safety deposit box as a way of talking about how UHNWI and UUHNWI investors are seeking ultra-expensive global city real estate assets within which to store their wealth (Rogers & Koh, 2018).

3.1.2. The slowing Chinese economy and real estate market

Chinese corporations are investing in the European real estate market for a variety of reasons, but the slowing Chinese economy is giving an extra drive for firms to seek investment possibilities overseas. Repatriating earnings may stimulate the home economy, which is an advantage of the "Going Out" strategy and the investment diversification it generates. Beyond the possibility of a yuan devaluation, investment returns generated globally could be used to offset reduced corporate returns in China, as the domestic economy slows. Chinese investment in stable and potentially European countries could be used strategically to provide an alternative return stream as the Chinese economy transitions.

China is moving from a production-oriented economy to a consumption-oriented economy. The property and infrastructure development across the nation, including offices, motorways, shopping malls, factories, and apartment complexes, has been a major contributor to the nation's economic prosperity in recent years. However, the bubble circumstances were unsustainable; as demand began to decline, China was left with infrastructure that was no longer required. Numerous new residential structures saw extraordinarily high vacancy rates, especially in third-tier communities that became known as "ghost cities" (Mingye, 2017).

The slower growth rates in a number of China's secondary and tertiary cities limit fresh development prospects, compelling Chinese developers to seek new areas in which to spend cash. Foreign assets are a logical investment objective for diversification, as the variety of available investments is significantly narrower. Although European real estate is not the only foreign asset class to invest in, it is undoubtedly desirable due to the aforementioned benefits of stability, liquidity, and capital appreciation, not to mention Chinese investors' familiarity with the asset class.

3.2. <u>Geo-economic factors</u>

3.2.1. Chinese government's rules and regulations

Although there are and will continue to be regulatory impediments in China that influence firm and individual investment decisions, substantial reforms in recent years have also allowed for increased investment decision autonomy. Many of these reforms and new policies of the Chinese government may be viewed within the context of the 2013 Third Plenum objectives. In addition to the Third Plenum's primary reform objectives, including social welfare reforms and problems, the other significant objectives were market and financial reforms (Orlik, 2014). The strategy for economic liberalization included a main objective for industries to play a more decisive role in the allocation of resources and permitting private and foreign businesses to compete with state-owned entities more effectively. Important objectives of financial reform were interest rate and capital account liberalization, a more flexible exchange rate system, and the expansion of private banks (Song, 2013).

These broad objectives have not resulted in the swift eradication of all regulatory hurdles that impede investment, but gradual policy reforms in a number of sectors have facilitated an increase in foreign investment. Some suggestions have the potential to significantly enhance the money flow into global investment vehicles, particularly real estate (Ming, 2014). However, like in other nations, China's regulatory policies are dynamic, adapting not just to each new government but also to the prevailing circumstances.

In recent years, the Chinese Communist Party has sought to establish increasing control over the operations of real estate corporations, going so far as to prescribe to firms and investors of varying sizes which items are 'allowed' for investment and how this should be accomplished (Raco, Yixiang & Brill, 2020). Due to the sector's expansion in China (and abroad) through a variety of institutional forms, its regulation has become increasingly complicated and multi-scaled. Real estate and infrastructure investment also play a geopolitical role in enhancing China's soft power, or 'geocultural potential' (Kaminsky, 2017), which adds an additional layer of complexity to decision-making and prioritization.

Capital Controls

Capital restrictions are an incredibly critical topic. Given the volatility of international financial and currency markets and China's slowing economic development, Chinese government regulations are one of the most significant obstacles to further worldwide investment by Chinese companies and people. China adopts capital controls to regulate its currency while maintaining an independent monetary policy and to protect its banking industry from outside competition (Chang et al., 2015). Companies and people are impacted by China's capital restrictions; however, the application of these regulations varies for each category. Significant legislative changes have been incorporated or proposed for both groups over the past few years, but the Chinese government will probably proceed cautiously in the future as it aims to control massive capital outflows that could further destabilize the domestic economy without alienating individuals and institutions through constrictions.

Institutional Investors

Historically, the key capital control obstacle for the majority of Chinese companies has been the necessity of government clearance for foreign direct investment, including the acquisition or development of foreign real estate. The primary institutions are the People's Bank of China (PBOC), which is the Central Bank, and the State Administration of Foreign Currencies (SAFE), which both govern the flow of foreign exchange into and out of the nation and set exchange rates via a managed currency floatation system (Raco, Yixiang & Brill, 2020). Each has progressively expanded the number and stringency of restrictions, the most significant of which are shown in Table 2.

Table 2. Chinese Central Bank and State Administration of Foreign Exchange (SAFE) regulations on foreign outflows.

Date of introduction	Regulation	Key elements
February 2007	Measures for Administration of Foreign Exchange for Individuals	. Each citizen is given an annual foreign exchange allowance of up to the equivalent of US$50,000
October 2008	Notice of the State Administration of Foreign Exchange on the Issues Concerning the Registration of Foreign Debts under the Trade in Goods by Enterprises	. Companies are required to report any overseas payment with a term over 90 days from the date shown on the import declaration form to SAFE, no matter the amount

		. The accumulated reported overpayment amount in one calendar year cannot exceed 10% of the total importation amount of the last year . When an enterprise enters into a contract that contains a clause for the prepayment for purchases, the enterprise must register (with SAFE) within 15 working days after the contract is signed . The enterprise must register the contract and the foreign exchange prepayment within 15 working days before the remittance
December 2016	Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions	. Banks and other financial institutions in China will have to report all domestic and overseas cash transactions of more than 50,000 yuan, compared with 200,000 yuan previously . Banks will also need to report any overseas transfers by individuals from US $10,000 or more

Source: Relational regulation and Chinese real estate investment in London: moving beyond the territorial trap, Territory, Politics, Governance, Raco, Yixiang & Brill, 2020

As part of China's efforts to encourage more foreign investment, the laws were updated in 2014. Only projects worth over $1 billion require NDRC approval, whilst MOFCOM approval is now only necessary for projects involved in sensitive areas and industries. Below this amount, projects need just file to local authorities and do not require authorization. SAFE registration is the last prerequisite for all transactions. The majority of deals may be completed in a matter of weeks, as opposed to months in the past, providing a considerably more agile environment for companies seeking to invest abroad (Koch-Weser & Ditz, 2015). The cumulative effect of these measures on the sorts of investment flowing into (and out of) the physical environments of global cities, such as the capitals of Europe, is particularly significant.

China took additional steps in 2020 to liberalize restrictions on capital account transactions by, at first, limiting documentation requirements for outward transactions of profits by international investors and, and afterward, broadening qualifying financial products. In addition, China loosened FDI laws and permitted foreign investment in a number of industries by removing them from its negative list (IMF, 2021)

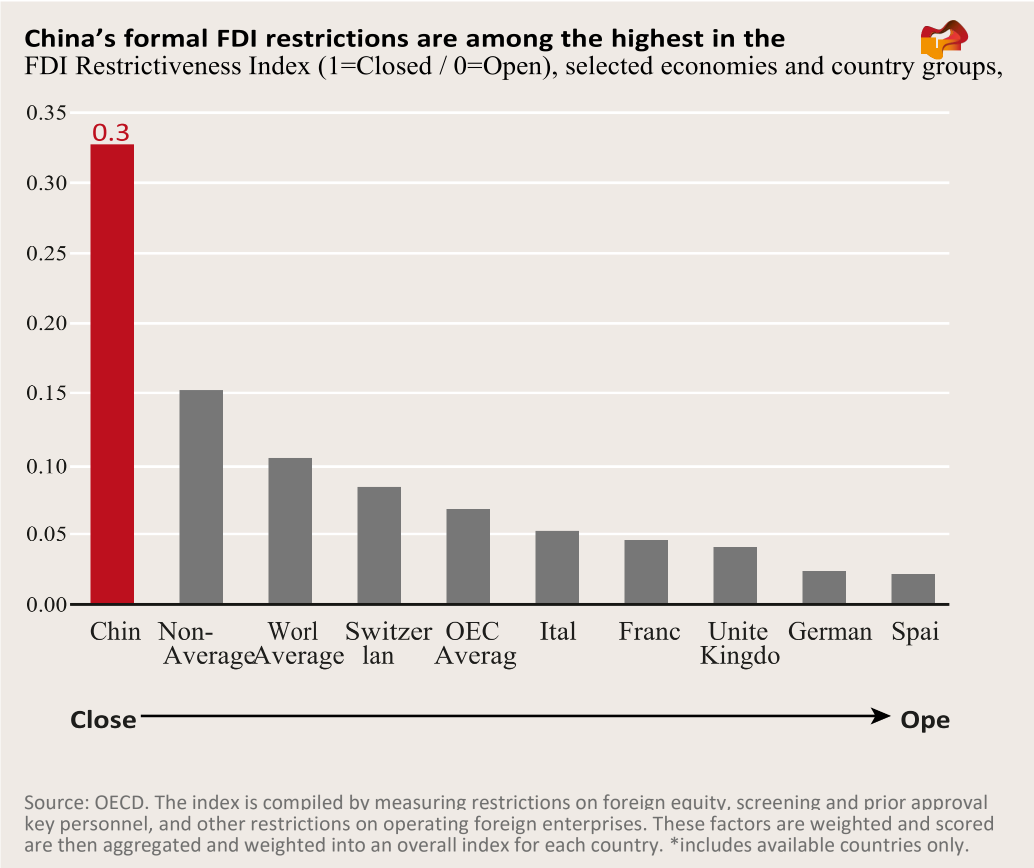
Although the improvements in licenses and registrations of outward foreign direct investment were beneficial to Chinese corporations' investments in European real estate, the reform of foreign investment laws for Chinese insurance companies was an even more significant step. Prior to 2012, unlike their worldwide counterparts who are big institutional investors in real estate, Chinese insurers had severe limits on real estate allocation and could only invest in domestic assets. The China Insurance Regulatory Commission made two substantial modifications to these regulations. In 2014, insurers were permitted to invest up to 30 percent of their assets in real estate and 15 percent of their overall assets abroad (IMF, 2014).

Individual Investors

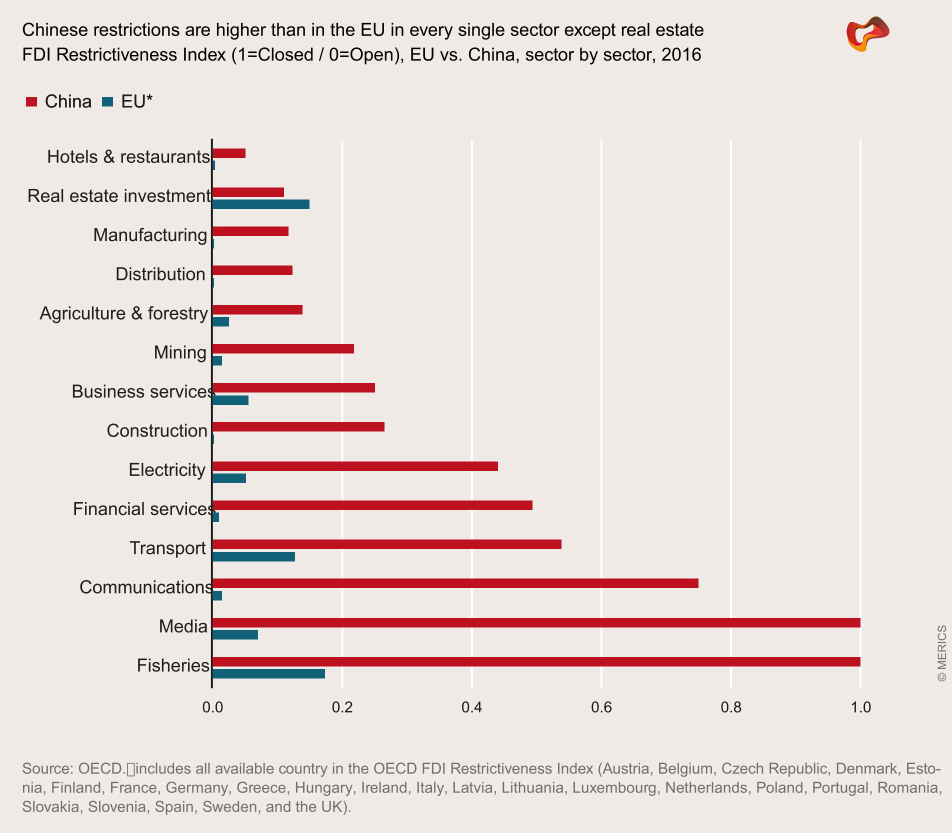
Also, Chinese individuals are subject to stringent capital controls. However, China's official Securities Times announced in 2015 that the government planned to start a new alternative, known as the Qualified Domestic Individual Investor (QDII2) program, which allows people to exchange significant sums of yuan for foreign currency legally, as QDII2 Transactions are not subject to the $50,000 restriction on capital outflows (Wildau, 2015). The development of legal routes for individuals to transfer funds out of

China is indicative of progress in implementing some structural reforms from the Third Plenum.

Despite its history of "reform and opening up," China continues to be extremely restrictive. China is one of the world's most restricted economies, ranking significantly below the OECD average and even below the majority of emerging nations.



A more accurate review of FDI restrictions by industry indicates disparities between industries. In practically every industry, China is far more restricted than EU economies. The disparities are most pronounced in the service industry, which remains severely regulated and limited for foreign enterprises in China. The only industry in which EU economies have limitations comparable to those in China is real estate.



3.2.2. State administrative controls and the Fall in Investment

Following a period of centralization in 2013, the Chinese government has expanded its direct role in supervising and influencing the conduct of the country's major property development firms and individual people. The period since 2017 has been defined by a number of legislative measures through which the Chinese government has attempted to exert greater control over how and where large-scale or corporate investors and individual investors invest this money (Raco, Yixiang & Brill, 2020). The National Development and Reform Commission (NDRC), entrusted with regulating and coordinating Chinese state policies for both internal and external investment, determines investment priorities. The Chinese government maintains a closed capital account, meaning that a wide range of investors, including corporations, banks, and individuals, are prohibited from transferring funds in or out of the country except in accordance with state regulations, which are established in accordance with the country's political and economic priorities (NDRC, 2017).

In addition, there has been a movement for the restriction of investments in specific areas deemed 'acceptable,' out of concern that people and businesses have been investing in more hazardous industries or those thought to harm the country's image and reputation abroad (NDRC, 2017). As shown in Table 3 NDRC identifies areas of investment in the built environments of international cities that are subject to restrictions. Investing in low-status developments like hotels and cinemas is in conflict with the geopolitical ambitions and tactics of the government.

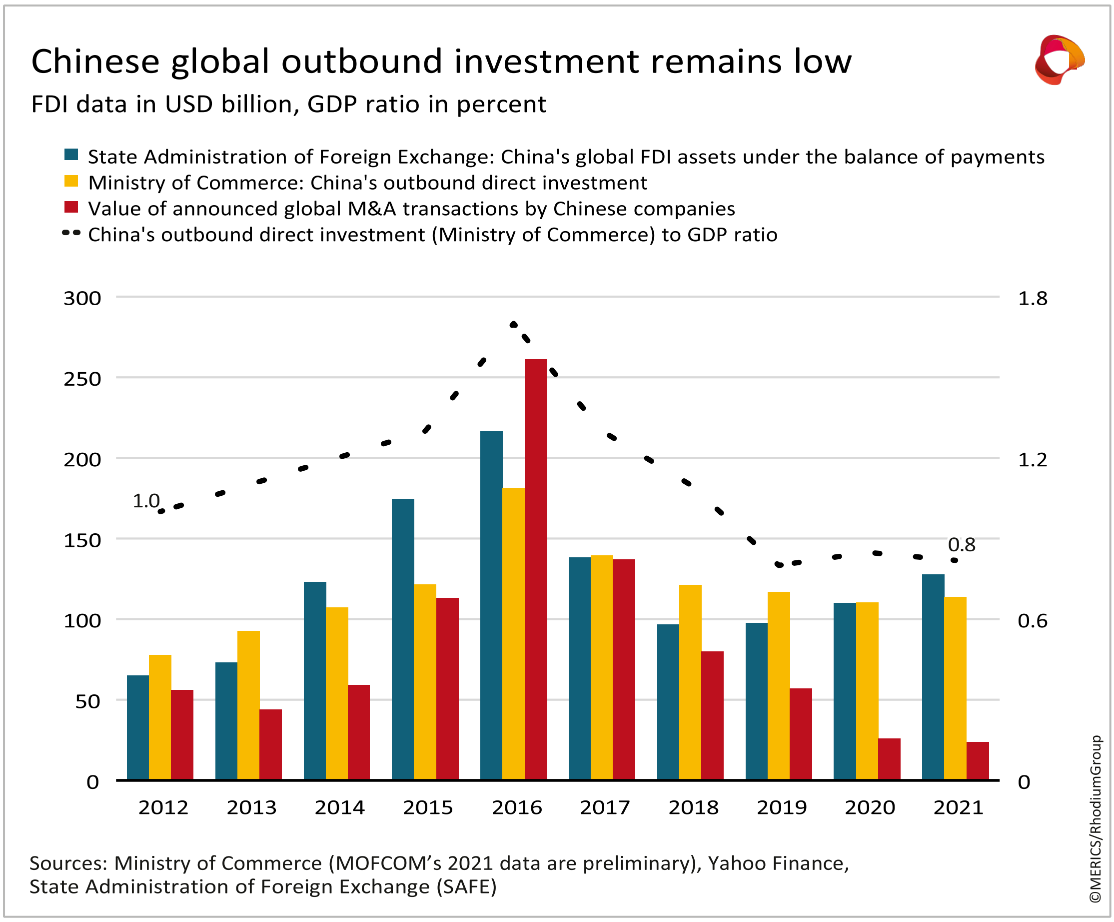
Table 3. National Development and Reform Commission (NDRC) list of industries for which overseas investment is restricted.

1. Research, manufacture, production, and maintenance of weaponry
2. Cross-border water resources development and utilization
3. New media
4. Industries restricted according to the Circular of the General Office of the State Council on Forwarding the Guidance Opinion of the National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China, and the Ministry of Foreign Affairs on Further Guiding and Regulating Overseas Investment Direction:
    - 4.1. Real Estate
    - 4.2. Hotels
    - 4.3. Cinemas
    - 4.4. Entertainment industry
    - 4.5. Sports clubs
    - 4.6. Establishment of overseas equity investment funds or investment platforms with no specific industrial projects

Source: Relational regulation and Chinese real estate investment in London: moving beyond the territorial trap, Territory, Politics, Governance, Raco, Yixiang & Brill, 2020

After a period of expansion, foreign investment topped in 2016 and has been dropping since. Beijing established administrative constraints to stem "irrational" capital outflows, which resulted in a steep decline in outflows in 2017 and 2018. China's worldwide outbound FDI (OFDI) returned to 2014 levels in 2019. The significant decline does not indicate that Chinese enterprises have abandoned their interest in the global economy.

The main causes of this persistent decline are still domestic: In 2018, Beijing strengthened its tight hold on outward capital flows, exerted pressure on highly indebted enterprises to sell foreign assets, and decreased financial system liquidity as part of a larger financial sector clean-up, so drying up funding sources for overseas investments.



China's foreign investment activity has been dropping since 2016, as a result of these legislative reforms and priority adjustments on outbound capital flows and increased scrutiny of Chinese investments abroad. According to Hanemann (2019), Chinese investment in the EU decreased significantly by 40% in 2018, from a level of €37 billion in 2016 to €17.3 billion. It has also become more regionally diverse, with the United Kingdom's participation falling from 63 percent of total investment in 2017 to 24 percent in 2018.

In addition, a determined attempt has been made to limit the actions of smaller investors and buyers of individual properties, who are not 'state-owned' actors but are nonetheless subject to increasing regulatory constraints and limits on the amount of cash they are permitted to invest (Wildau, 2015).

3.2.3. Chinese Investment as an Instrument of foreign policy and geopolitical strategy

In a period of globalization, companies are portrayed as being increasingly unattached from territorial governmental control and able to pursue new investment areas for production. The effectiveness and consequences of such interventions are the subjects of an extensive and multifaceted discussion about the way in which urban authorities and development agencies turn locations into investment areas (Boisen et al., 2018).

The 2000s have witnessed the emergence of a new class of investors able to mobilize cross-border (dis)investments. Its activities are state-led via property or regulatory power, and subject to the political and financial priorities established in both the country of origin and the destination countries. Recent articles on global finance and sovereign wealth funds demonstrate the growing significance of such sources (Raco, Yixiang & Brill, 2020). The largest funds are held by oil-rich governments of Norway and Middle Eastern, China, and Asian city-states.

With the increase of SOEs and different forms of state-owned funding institutions from countries such as China, as well as the globalization of real estate as an investment class, a broader set of perspectives is required regarding the effects of geopolitical strategies and the newly emerging co-constitutive, relational forms of regulation. Political lobbying and influence have grown in importance in China, which has more than 150,000 state-owned companies, the majority of which are handled by local governments, while the national government oversees around 100 large strategic businesses.

Whilst this is not new, in that the activities of firms and governments have always been intertwined (Büdenbender & Golubchikov, 2017), the growth of powerful SOEs of different types has created new forms of dependency for territorial governments intent on the expansion of supply, especially in real state. The expansion of real estate-focused development businesses in China is the result of a complex interaction between market reforms, evolving rules, and shifting geopolitical objectives (Alami & Dixon, 2019; Gu et al., 2016).

Like strategic military weapons, which do not necessarily need to cross borders to make a hard power statement in international relations, specific real estate projects can send certain messages internationally (Büdenbender & Golubchikov, 2017). Such external geoeconomic effects of real estate can be enabled by symbolically significant property acquisition.

Chinese real estate investment is an integral component of a bigger geoeconomic strategy, rather than solely serving as a vehicle for private profit or shareholder returns, as is the case with the majority of Western-based multinational and national enterprises. Such evidence demonstrates the need for a broader understanding that geoeconomics is more than simply a business environment and should be viewed as a mechanism that may very well include real estate as one of its parts.

Real estate's soft power has been reinforced by the neoliberal competitive economy. Brenner (2004) views the rescaling of national spaces under neoliberalism as the state rearticulating its economic power by privileging specific regions as "strategic" and promoting them globally in favor of the entire state. This conception of state space reorganization may be expanded to account for other examples of the geopolitics of real estate.

China is one example of a government that faces the geopolitical effects of the globalization of real estate, both in terms of developing its own soft power and exposing itself to the impacts of other governments. Trans movement of capital through real estate has complex yet significant consequences on international relations: property created or acquired abroad becomes a conduit for geopolitical effects and vulnerabilities (Büdenbender & Golubchikov, 2017). China uses real estate as a tool to exercise state soft power more openly.

Nation states establish regulatory conditions that permit cross-border real estate transactions. In doing so, nation-states allow the interplay of geopolitical interests, thereby incorporating real estate more eloquently as an element of dynamic geopolitical aggregations.

4. CONCERNS ABOUT THE IMPACT OF CHINESE INVESTMENT ON THE EUROPEAN MARKET

In addition to the diverse investment objectives of institutions and individuals, the complicated regulatory structure underlying both China and Europe have a significant impact on the amount of Chinese investment in Europe's real estate market. Obviously, both economies' regulatory regimes are highly dynamic. China has implemented significant changes to promote more global investment, with other reforms having the potential to significantly raise investment. In Europe, real estate investment is influenced by a patchwork of rules imposed by many levels of government. There are a variety of unique laws for foreign investors, notably those from China.

This chapter will investigate a variety of European regulatory constraints and policies that influence the movement of Chinese capital into the European real estate market.

4.1. National security risk and protection issues for access to critical sectors

China's globalization, and its industries' internationalization, in particular, is one of the most significant trends of the early twenty-first century. After showing interest in Africa, Oceania, and Latin America, China has turned its attention to developed nations, where it has made increasingly significant investments (Le Corre, 2018).

China's expanding influence and strength is altering the global economy, as well as the structure and dynamics of international cooperation, in profound and lasting ways. A growing China presents chances for more collaboration, both bilaterally and within the context of existing and new international organizations, but it also poses inherent challenges for the European Union. The nature, direction, and ramifications of these trends are a topic of discussion among several experts and observers, but what cannot be disputed is that China's ascent poses important and unavoidable challenges for nations and societies across the world, including Europe (Christiansen & Maher, 2017).

While China's economy offers better prospects for trade and investment as well as greater financial resources to address common challenging issues, it has also generated anxiety and uncertainty in some countries, such as over China's future plans for its neighbors and how Beijing will use its increased influence in regional and global settings (Christiansen & Maher, 2017).

Numerous examples of foreign investments in Europe raise worries about their national security. But why should we fear China, which accounts for less than 3 percent of total extra-European investment in the EU, more than the United States, which accounts for one-third of total EU inward FDI? The reason likely rests in frequent doubt over the investors' goals or their ties with the Chinese government and the Chinese Communist Party (Szunomar, 2016).

Europe is a developed market that provides Chinese SOEs with several safe and lucrative investment options. Initially, Chinese corporations invested substantially in infrastructure projects across Europe, including ports and airports, the energy industry, telecommunications, and real estate. More lately, however, acquisitions have mostly targeted high-tech businesses in industries such as robots, semiconductors, and chemicals. cAs a result, there have been worries over the transfer of technology and essential expertise from Europe to China, as well as the potential loss of Europe's competitive advantage (Christiansen & Maher, 2017).

A variety of Chinese corporations, the majority of which are either state-owned enterprises (SOEs) or state-funded, are exploring investments in Europe and partnerships with European firms. By appointing members to corporate boards, China has access to sensitive information that might be shared with Chinese rivals. Furthermore, through its SWFs, China might seize control of energy businesses or vital infrastructure and expand its political influence in European nations, making them more susceptible to political pressure (Kaminsky, 2017). There is no lack of anecdotal instances of investments in essential infrastructure, which frequently raise significant issues for the host country (Haukland, 2021).

Therefore, European governments have been apprehensive of Chinese investments in economically critical sectors. It is reasonable for European nations to discuss whether these nations should be permitted to invest in their utility companies (Le Corre, 2018).

In 2017 and 2018, a number of European countries – notably the "Big Three" beneficiaries of Chinese capital, Germany, France, and the United Kingdom (UK) – proposed or enacted new legislation that raises the examination of foreign mergers and acquisitions for possible national security implications. Authorities also barred or halted a number of Chinese purchases that would have granted investors access to vital technology, sensitive data, or control over vital infrastructure.

The German government, for instance, revoked its permission for a €670 million (£603 million) acquisition of chip equipment manufacturer Aixtron by Chinese investment group Fujian Grand Chip Investment Fund LP, despite approving the agreement in September 2016, claiming national security issues.

In October 2016, Sigmar Gabriel, the Social Democrat economy minister of Germany, opposed the sale of enterprises to the Chinese and urged for EU-wide limitations. Gabriel publicized proposals to block foreign takeovers of specific technological businesses unless EU companies were granted the same rights, particularly if a state-owned corporation was involved. It is more difficult for German firms to reach the Chinese market than it is for Chinese companies to enter the German market, according to his argument.

Because they are state-driven, Chinese investments in Europe are often viewed with suspicion. Apparently, Sovereign Wealth Funds are driven by more than only market considerations, although that is a possibility. As state-controlled entities, SWFs act as instruments of Chinese foreign policy. Investments by SWFs also generate evident opportunities for conflicts of interest between funds and the owners or managers of targeted enterprises, as well as between funds and the governments of host nations (Kaminsky, 2017).

SWFs are here to stay in the EU, and governments should not ignore them. Rather, they should be using the time they have to prepare Europe for the expanding role of China's state financial vehicles. As the Chinese government's backing of its international corporations (and its investment in high-technology companies in Europe) is a vital aspect of its growth strategy, trade, and investment would continue. China has a defined and long-term growth plan driven from above and based on state ownership of its major strategic industries, which starkly contrasts with the EU's lack of a strategy and all the consequences that this has (Kaminsky, 2017).

Economically, the two sides are becoming closer, but in terms of security concerns and moral discourses, they remain apart and occasionally hostile (Christiansen & Maher, 2017). Limiting Chinese investments will be difficult, and it may not serve Europe's benefit. China is a critical country for European nations. There is a danger that regulation responses to SWFs may become too protectionist and impose unnecessary costs (Kratsas & Truby, 2015).

4.2. European Rules and Regulations

The EU investment screening law, which has been in effect since October 2020, has intensified the monitoring of foreign investment and encouraged the establishment of screening systems throughout Europe. 18 of the 27 EU member states currently have laws allowing them to screen foreign investments, and all but three member states seek to adopt or modify screening regimes.

As part of their responsibilities under the new EU FDI policy, eleven member states informed the EU about 265 potentially risky transactions, of which 8% involved Chinese investors.

Through the EU investment screening system, EU nations can exchange and request information from other member states regarding specific foreign investments that have the potential to affect their security and public order.

In recent years, the European Union (EU) and the United States (US) have built a substantial number of autonomous mechanisms to handle directly or indirectly the problems posed by China's economic and political system (Table 4). These have included competition and governance framework, supply-chain stability, investment monitoring, and export-control legislation, among others.

Table 4: Main Autonomous EU and US Measures Taken to Tackle China-Related Challenges, 2016–2021

Includes both existing and proposed (*) tools; does not include multilateral or plurilateral initiatives.

Policy Area	EU Measures	US Measures
Competition policy	Regulation on foreign subsidies distorting the internal market*	Annual listing of subsidies to Chinese firms (as part of the US Innovation and Competition Act, or USICA)*

Trade defense	Reform of EU's Trade Defense Instrument (TDI)	Sections 301 and 232 tariffs
Investment screening	Regulation establishing a framework for the screening of foreign direct investment into the European Union	Foreign Investment Risk Review Modernization Act (FIRRMA)
Export controls on emerging and foundational technologies	Revised dual-use export-control regulation	Export Control Reform Act (ECRA); increased use of the Entity List
Fair and reciprocal public procurement	International procurement instrument*; parts of the regulation on foreign subsidies*	N/A
Human Rights and forced labor	Revised dual-use export-control regulation; Xinjiang-related sanctions; bans on products from forced labor*; Supply-chain due-diligence package*	Xinjiang and Hong Kong sanctions; Withhold Release Orders (WROs) on cotton, tomatoes, and silica-based products from Xinjiang; Entity List; Uyghur Forced Labor Prevention Act*
Supply-chain resilience	Industrial Strategy Update; European Chips Act*	Executive order (EO) on US supply chains; CHIPS for America Act*; National Critical Capabilities Defense Act*
Information and communications technology and services (ICTS) security	5G Toolbox; Network and Information Security 2 (NIS2) Directive*	EO on ICTS; Secure and Trusted Communications Network Act; Federal Communications Commission (FCC) "rip and replace" rules; Clean Network Initiative
Financial investment restrictions	N/A	EO banning US investment in Chinese military-industrial complex companies (CMICs); Holding Foreign Firms Accountable Act; Public Company Account Oversight

		Board (PCAOB) rules on foreign audits; Securities and Exchange Commission (SEC) disclosure obligations for Chinese firms
Responding to China's Belt and Road Initiative	EU-Asia Connectivity Strategy/Global Gateway*; Indo-Pacific Strategy	Indo-Pacific Strategy; BUILD Act; Infrastructure Transaction and Assistance Network (ITAN); International Development Finance Corporation (DFC); US Export-Import Bank (EXIM) reform
Anti-coercion	Anti-coercion instrument*	Section 301 tariffs and Entity List

Source: Rhodium Group research; Transatlantic Tools: Harmonizing US and EU Approaches to China, Barking & Kratz, 2021.

While the EU will maintain to be liberal, the new FDI screening regime will typically raise surveillance of M&A transactions, which might harm Chinese investors in specific. China's political and economic model is no longer aligning with that of liberal market countries, causing significant spillovers for U.S. and European markets and industries and undermining Western ideals (2021 China Pathfinder)

Europe is inadequate to confront these issues. In contrast to the United States and Australia, the European Union does not have a governmental system that examines foreign investments, nor does it have a specific industrial policy to safeguard and sustain European ownership of important enterprises and industries.

In establishing measures to respond to China, the United States has adopted a broad idea of what constitutes an economic and national security concern, whereas the European Union has chosen a limited, more defensive strategy with a focus on balancing the power balance economically with China. This is due to the fact that national security policies are still predominantly a member-state responsibility, not an EU one (Barkin & Kratz, 2021).

Instead of following the policies of the United States and other OECD nations, Europe has established its own responses to issues in these policy areas, so that they reflect Europe's own goals, ideals, and political realities. European Union has supported a multinational, rules-based strategy marked by technocratic discipline. Even while many of these measures have been motivated by worries about China, the EU has done its best to adopt a country-agnostic approach by developing instruments, regulations, and recommendations that apply to all nations (Barkin & Kratz, 2021).

The significance of the regulatory frameworks' influence on the host economies cannot be overstated. Globally, the foreign sale of property across nation-state boundaries is influenced by the regulatory policies and rules enabled by state sovereignty (Rogers & Koh, 2018). The state and its institutional structure play a crucial role in the development of laws and initiatives that impact the real estate market and its integration with the global network. Despite limitations made in the EU, as indicated in Table 5, a significant amount of Chinese SWF investments has been in real estate. Investors continue to seek mega-global metropolitan real estate assets for wealth storage (Kaminsky, 2017).

Table 5: Sectorial distribution of Chinese SWF investments in the EU (2007–2014)

Sector	Value (US$m)	Share
Energy and materials	16,570.00	48.88%
Industry	1098.00	3.24%
Financials	4538.57	13.39%
Infrastructure	1339.00	3.95%
Real estate	**6548.75**	**19.32%**
Telecommunications and information technologies	2010.11	5.93%
Other sectors	1795.63	5.30%
Total	33,900.06	100.00%

Source: Calculations based on SWF Institute Transaction Database and SWF Center Transaction Database (2014) by Tomasz Kaminsky in Sovereign Wealth Fund investment in Europe as an instrument of Chinese energy policy, 2017

In different sectors and regions, land rights, institutional structure, control systems, and exchange regulations provide the legal and institutional architecture that forms and organizes the interaction ability of economic and political participants in real estate markets (Gotham 2006).

The embodied practice of investing in property and trying to capitalize on the profits has led to the development of local and foreign real estate investment mindsets (Rogers & Koh, 2018), which are becoming increasingly vital to the regulatory settings that underpin the global economies of major European cities such as London, Berlin, etc.

5. CONCLUSIONS

5.1. <u>Proposals for a joint definition of investment arrangements</u>

Both Europe and China have several reasons to welcome Chinese real estate investment in Europe. Following the Great Recession, Chinese investors contributed much-needed financing and assisted in reviving dormant ventures. Even though the European economy and real estate market has started to recover in recent years, Chinese investment has enabled to develop megaprojects across the continent that would not have proceeded otherwise, eliminating the associated job gains, tax revenues, and contract earnings for governments and private firms.

Chinese enterprises' investment in Europe epitomizes the "Going Out" program and demonstrates China's economic leadership potential. China's capacity to provide international investment and development skills is demonstrated by the growth of investment in developed countries and the complex financial frameworks required for large-scale projects.

Over the past three decades, EU-China relations have grown in intensity and scope. In 2003, the EU and China formed a comprehensive strategic alliance aiming to raise their relationship into the political and even security spheres. A strong strategic alliance between Europe and China would facilitate Beijing's integration into the current international order and demonstrate the EU's readiness to assume a stronger leadership role in international affairs. The partnership was designed to help China's economic reform and development, boost the regime's credibility and stability, and promote the creation of a multipolar international order (Christiansen & Maher, 2017).

China's reputation in the global economy is enhanced by increased foreign investment, notably in real estate. Real estate provides vital diversification aspects for Chinese firms and individuals and establishes Chinese companies in new markets. Conversely, rising Chinese investment in real estate benefits job creation, real estate liquidity, and financing availability. Despite the fact that a rising number of Chinese investors and European partners are willing to enhance Chinese investment in European real estate in the future, a number of policy issues in both countries require attention.

Private sector participation in international real estate markets has been a benefit for the Chinese economy and should be supported. Recent reforms have eliminated significant administrative obstacles and accelerated the evaluation of proposed investments. Providing a solid legal framework in China for this investment in the future will be essential, both for private businesses and state-owned enterprises, as they increasingly seek international investment to compete with their private rivals. In addition to a solid legal framework for investment, further progress toward the openness of capital sources demanded by international agencies will be a crucial step.

Moreover, despite the fact that heightened security screening for all international investors in Europe is warranted in light of global concerns, Europe must take care to implement realistic security changes. Local and national governments are under pressure from supranational organizations such as the World Bank, the European Union (EU), and the United Nations (UN) to flexibilize their planning system and make them more attractive to transnational investment businesses and organizations.

Historically, Europe has drawn investment from all around the world. Europe has been, despite rare instances of protectionism, one of the most open and accessible regions for global investment. The European public and its politicians have a rare opportunity to welcome this investment and its associated benefits: job creation, stability in the real estate market, and enhanced bilateral collaboration between Chinese and European businesses and individuals.

Similarly, while territorial regulation is still significant, there must be a greater emphasis on investment strategies, or how and why investments flow from source places into the real estate markets of cities. European traders and investors are also worried about market access disparities; as the Chinese public procurement procedure is frequently restricted to foreign investors, European actors lack the same flexibility in China that

Chinese firms do in European markets. Consequently, the EU has sought an opportunity to discuss a Bilateral Investment Treaty (BIT) with China, an agreement that China has resisted for years in order to protect its vital industries (Szunomar, 2016).

A bilateral investment treaty (BIT) between the EU and China, which would be the first of its type since the EU's Lisbon Treaty, might be beneficial for both parties since it would establish the terms and conditions for investments in both ways. Uniform regulations would replace the 27 bilateral investment agreements that China signed with all but one EU member state, Ireland. Nevertheless, reducing market obstacles, together with certain small protection laws, might assist Chinese and European firms in entering each other's markets.

Europe must ensure Chinese investors are able to adapt to local conditions by easing rules for foreign investors and establishing a single investment framework at the EU level. Member state-level investment agreements leave a great deal of flexibility for protectionist acts that are not in the European Union's best interest. Consequently, an EU-wide approach with established rules would be crucial for Chinese investors, just as equal treatment in the Chinese market would be crucial for European firms. In addition, the BIT might provide a new kind of competitiveness, which would encourage the Chinese economy to maintain its openness to global investors and markets (Szunomar, 2016).

China and the EU may take several initiatives, either simultaneously or in parallel, to unify their policies. Creating a common set of information and promoting more openness around China's BRI is crucial. Alignment in a limited number of areas may foster confidence, decrease the possibility of conflict, and generate motivation for greater action (Barkin & Kratz, 2021).

In contrast to their rapidly expanding economic and investment partnership, China and the EU have limited agreement on regional and global security problems (Christiansen & Maher, 2017). The beginning of the EU's attempts to resolve reciprocity issues must be the establishment of a clear and effective procedure for screening foreign investments for national security risks. Ensuring popular support for economic cooperation with China despite its repressive rule and more hostile geopolitical stance requires a solid European framework. An efficient security screening system is also crucial since it would make a distinction between security concerns and solely commercial objectives.

The new initiative for a pan-European EU investment screening system that operates with an improved concept of what comprises the European security industrial base is a positive development. More openness and a more coordinated, up-to-date strategy for protecting essential infrastructures, strategic assets, and critical (enabling) technology are prudent and long-needed needed. To constitute the cornerstone for a more united European effort, the current idea, in our opinion, still lacks teeth and requires further refinement. European legislators must ensure that "enabling technologies" is appropriately defined so as not to spark national debates about "strategic sectors"; strategies for providing a broad range of investment types and minimizing thresholds; dual-use technologies, data, and information security must be more aligned with the export-control policy.

5.2. Proposals for future research

Less study has been conducted on the geoeconomic effects of globalization in the real estate market. Research into the importance of real estate in the construction of geoeconomics has thus far been limited by the ontological and epistemological imaginaries found in related literature.

With this study, we propose more research on the geoeconomic effects of real estate. In this approach, the scope of the literature on the globalization of real estate might be expanded, for instance, to problematize the role of real estate in geoeconomics and the interpretation of real estate flows as geoeconomic flows.

Similarly, studies in international relations, geopolitics, political geography, and similar fields of study can be enriched by a better understanding of the political externalities (and exteriorities) of real estate, as well as by more embracing conceptual frameworks of the constitution of the state power and soft power (Christiansen & Maher, 2017).

For the European Union — its institutions, national governments, industries, and other parties — the most important and prominent question is: to what extent does China's rising strength and influence affect its market and political conditions? What are the potential advantages and disadvantages of China's rise? How might Europe position itself to profit from China's rising capabilities and aspirations while avoiding its threats? And how do the EU's relations with other nations, such as the United States and Russia, impact and are affected by its response to China's rise?

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