

Written evidence submitted by Dr Keyan Lai (BFA0032)

FCDO's role in blocking foreign asset stripping in the UK: a power relations perspective and a relational approach

I am submitting this evidence in a personal capacity at the invitation of the Foreign Affairs Committee to contribute to the inquiry into the FCDO's role in blocking foreign asset stripping in the UK. This is in the context of the recently published UK National Security and Investment Bill.

As a Lecturer in International Human Resource Management at the University of Edinburgh Business School, and as a member of the University's Centre for Security Research (CeSeR), I conduct research to advance our understanding on the issue of national security in international business, and to illuminate the impact of the government's inward foreign direct investment (FDI) policy on multinational corporations' international business and management strategy. My recent paper 'National Security and FDI Policy Ambiguity: A Commentary' (Lai, 2021), which was published in the *Journal of International Business Policy*, advocates a power relations perspective to understand the prevailing trend of ambiguity in relation to inward FDI policy.

In this brief response, I will draw on this perspective to elaborate my views on the role the FCDO should play in guiding the UK government's decisions to intervene in foreign takeovers of UK companies. **I hold the view that inward FDI scrutiny on the grounds of national security is inherently embedded in a complex, ever-changing network of power relations between nations**; as such, the FCDO plays a critical role in the reviewing and decision-making process by leveraging its expertise in international relations and sharing the intelligence with other parties. I further suggest that the FCDO should take a **relational approach** in the risk assessment and decision-making process in relation to interventions.

The national security risks associated with FDI are fundamentally concerned with two nations. Some of the key risks include the transfer of technology to a foreign government, which could deploy it against the host country's national interests; the dominance of supply, when foreign governments and their firms use FDI to gain a foothold in strategically important industries and pose threats to national economies; and foreign firms and their governments using FDI to tap into local systems to engage in surveillance and espionage. This makes the FDI-related national security issue very close to its traditional, narrow meaning, which defines military threats from foreign states as the main national security concern (Lippmann, 1943; Lasswell, 1950). The fact that the FDI-related national security concern is about two nations implies that when a government is scrutinising FDI on the grounds of national security, the process and the final decision should be informed by the understandings of its current relations with the home country state of the foreign investors, and by the consideration of the potential impact of the decision on the bilateral relations between two nations, as well as the power relations with other nations. It is important to note that nations are differently placed by their power, and when nations feel that their survival is threatened by another nation gaining greater power, they will take action to create balances of power (Waltz, 1979). In this regard, I share the opinion that government intervention in foreign investment into the country is an effective and necessary tool of statecraft to balance the economic and military power of other states through non-military means (Lenihan, 2018). Given the international relations implications of FDI review, I contend that the FCDO, which 'employs around 17,300 staff in our diplomatic and development offices worldwide,

including in 280 overseas embassies and high commissions' (source: <https://www.gov.uk/government/organisations/foreign-commonwealth-development-office/about>), plays a critical role in advising decision-making ministers through providing assessments and insights on the following six sets of relations, as illustrated in Figure 1:

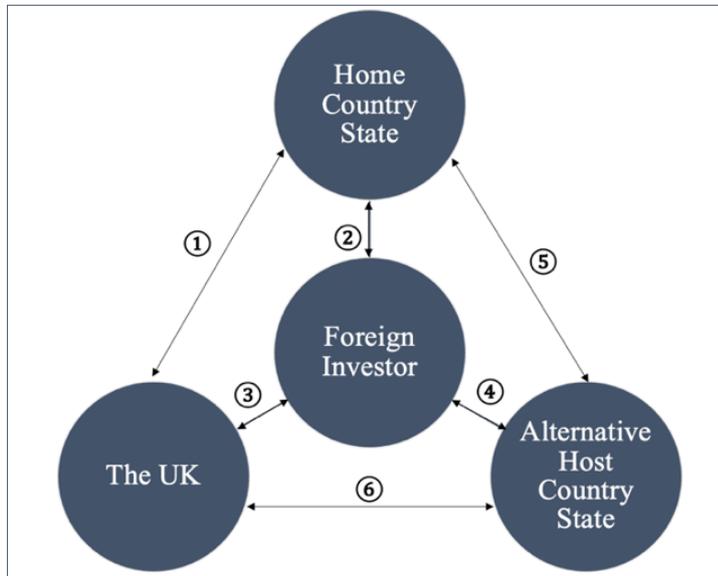


Figure 1: A relational approach to assessing inward FDI in relation to national security

- 1) The relationship between the UK and the home country state of foreign investors (e.g. the UK and China):
 - Are we competitors? Are we strategic allies? How will the outcome of the assessment impact our bilateral relations? How do we wish to (re)define our relations?
- 2) The relationship between foreign investors and their home country state government (e.g. Huawei and China):
 - How is the firm related to the state? How is the state involved in the operation of the firm? To what extent will the firm become a political agent for the state?
- 3) The relationship between the UK and the foreign investor (e.g. the UK and Huawei):
 - How will the foreign investor contribute, or how have they contributed, to the UK's economy and social welfare? How has the firm worked with different government agencies in the UK? How is the firm embedded in local networks in the UK?
- 4) The relationship between foreign investors and the alternative host country state (e.g. Huawei and Germany):
 - Is the foreign investor talking with another country for its investment proposal? What is the presence of the firm in the alternative country? How has the firm been evaluated by that country?
- 5) The relationship between the home country state of foreign investors and the potential alternative host country state if the foreign investor does not, or is not allowed to, invest (e.g. China and Germany):

- Is the home country state of foreign investors talking with the alternative host country state regarding the investment? What is the nature of their relationship? How will their current/future relationship impact the UK's national interest?
- 6) The relationship between the UK and the alternative host country state (e.g. the UK and Germany):
- What is the nature of the relationship? How will it change? Is there a need for a collective strategy regarding how to deal with certain foreign investors?

By proposing this relational approach, I hold the view that **FDI review is not, and has never been, a pure economic assessment**. A full range of factors including international relations, bilateral relations, and geopolitics should be taken into consideration. **The government's assessment and decision need to be informed by its perception and calculations of gains and losses from forming, developing, or terminating particular relations with certain nations through cautiously dealing with certain foreign investors and inward FDI**. From this power relations perspective I contend that the FCDO plays a particularly important role in the FDI review process. More research is required to further develop and apply this framework.

References

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