Research Question

Does foreign investment, as a form of soft power, influence a liberal democracies rhetoric towards human rights violators?

Abstract

This research project examines the question of whether or not foreign investment from countries who are known human rights violators influences the rhetoric of the receiving countries towards these violations. Background and data were culled from both qualitative and quantitative sources including both academic and scholarly works as well as both primary and secondary sources of empirical data. The dependent variable examined was the position and attitudes of recipient countries towards said violations. The independent variable examined was foreign investment from countries with known human rights violations. This project determined that liberal democracies who receive a significant amount of foreign investment from a country with known human rights violations tone their rhetoric towards the violating countries' transgressions. The primary example recipient countries were the Federal Republic of Germany and Greece and the primary investor country was the People’s Republic of China (PRC). Germany and Greece are members of both the European Union and the North Atlantic Treaty Organization, accordingly, their attitudes towards PRC human rights violations are both telling and present both the possibility of foreign influence being exerted via foreign investment and this influence potentially presenting a threat to these alliances via conflict of interest. This influence likely is resultant from a deliberate soft power strategy on behalf of the PRC, as such, this paper provides insight into the influence of foreign investment on recipient country attitudes towards the investor country as well as revealing a systemic and deliberate approach to power projection and acquisition of new spheres of influence by one country towards another.

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Preface

Acknowledgements

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For the crews of Jolly 51 and Warhorse 41

"...and when the green on our graves has moldered away, some gray warrior sitting by night at the blazing fire will tell thy deeds to his sons, and shall bless and admire the men of old..."
-William Lewis Lockwood

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**Introduction**

This research project examines the influence of foreign investment on a recipient country, specifically whether or not countries who receive investment from foreign countries, who are known human rights violators, change rhetoric towards the investor country as a result. This question is an important one beyond what, prime facie, appears obvious. There should, of course, be moral frameworks for the ethical conduct of transnational business to include all forms of investment from a foreign government. Globally countries who routinely violated agreed-upon human rights conditions are punished for these transgressions. Cuba, North Korea, and Iran are three salient examples of the punitive consequences, including sanctions and embargoes, of running astray from these norms. While the research question uses human rights and a recipient countries rhetoric towards the investor country, these attitudes and policies towards human rights are an overt indicator of the scale and scope of influence that foreign investment has. What this may signal, and why this question is so important, is that if a recipient country overlooks what would be egregious human rights violations, what else might they be willing to overlook or otherwise ignore? This has geopolitical implications as countries who routinely violate human rights are themselves likely authoritarian and otherwise in opposition to western liberal values.

Delving into this question, this paper examines foreign investment as an instrument of a foreign policy strategy. Foreign policy’s power projection arm intimates itself through two primary vehicles: *hard power* and *soft power*. The former is the physical manifestation of a country's military and financial might, i.e. force, and the latter is hands off, influence via attraction and persuasion.¹ The latter option, while not as overt and severe, encompasses similar

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consequences and outcomes in the long term. Joseph Nye, the conceptual father of soft power makes the delineation between that and its counterpart: “hard power can rest on inducements, “carrots”, or threats, "sticks", but sometimes you can get the outcomes you want without tangible threats or payoffs”. This strategy is what he deems the “second face of power” and as such it co-opt as opposed to coerces. The key element, as it pertains to this research project, is not the direct means to make an actor acquiesce, but in the ability to achieve one actor's purpose by impacting the behavior of another. In this respect both hard and soft power are connected, however soft power and its co-optive nature can shape what others want, and critically has the ability, as Nye states, to “manipulate the agenda of political choices in a manner that makes others fail to express some preferences because they seem to be too unrealistic”. The approach logic is therefore that foreign investment is a tool and function of soft power and can, in some cases, be used by countries to impart compliance with non-western and even authoritarian views.

Accordingly, this paper will attempt to answer the research question by utilizing a case study approach to foreign investment as a vehicle of influence; while influence and ultimately power projection are the logical end states of such strategies, conceptually the strategy itself falls within Nye’s definition of soft power. To frame this approach Nye states that soft power rests upon three resources: culture, in places where it is attractive to others; political values, when lived up to at home and abroad; and foreign policies, when seen as legitimate and having moral authority. While Nye argues effectively for all three resources influencing soft power this research project posits that foreign investment is a fourth resource which drives soft powers co-optive nature. While this can be traced readily through time, to make this paper relevant and

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3 Ibid, 5.
5 Ibid, 11.
current, one investor country will be examined, the People’s Republic of China (PRC), and three of its soft power vehicles: Foreign Direct Investment (FDI), its Sovereign Wealth Funds (SWFs), and Foreign Direct Investment in Infrastructure (FDII) in the form of the Belt and Road Initiative (BRI). On the recipient end, both the Federal Republic of Germany and Greece's foreign investments from the PRC will be examined. This is not at random as both countries have seen significant investment from the PRC in the past decade and have been prominent for their attitudes, and chiefly their language, regarding PRC human rights violations, prior to and following receiving Chinese investment. In examining Germany, current Chancellor Angela Merkel's predecessor, Gerhard Schröder, employed what was deemed *Chinapolitik* when dealing with the PRC. *Chinapolitik*, at its core was driven primarily by economic interests as Schröder promoted “closer trade ties and cooperation with China, while ignoring, or at best doing little more than paying lip-service to, normative aspects of German foreign policy such as the promotion of democracy and human rights.”⁶ Schröder consequently took much criticism for this practice, so much so that Merkel, upon taking the chancellorship, made it policy to practice *Mut zu kritischen To‘nen* (having the courage to raise critical issues), which was and is a “rhetorical commitment to a value-driven foreign policy towards China.”⁷ Has she made good on her policy, and has the enforcement of human rights truly take precedence over economic interests? Similarly, Greece, as an EU member, and one with strategically vital sea access from the Mediterranean as well as *significant* economic woes, has it upheld a defense of human rights in light of its investments from the PRC? Is PRC foreign investment resulting in a *co-optive*

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⁷ Heiduk, *Conflicting Images?* 129.
dynamic and if so, does it influence developed countries, especially ones with an advanced democratic system? This paper will lay primary focus into answering these questions.

**Literature Review**

Foreign investment, in its various forms, has been both an important economic as well as political tool since the late 18th Century. As the economy has globalized and both international commerce and finance have grown to mark significant factors in a nation's gross domestic product (GDP), the financial interactions relating from foreign investment have taken on vital importance to both the investor and recipient counties alike. Capital in the form of loans, and for infrastructure development and its associated economic development, play crucial roles for a recipient country. In the modern globalized world, it is critical for nations to not only provide domestic economic strength but to compete and project a similar strength in the global marketplace. This, in theory, affords an investor country with a great deal of leverage which, in great enough quantity, is political power in the form of direct and indirect influence. The latter is more insidious but will usually reveal itself in the behavior(s) of the recipient country in the political discourse with a respective investor country and possibly in their foreign policy towards this actor. The simple observation here is that recipient countries have a motive to ensure good relations with investor countries, with this dynamic in mind, and within the limits of a recipient countries counties own self-interest, what would it be willing to tolerate, within reason, to assure these investments? Accordingly, it is important to examine the history of international investment, the theory of power with regards to international relations theory, the tools of foreign investment, and if they are indeed tools of soft power.

As Kenneth J. Vandevelde explains in *A Brief History of International Investment Agreements*, that investment agreements between nations can be split into three distinct epochs:
the Colonial Era, encompassing the periods of the late 18th century to the end of the Second World War; the Post-Colonial Era, encompassing the latter period through the cold war and ending upon the Soviet Union’s dissolution in 1990; the third, and present period, deemed the “Global Era”, began after the Soviet Union’s collapse and continues through today.\textsuperscript{8} These periods themselves displayed transformative elements and can be considered the developmental stages upon which foreign investment was built. The Colonial era, when the “community of nations” was largely relegated to European powers and the nascent confederation of states in America, it was largely accepted that in regard to “protecting states interests, customary law or even military force was the primary means of protecting foreign interest”.\textsuperscript{9} In the Post-Colonial Era, these former colonies achieved political independence and accordingly military force was no longer a legitimate \textit{overt means} of protecting international interests.\textsuperscript{10} There was, during this period, a hostility by developing countries and the Soviet bloc, towards foreign investment which caused developed states to seek legal protections for foreign investments through international investment agreements. These agreements, however, were solely focused on protecting foreign investment against political risk and not focused on the concepts of liberalization.\textsuperscript{11} In the modern global era, and since the fall of the Soviet bloc, there is a general acceptance in the developing world of the value of foreign investment and the practice has become universal. This so-called “international investment regime” seeks to “integrate national economies through the removal of barriers to investment flows and the protection of established investment”.\textsuperscript{12}

\textsuperscript{9} Ibid, 158.
\textsuperscript{10} Ibid, 193.
\textsuperscript{11} Ibid.
\textsuperscript{12} Vandevelde, \textit{A Brief History of International Investment Agreements}, 194.
The development from force as a means of investment assurance and protection to what today is largely an economic and political practice is not inconsequential. One needs to only look at the United States policy at the turn of the 20th Century to see this change taking shape. Huntington Wilson, the former US Assistant Secretary of State under President Taft, aptly described what he termed “Dollar Diplomacy”, that is to say, the heeding away from the threat or use of military force as a tool of diplomatic and political influence, but instead the utilization of economic power, in Wilsons' primary example, loans.\(^\text{13}\) Under this foreign investment scheme, Wilson describes two objectives behind “Dollar Diplomacy” foreign investment as one, having political advantage, that is to say, the primary purpose of strengthening American influence “in spheres where it ought to predominate over any other foreign influence on account of reasons of fundamental policy…..”\(^\text{14}\); and two, the economic advantage conferred to investments and enterprises that provide both “vital” political interests and permanent and valuable markets for trade while at the same time a line into safeguarding trade as well as give standing to emerging markets.\(^\text{15}\) As the United States was a rising global power it cannot be understated that this shift away from a military/force approach, even in its infancy, was both critical for its development as well as for other nations that would follow this example. What about the role of development aid, in addition to foreign investment?

The shift away from overt military force and the threat of military force to secondary and tertiary means of exerting political will was also chronicled by Nye. He bifurcated power into two separate but distinct categories: hard power and soft power. The former is as it sounds, the use of force, and the threat of the use of force, primarily through military action as well as the

\(^{14}\) Ibid, 301.
\(^{15}\) Ibid.
ability to employ economic means to influence outcomes. Nye referred to these inducements as “sticks” and “carrots”, respectively. The latter, soft power, is what Nye refers to as the “second face of power” as it sometimes enables one actor to achieve a desirable outcome without “tangible threats or payoffs”. In this respect an important difference between the two is noted: hard power *coerces* and soft power *co-opts*. Namely, as Nye states “Co-optive power—the ability to shape what others want-can rest on the attractiveness of one's culture and values or the ability to manipulate the agenda of political choices in a manner that makes others fail to express some preferences because they seem to be too unrealistic”. While hard power can utilize economic means intended to *coerce*, actions such as sanctions and embargoes or payments, soft power has economic tools as a subcategory intended to *co-opt*. Nye states commerce can be transmitted via culture, this of course, for example, is present in American popular culture, which promotes *its* hybrid of cultural and commerce globally. Therefore, for or the purposes of this paper an important distinction must be made to ensure that there is a known difference become *economic hard power* and *international economics*. The former being the aforementioned *coercive* tool per Nye, and the latter being employed for a nation's financial self-interest. However, the latter does carry with it influence, though *co-optive* measures which are very much in-line with the “second face of power”.

Nye does have his detractors, academics such Colin Grey of the Strategic Studies Institute at the US Army War College, who points out soft power *does* suffer from what is perceived to be key weaknesses, chiefly that as an “instrument of policy it…utterly depends on

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17 Ibid., 5.
18 Ibid, 7.
19 Ibid, 13.
the uncoerced choices of foreigners”. Additionally, Grey claims soft power offers, in the American context, “the agreeable proposition that American values and culture generally have some ability to co-opt “others” in an attractively economical way, historical evidence seems to point in a different direction. More accurately, the relationship is one wherein soft power flows to the owner of hard power. Thucydides in ca. 400 BC is to be recommended as a more reliable guide to international relations and foreign policy in the 21st century……”. 21 In so much as Nye explains the theoretical and practical disposition of hard and soft power, Grey does have a salient point in that soft power is more accessible to and flows more efficiently from an owner of hard power. In this regard there is more than just an American model to this dynamic and subsequent analysis of other regional powers will prove beneficial. In this regard, contemporary scholarship indeed points to both Nye’s and Grey’s observations. Nita Starova claims in the International Scientific Journal, that “In this new world, it becomes clear to states that with the help of militaristic and economic power, the traditional so-called “hard power”, they can no longer achieve their goals. What appears to be more effective in the new complex world is the ability to co-operate and network, i.e., the ability to attract and persuade rather than compel.” 22 Starova cites Germany in particular as a salient example of a state currently employing this dynamic. Specifically, she examines the relationship between Germany and North Macedonia. Germany has invested large sums of capital in the country and the region surrounding it to “secure the neighborhood”, this is, of course, a measure of pragmatism as securing regional stability secures, to a large extent, German national security. However, as Starova points out, Germany has also done so in an attempt to spread its own political and economic interests, which points inward to

21 Ibid.
German stability, of which helps promote an economically and politically stable Europe. Citing the quid pro quo nature of this soft power arrangement, she also points out that North Macedonia benefits from this co-operation both financially as well as in the domestic arena concerned with policies “aimed at improving the living standard in the country”, itself no doubt influenced by the German social market economy.²³

*Foreign Investment Instruments*

Foreign investment manifests itself through a variety of instruments, salient among them are Foreign Direct Investment (FDI), Sovereign Wealth Funds (SWFs), and Foreign Direct Investment Infrastructure (FDII).

*Foreign Direct Investment (FDI)*

Ungureanua and Floritina, in their paper *Considerations Concerning Foreign Direct Investments On Countries of Origin, Period 2011-2017* define Foreign Direct Investment (FDI) in principle as the “granting of an individual the right to invest in a territory other than the one where he is a resident”.²⁴ They observe that in practice a foreign direct investment enterprise is:

“...a resident enterprise, with or without legal personality, in which a non-resident investor owns at least 10 percent of the voting rights or the subscribed share capital, or of the capital endowment/working capital of enterprises without legal personality (branches). The holding of at least 10 percent of the votes or the subscribed share capital, respectively of the capital endowment/working capital, is essential in establishing the direct investment relationship”.²⁵

FDI brings with it benefits for the investor countries to include tax incentives, reduced import/export duties, from countries like the US and EU, access to capital investment, and development of investment sites and infrastructure. For the host country benefits conferred are

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²³ Starova, *Soft Power As a Strong Diplomacy Tool*, 57
²⁵ Ungureanu, Emilia, and Cristina Baldan Florentina, *Considerations*, 83.
potential economic growth, stimulation of domestic investments, financial resources that bring long term stability, the gaining of technical and managerial expertise, modern technologies, and a line on improved exports in the goods and services market via aid. In addition to FDI, another soft power financial tool countries utilize are what are called Sovereign Wealth Funds (SWFs).

**Sovereign Wealth Funds (SWFs)**

In *Sovereign Wealth Funds and the Acquisition of Power*, Ashley Thomas Lenihan argues that SWFs have become increasingly “powerful actors in the international system and world economy”. SWFs are both broadly and narrowly defined foreign investment vehicles, and there is debate as to the scope and nature of these vehicles. For the sake of this research project an SWF will use Linehan’s modified definition as a fund “government-owned and/or controlled investment funds that seek diversified asset portfolios at home and abroad, and which have the potential for a long-term investment outlook”. Lenihan describes in great detail both the financial and economic rationale behind the utilization of SWFs, however, her strongest articulations are regarding the fact that it has been argued that SWFs do not pose as much of a political threat as some have alluded to. She claims SWFs have proven to carry long-term risk effectively thereby playing an important stabilizing role in the global community. Despite this claim there is still the possibility of real dangers regarding SWF activities and intents. Among these dangers is that while an SWF may not invest on the “basis of political motivations today, that does not mean it will not (or cannot) do so tomorrow.” She feels this will be executed via two methods: financial statecraft, that is, for example, SWFs utilizing predatory investments by...
one state in another to include “the acquisition of a strategic company (in whole or part) to potentially degrade the investment, siphon resources, pilfer sensitive technology or to gain access to strategic networks or assets (whether in the form of vital physical, or technological, infrastructure)”; as well as balancing, both in internal and external, the former via “moves to strengthen and enlarge one’s alliance or to weaken and shrink an opposing one” and the latter via “moves to increase economic capability, to increase military strength, [and/or] to develop clever strategies”.\textsuperscript{31} Lenihan concludes that it is likely that if political motivations are behind SWFs they are likely in the realm of internal balancing, noting that this strategy will weaken existing alliances in a non-coercive manner as well as make a recipient state more dependent on the investor-state.\textsuperscript{32} Similarly, Shannon A. Murphy concludes in her paper \textit{Leviathan's Double Bottom Line: Sovereign Wealth Funds As Tools of Strategic Statecraft}:

> “sovereign wealth funds' embodiment of a double bottom line, that represents the sponsor's ability to earn excess financial return while accruing political or strategic benefits, may define the next era in global finance and foreign policy. Power theory indicates that subtle manifestations of economic power may sometimes be more successful and long-lasting than their “hard” power counterparts”.\textsuperscript{33}

\textit{Foreign Direct Investment in Infrastructure (FDII)}

Foreign Direct Investment in Infrastructure (FDII), according to Jiang et. al in their paper \textit{Foreign Infrastructure Investment In Developing Countries: A Dynamic Panel Data Model Of Political Risk Impacts}, while being similar to that of FDI, is characterized by high monopolization, large investment amounts, long payback periods, along with a special class of

\textsuperscript{31} Ibid.
\textsuperscript{32} Ibid.
\textsuperscript{33} Shannon A Murphy, “Leviathan's Double Bottom Line: Sovereign Wealth Funds as Tools of Strategic Statecraft by Shannon A. Murphy.”, Leviathan's double bottom line: Sovereign wealth funds as tools of strategic statecraft by Shannon A. Murphy. (Massachusetts Institute of Technology, January 1, 1970), http://dspace.mit.edu/handle/1721.1/72891)
consumers, namely the government.”

FDII is influenced heavily by political risk and, in an optimal scenario, requires a stable political environment, making developed counties the ideal targets for FDII. However FDII is a paradoxical tool in that undeveloped countries, with a lack of political leverage and/or economic options, are likely to be overtly influenced by an investor nation, and thus are themselves significant targets. Like FDI, FDII itself carries political risk for the recipient country as well. Feng Sun in his paper *The Duel Political Effects of Foreign Direct Investment in Developing Countries* notes that besides the associated risks of state ownership in FDI vehicles, FDII vehicles carry with them not only “economic motives” but are possibly undertaken for strategic reasons, namely “acquisitions related to energy, infrastructure services, extractive resources, or other industries with a “security dimension”. In the case of the developing world, Feng notes critically that “Resource-seeking FDI is often associated with authoritarian regimes. A growing literature on the political resource curse argues that authoritarian regimes take advantage of the large revenues from taxes, licenses, and profit-sharing arrangements generated by foreign companies through the exploitation of natural resources to buttress their elite political positions.” Accordingly, Feng concludes that while FDI and FDII enhance economic development observing that “the proposition that economic development promotes democracy not only applies well in the developed countries but also fits well in the developing world”; he also observes that “When only considering the result of the political effects of overall FDI, it casts doubt on the liberal consensus that integration into the

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37 Ibid, 117.
global economy has a direct positive effect on the domestic democratization.”38 While these works focus largely on the political implications of FDII on recipient countries in the developing world, conclusions can be drawn from both Jiang et. al and Feng, and that is namely that investing in infrastructure carries political risks for the recipient country in both the developing and developed world. In both scenarios, infrastructure is critical to a strong economy and, of course, political stability. While in the developing world political stability is oftentimes capricious, in the developed world it is more of a constant than a variable. Feng notes this, observing that “not all forms of foreign investment seem to be beneficial to political development in the developing world”39, it is therefore a safe assumption to make that a developing country may be susceptible to authoritarian influence when taking FDII from an authoritarian regime. What has not been examined more thoroughly is the scenario in which an authoritarian regime is deploying FDII to a developed advanced democratic country.

Herein lies a large gap in the present body of research, while it is easier to assume that a developing recipient country would be more susceptible to influence from an investor country, especially an authoritarian one, what would be the investor countries' influence on an advanced developed democratic country? Nye’s power theory may aid in an examination of this dynamic, in concert with Grey’s observation that the co-optive nature of soft power is a relationship “wherein soft power flows to the owner of hard power”. 40 How does this co-optive dynamic influence a developed country, especially one of an advanced democratic system? While this observation would be nuanced it may prove illuminating to further examine how a recipient advanced democracy is indeed influenced. A metric through which to view this possible

38 Ibid, 122.
39 Ibid, 121
40 Grey, Hard Power and Soft Power, 46
influence is recipient nations' views and addressing of the investor nations' human rights track record. *Human Rights* are summarized per the articles of *United Nations Universal Declaration of Human Rights* (UDHR) as a set of principles that codifies the inherent rights that all human beings have irrespective of race, religion, sex, or nationality to include the foundational rights to “life, liberty, and the security of the person.”\(^{41}\) This segues into an additional gap in the body of current research, while much has been researched by way of investor countries investing capital into recipient countries with poor human rights records the corollary is deficient at best. However, there have been attempts to codify an agreed-upon strategy between investor and recipient (i.e. “host”) countries. In Bruno Simma’s paper *Foreign Investment Arbitration: A Place for Human Rights?* he argues that human rights should coincide with investment protections to be of equal standing. Simma observes “What is desirable, indeed necessary, therefore is that host states and foreign investors must mutually consider other strategies available within the framework of the international investment regime to harmonize investment protection with human rights compliance. These objectives need not be incompatible”.\(^{42}\)

As the literature explains, besides the practical financial benefits of foreign investment, there is also the practical political elements that traditionally manifest themselves between nations; Nye’s power theory aptly explains this. When delving into this theory it becomes apparent that the *co-opting* ability of *soft power* is very much a central tenet of FDI, SWFs, and FDII. Along these lines, the *internal balancing* strategy, per Murphy, can weaken existing alliances in a non-coercive manner as well as making a recipient state more dependent on the investor-state. Based on these observations it would appear that foreign investment, in the


manners aforementioned, are very much soft power political tools, ones in which influence is *not* as robustly overt as the tools of hard power, but in line with Nye’s “second face of power”, insidious and subtle. If these influences are subtle, as there are developed nations, advanced democracies, who are themselves recipient nations of investor countries with questionable human rights records, and this dynamic is the salient gap in the present body of research, then it will be necessary to examine such a dynamic. This examination will investigate the validity of the hypothesis that developed countries, specifically liberal democracies, who receive foreign investment from known human rights violators, tend to tone down their rhetoric towards the violating investor country. This will be accomplished via a case study examination of the PRC, the authoritarian investor nation, and Germany and Greece, both developed countries and advanced liberal democracies who are large recipients of PRC investment.

**Hypothesis and Methods**

**Hypothesis**

*Null Hypothesis:*

Liberal Democracies, who receive foreign investment from known human rights violators, *do not* tone down their rhetoric towards the violating investor country. Foreign investments *do not* have influence.

*Alternative Hypothesis:*

Liberal Democracies, who receive foreign investment from known human rights violators, *do* tone down their rhetoric towards the violating investor country. Foreign investments *do* have influence.

This research project is proposing the notion that recipient countries *are* changing their rhetoric towards investor countries who have known human rights violations as a result of a broader soft power strategy. While this goes well beyond the surface and impacts many
variables, determining whether or not this hypothesis affirms that foreign investment *does* have influence will be the observation of recipient/investor country relationships. While the dynamic of countries with poor human rights records (likely authoritarian regimes) investing in developing countries plays out across the world, sub-Saharan Africa being a prime example, as discussed, a dynamic that has not been thoroughly studied has been an authoritarian regime investing in a developed country with an advanced liberal democracy. If indeed these developed advanced liberal democratic countries, which have significant foreign investment from a country with known human rights violations, change their language towards the investing countries' human rights issues as a result of these investments, the alternative hypothesis will be accepted.

**Definition and operationalization of variables**

This research project constituent *dependent variable* (DV) and *independent variables* (IV) are as follows:

**DV:** Attitudinal changes measured by language of Liberal Democracies receiving foreign investment from a known human rights violator country

**IV:** Foreign investment as indicated by FDI, SWF investment, and FDII

**Methods**

The optimal end state is the evidence being sufficient enough in substance to support this paper's working hypothesis, that is to say if it can *affirm* the alternative hypothesis. With this as the central objective, this paper will utilize a *traditional essay* format towards examining this hypothesis. Data sought for these case studies will consist of qualitative and quantitative economic data, from both primary and secondary sources, peer reviewed content relating to the impacts of FDI, SWFs, and FDII, think tank and policy papers, graduate and post graduate research papers, and governmental policy position papers, policy statements, diplomatic
statements, and other inter-governmental communiques, from Germany and Greece, regarding foreign investment, humans rights policy actions towards violator partner countries, and optimally, documents discussing the nexus between the two.

Data

As this research project has elaborated, examining the effects of foreign investment in the forms of Foreign Direct Investment (FDI), Sovereign Wealth Funds (SWFs), and Foreign Direct Investment in Infrastructure (FDII) on a recipient countries attitude and policy towards an investor country's human rights violations is a broad endeavor indeed. As discussed, there is evidence of the negative influence on recipient developing countries in regard to liberal approaches to governance (and thereby a corresponding negative approach and practice of human rights) from an authoritarian investor country. In this case the recipient country would likely not be difficult to observe. The research supports as much as that very dynamic has been examined. However, what has not been examined thoroughly are the effects that foreign investments, from human rights violators, have on liberal democracies in developed countries. While developing countries have little leverage, and actively seek out and are agreeable to foreign investment, theirs is a problem of options and weaknesses. These countries typically lack the appropriate options to otherwise build infrastructure or access resources and cannot do it themselves which gives an investor country significant leverage.

This research projects approach is to examine the dynamic of attitudinal changes of liberal democracies who receive foreign investment, in the forms of FDI, SWFs, and FDII from a known human rights violator country. To maintain relevance and ensure this observation is both topical and current the following countries will fill the roles of investor and recipient (host countries): both the Federal Republic of Germany and Greece will be examined as recipient
countries, and the investor country examined will be the People’s Republic of China (PRC). A *liberal democracy*, for this paper, will be defined as:

“The extent to which a political system allows political liberties and democratic rule; Political liberties exist to the extent that the people of a country have the freedom to express a variety of political opinions and in any media and the freedom to form or participate in any political group. Democratic rule (or political rights) exists to the extent they the national government is accountable to the general population, and each individual is entitled to participate in the government directly or through representatives”

*Human rights violators* will be defined simply as a country with a track record of violating the *United Nations Universal Declaration of Human Rights* (UDHR). For this research paper PRC FDI, SWFS, and FDII, via the Belt and Road Initiative (BRI) will be individually examined with analogus qualitative information. Germany will be examined via the first two and Greece will be examined via the last, specifically BRI investments. Additionally, the paper will conduct an examination of PRC human rights violations as well as an exploration of possible influence and soft power dynamics, if such dynamics exist.

*Foreign Direct Investment (FDI)*

Foreign Direct Investment, or FDI, as stated, is the “granting of an individual the right to invest in a territory other than the one where he is a resident…a resident enterprise, with or without legal personality, in which a non-resident investor owns at least 10 percent of the voting rights or the subscribed share capital, or of the capital endowment/working capital of enterprises without legal personality (branches).” Europe has become quite attractive to the PRC for various reasons to include “technology, know-how, established and reputable brands, as well as a gigantic consumer market”; additionally around the time of the global financial downturn, and the corresponding downturn on the continent, Europe represented an opportunity for investment

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“bargains”. Coupled with the perception that the continent is freer of the political opposition of the electoral politics of the United States, where the PRC has been “scapegoated”, Europe became a key FDI destination. Accordingly, around this time Chinese FDI tripled in Europe between 2006 and 2009, and tripled again in 2011; by some estimation, Europe represented 48% of all Chinese outward FDI during this period. Additionally in 2012 the number of mergers and acquisitions (M&A) conducted by Chinese companies in Europe surpassed the opposite dynamic for the first time. Of the individual European Union (EU) member countries, three “core” economies constituted the bulk of PRC investment inflows between 2008 and 2016, Germany, the United Kingdom, and France, with Germany and the United Kingdom accounting for more than half of the total of incoming Chinese investment in 2016. Germany produces a Gross Domestic Product (GDP) of approximately 3.4 trillion Euros, which represents the largest economy in the EU and has maintained this status since 1980 (this before east-west reunification). As such Germany represents a major target for Chinese FDI.

While the German economy is the largest attraction for Chinese FDI, it isn’t the only attractive feature. While in the logic of PRC calculus, Germany has been evaluated for additional factors to include social stability, political security, and bilateral relations with the PRC, there is one factor that trumps all: the “favorable position” of German companies in regard to Chinese digitalization efforts. The PRC has made it a cornerstone goal to make their manufacturing “competitive in high technology sectors concerning the industrialized countries.”

46 Ibid.
49 Drahokoupil, Chinese Investment in Europe, 107-11.
in Germany have focused primarily on four sectors: high-speed rail transport, electricity
generation, automotive, and machine building, all of which fall in line with PRC digitalization
efforts and the corollary German effort deemed “Industry 4.0.” A recent acquisition and
excellent example of this strategy was the majority purchase of the German robotics company
KUKA AG. The Chinese company Midea, makers of household appliances, is “one of China’s
three largest home appliance makers and active in market segments including air conditioners,
household appliances, motors for industrial use and logistics for e-commerce. KUKA AG is one
of the world’s leading automation companies.” As Midea has taken a 94% share of the
company, they have agreed to retain both the location of the company and jobs until 2023.
While only one example, PRC FDI in Germany gives the Chinese unparalleled access to the
EU’s central economy, one which is efficient, technologically advanced, and well managed. The
PRC gains the technology and efficiencies they seek as well as holding the position of both
major employer and job creator. While very good business for the PRC and Germany, FDI in
Germany likely affords the PRC significant influence. Germany has been the beneficiary of the
second most (outward) Foreign Direct Investment from China in Europe, with net investments
from 2000 to 2014 totaling EU€ 6.9 Billion; since 2011 “annual investment levels have “jumped
up and stated stable at stable at €1-2 billion per year, which differs from the volatile patterns
found in other economies.” Quantifying this in terms of importance to the Germany economy,
both from financial and employment metrics, as of 2014 all 16 German states were hosting

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50 Ibid, 167.
51 Wiebke Rabe and Olivia Gippner, “Perceptions of China’s Outward Foreign Direct Investment in European Critical
Infrastructure and Strategic Industries,” International Politics 54, no. 4 (2017): pp. 468-486, https://doi.org/10.1057/s41311-017-
0044-x).
52 Ibid, 473.
53 Thilo Hanemann, Mikko Huotari, and Agatha Kratz, “Chinese FDI in Europe: 2018 Trends and Impact of New Screening
2018, 16.
Chinese companies. The majority of these investments are targeted towards the old states of the
former West Germany as these states account for “nearly 90% of GDP and nearly 90% of
manufacturing turnover”.\(^{54}\) Simply put, PRC FDI is targeting the bulk of German GDP and
within that its most prodigious sector, manufacturing. Theo Hanemann and Miko Huotari
observe in their paper, *Chinese FDI in Europe and Germany Preparing for a New Era of
Chinese Capital*, the European logic for attracting Chinese FDI and in the process capture the
German motivations behind such a strategy:

> “Foreign sources of productive direct investment that create and maintain jobs are
therefore a pressing demand across Europe. Compared to other more volatile and pro-
cyclical capital flows, FDI will contribute to economic
stability and development. Due to the sheer number of investors, private and
state-owned, with their variegated interests, Chinese investment has the capacity to
provide important simultaneous stimuli for economic development across different
sectors in Europe.”\(^{55}\)

Thus with such a significant portion of Chinese FDI directed at the majority of the German GDP,
and the logic of economic stability and development that it will bring, Germany will likely want
to maintain a tone with Beijing that maintains the current FDI arrangements and keeps the door
open to future opportunities.

*Sovereign Wealth Funds (SWFs)*

Similarly, like FDI, Sovereign Wealth Funds (SWFs), have similar leverage and
influence in Germany. SWFs, as stated are “government-owned and/or controlled investment
funds that seek diversified asset portfolios at home and abroad, and which have the potential for
a long-term investment outlook”.\(^{56}\) Of Chinese SWFs, the largest is the Chinese Investment
Corp. (CIC), established in 2008 to “manage and diversify Chinese foreign exchange reserves

\(^{54}\) Ibid, 19
\(^{55}\) Ibid 26
\(^{56}\) Lenihan, *Sovereign Wealth Funds*, 227.
beyond its’ traditional investments in dollar-denominated bonds.”\textsuperscript{57} The CIC is the PRC’s flagship fund and is directly subordinate to the State Council and is supervised by representatives for the People’s Bank of China (PBoC) and the Ministry of Finance.\textsuperscript{58} The PRC started CIC with US$200 billion of its foreign exchange reserves and by the end of 2011 it has amassed US$482 billion in assets. \textsuperscript{59} Initial annual reports showed CIC investing across a diverse spectrum to include “corporate bonds, infrastructure projects, mining ventures in assorted areas such as Africa and Canada, “blue chip” stocks and private-equity partnerships.”\textsuperscript{60} While Germany has been wary of the intent and scope of SWFs like the CIC, with German Chancellor Angela Merkel's cabinet recently vetoing, for the first time, a Chinese takeover of a German firm, “Yantai Taihai Group withdrew its offer for toolmaker Leifeld Metal Spinning at the last minute, after the German government signaled it would block the acquisition because of “security reasons.”\textsuperscript{61} This, however, has not stopped the PRC nor the CIC from pursuing investment in Germany.

A recent notable acquisition made through the CIC is the German highway rest-stop gas station company Tank and Rast that has a potential value of around “€3 billion, or $3.35 billion, which would be by far the largest Chinese acquisition in Germany.” This purchase is said to give the PRC a significant “foothold” in Germany. \textsuperscript{62} Germany does seem to be taking a harder stance on SWFs, protecting its IT security, software, and computer security sectors, considered sensitive

\textsuperscript{58} Ibid, 734.
\textsuperscript{60}Ibid, 156.
and placing the ability to block any non-European firm “planning to buy more than a 10 percent stake in sensitive sectors.” The stated goal of the CIC is akin to that any other financial entity, that is to maximize risk-adjusted financial returns for its’ shareholders, there has been a noticeable difference with this SWF versus Chinese FDI vehicles; former CIC president Gao Xiqing bluntly stated that “Chinese overseas investments aim to make profits but at the same time build influence.” The maleficent potential of SWFs did not go unnoticed, then former US President Barak Obama, when discussing his views on SWFs stated “I am obviously concerned if these… Sovereign Wealth Funds are motivated by more than just market considerations and that’s obviously a possibility.” SWFs offer China an excellent opportunity to access capital and manufacturing markets in Europe and the EU and based market size alone Germany is quite a prize. While, as of late, Germany has become cautious with regards to investments in the “sensitive” sectors, the fact remains that the appeal of Chinese capital infusion into German business, in the form of SWFs, may prove to be too alluring to offset most security concerns.

*Foreign Direct Investment in Infrastructure (FDII)*

Foreign Direct Investment in Infrastructure (FDII) is similar to that of FDI but “is characterized by high monopolization, large investment amounts, long payback periods, along with a special class of consumers, namely the government.” Further FDII is as it sounds, with its primary target being that of infrastructure. While FDII invests in infrastructure in various forms, and Chinese FDII certainly spans the EU, there is perhaps one investment that stands above the rest and indeed shows both the reach, potential, and intent of Chinese FDII. The Belt

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64 Tomasz Kamiński, *Sovereign Wealth Fund Investments in Europe*, 734
65 Ibid.
66 Ibid, 737.
67 Weiling Jiang et al., *Foreign Infrastructure Investment In Developing Countries*, 134.
and Road Initiative, referred to as the “BRI”, is a massive undertaking by the PRC. Under President for Life Xi Jinping, the PRC has embarked on an ambitious two-prong strategy: creating an overland “Silk Road Economic Belt” and a “Maritime Silk Road Initiative”. The Silk Road harkens to the networks created during the Han Dynasty which created trade throughout Central Asia. The current iteration of the BRI will connect 65 countries and consist of energy pipelines, railway networks, and efficient border crossings, via the former Soviet Republics and south through Pakistan, India, and Southeast Asia. The PRC is investing heavily in port development in the Indian Ocean, Southeast Asia, and East Africa. Participant initiative countries currently account for 30% of global nominal GDP, 44% of the world’s population, and 40% of global GDP growth. The economic potential of the BRI for the PRC is, in short, staggering. As indicated the BRI is a broad and wide-reaching undertaking, and it could be qualitatively studied far beyond the current body of research.

**FDII Significance in Greece**

In so much as Germany is the beating heart of the EU’s economy, Greece, and its Mediterranean peninsula, represent the key and critical access point to the Union, accordingly the PRC has made Greece a key focus of the Belt and Road’s maritime silk road. Of the ports eyed by the Chinese, none carry more attention than Piraeus Port. China Ocean Shipping Company (COSCO), the state-owned shipping company, purchased rights for two of the port’s container terminals in 2008; in 2016 COSCO, for EU€ 368.5 million (USD 20.2 million),

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70 Ibid.
71 Inside China's Plan to Create.
purchased a 67% stake in Piraeus Port Authority. In doing so COSCO is now the port's primary operator. COSCO now owns a controlling share of the port business; they will review the remaining shares in 2021 when completing investments for facilities, annual fees, and future investments and interest. The port is currently ranked 36th in the world, up from 93rd when the deal was completed; capacity has seen an increase of .68 million Twenty-foot Equivalent Units (TEU’s) in 2007 to 4.15 by 2017. Piraeus is likely intended to link the maritime road with the overland belt via a proposed Chinese -EU high-speed rail line that would connect the port to Central Europe, from Belgrade to Budapest, all the while upgrading commercial routes in the region. Piraeus benefits Greece in many facets from employment, to trade, to connectivity. From this perspective Chinese FDII seems an indispensable asset if Greece is to maintain a place as a destination for trade. This allure indeed offers the PRC, much like their investments in Germany, a position of influence, both of which will be discussed in detail later in this paper. As influence is a likely product of all three investment vehicles, this has not gone unnoticed by some; when discussing the maritime silk road, the European Council on Foreign Relations (ECFR) had this to say about it:

“Besides the blue economy and naval power, the Maritime Silk Road is also about addressing what Chinese intellectuals have described for many years as a deficit of “power of discourse” … the ability of states to impose their concepts, ideas, and narratives and to shape international discussions. By playing on the mythical appeal of the ancient route that first emerged during the Song dynasty, China seeks to promote an attractive narrative in international politics. The Maritime Silk Road, therefore, comes with a major public diplomacy push.”

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73 Ibid.  
74 Fanni Maráczi, “The Geopolitical Significance of Piraeus Port to China.,” Belt and Road Center (PAGEO Research Institute, October 27, 2017), http://beltandroadcenter.org/2017/10/23/the-geopolitical-significance-of-piraeus-port-to-china/)  
75 Chinas COSCO  
The question remains however in how this influence manifests itself.

**PRC Human Right Violations**

If one has paid attention to current events or has a passing interest in international human rights, they would know that China is routinely rounding out the top of the list of human rights violators. The Hong Kong protests notwithstanding, the PRC has deployed a mass surveillance system in an attempt to cast a wide net and tighten control over society. In 2018 the Chinese government continued to collect and develop, on a mass scale, biometrics including DNA and voice samples used for automated surveillance purposes, a nationwide reward and punishment system known as the "social credit system", and applied “big data” policing programs “aimed at preventing dissent”. All of these systems are being deployed “without effective privacy protections in law or in practice, and often people are unaware that their data is being gathered, or how it is used or stored”.

There is perhaps no group in China however, that has suffered more under these authoritarian practices as of late than the Uighur Muslim ethnic group, who are viewed as an extremist separatist movement and a threat to the communist government. It is estimated that "some 800,000 to 2,000,000 Uighur's and other Muslims, including Kazakhs and Uzbeks, have been detained since April of 2017." While there is limited information about what exactly occurs in the camps, according to the Council on Foreign Relations:

“Detainees are forced to pledge loyalty to the CCP and renounce Islam... others said they were tortured....women have shared stories of sexual abuse...some released detainees contemplated suicide or witnessed others kill themselves.”

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79 Ibid.
80 Ibid.
82 Maitland, *Chinas Repression*.
83 Ibid.
While the PRC has yet to allow a thorough inspection of the detention camps, nor for that matter adequately address the Uighur situation, the reality remains they are likely in violation of several sections of the UDHR.

*German and Greek Responses: Economic Influence and Soft Power Dynamics*

Chinese foreign investment in the forms of FDI, SWFs and FDII have become important functions in the world economy. As examined the EU is increasingly a target for Chinese investment. While there is great financial promise for all parties involved, the PRC undoubtedly holds more a dominant position as recipient economies are using Chinese investment in many regards as a “tentpole” of sorts to create jobs and bolster their economies. Greece is an excellent example of the allure of PRC investment, as Plamen Tonchev and Polyxeni Davarinou observe in their paper *Chinese Investment in Greece and the Big Picture of Sino-Greek Relations*, that with regards to PRC FDII, Piraeus Port is of particular significance to the Greeks. The authors cite the Foundation for Economic and Industrial Research (FEIR/IOBE) who carried out a study examining the COSCO buyout of the Piraeus Port Authority (PPA). In terms of fiscal revenue FEIR claimed that:

> “the cumulative benefit over the period from 2016 to 2025 is estimated to stand at €511 million or €475 million in present value terms. The privatization of the port and its operation under the conditions of higher efficiency is expected to have a positive impact on the port turnover as well. Overall, IOBE calculates that the public revenue from the two agreements with COSCO, the concession in 2008 and the purchase of stock in 2016, will yield up to €893.5 million (€808,9 million in present value) by 2025. This amount is to be ensured from five
sources: stock sale, concession fees, dividends, taxation and social benefits (insurance 80 payments)”

In addition to Piraeus Port other PRC development investment initiatives such as Greek group Lamda Development, majority backed by a Chinese real estate company, Fosun International Ltd., which won an EU€7 billion project to develop Athens’ former airport at Hellenikon. Lamda Development estimates that the investment will help “create 10,000 permanent jobs during the construction period and 75,000 jobs during its maturity......expected to generate a 2.4% worth of the country’s GDP by completion date, while contributing a total of over €14 billion in taxes to the Greek state within a 25-year timeframe.” These examples are but two of the FDII moves by the PRC in Greece, both promise significant ROI for China and for Greece the possibility of job sector growth and economic expansion.

Greece began a divergent rhetorical path around 2016 when they blocked a statement intended for the European Council “following the International Arbitration Court ruling on the South China Sea. Thus, instead of the strong statement of support submitted to the European Council by the European External Action Service, acknowledging a ruling unfavorable to Beijing, the EU issued a very general statement on the arbitration outcome, delivering a symbolic victory for China. This victory was the result of Greece’s influence, along with that of Hungary and Croatia.” In 2017 they blocked another EU statement by the EU, this time at the United Nations which entailed criticizing China’s human rights record; Greece called the initial statement “unconstructive criticism of China”, elaborating that “Greece’s position is that

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84 Plamen Tonchev and Polyxeni Davarinou, “Chinese Investment in Greece and the Big Picture of Sino-Greek Relations,” Institute of International Economic Relations, December 2017, pp. 3-60.
85 Ibid, 33.
86 Plamen Tonchev and Polyxeni Davarinou, Chinese Investment in Greece, 34.
unproductive and in many cases, selective criticism against specific countries does not facilitate
the promotion of human rights in these states, nor the development of their relationship with the
EU.” It can be implied, and rather strongly at that, that Greece did not want to upset Beijing
and lobbied hard for the EU to tone down their statement. This is good. More such analysis was
needed in this paper.

As result of the 2008 global financial crisis which magnified the Eurozone crisis, Greece
had its credit rating severely downgraded which plunged the country into “deep recession,
accompanied by high levels of unemployment and a large deficit as a percentage of gross
domestic product (GDP).” As a result of this Greece was forced to take bailouts from the
European Commission, the European Central Bank, and the International Monetary Fund (IMF)
to avoid insolvency and subsequently instituted harsh austerity measures, and were subject to
“strong external interference” in their economic policy. From these stern and desperate measures
arose an emboldened Euroscepticism in both politics and the population; so much so that “a
coalition government was formed on the basis of its common Eurosceptic and anti-system
agenda, and the mainstream pro-EU parties were faced with substantive electoral losses.” For
impartialities sake it could be argued that Greece, in the face of such struggle and national
embarrassment, had an axe to grind. However, despite their criticisms of the EU, demonstrating
such an excoriation of its EU partners, on the international stage no less, and regarding agreed
upon human rights standards, was and is unprecedented. This is nevertheless consistent with
their logic, the inflows of Chinese investment are huge, Piraeus port alone is critical to the Greek
economy. Greek deputy prime minister Yannis Dragasakis recently warned that EU suspicion of

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88 Ibid.
China is “in danger of becoming a ‘self-fulfilling prophecy’ while reaffirming his country’s support for Beijing’s controversial “Belt and Road Initiative”. Dragasakis went on to say that Greece “badly needs investment” and that he hopes “logic prevails at the end of the day, which means we should take advantage of all opportunities and build on these prospects to further our collaboration.”

Examining the tenure of German Chancellor Angela Merkel is a telling sign in the underlying influence of the Sino-German relationship. Felix Heiduk’s study, Conflicting Images? Germany and the Rise of China is a telling look into the German approach. His findings suggest that “the dominant image of China is that of a key trade partner on whom Germany’s economy is increasingly dependent with little emphasis given to the political or normative discrepancies between the two countries.” Bear in mind Merkel “promised” a normative turn in foreign policy towards China going so far as meeting with the Dali Lama, drawing strong diplomatic protest from Beijing. However, her policy preferences found in her communications have been interpreted as suggesting “little space for the promotion of democracy or human rights, and heavily focus on economic cooperation and constructive engagement with China.” Heiduk applies his observations of Merkel's intentions via a methodology examining her communications for a period of six years, 2008 to 2012, in which:

"Merkel referred to China in close to 300 public communications. This [Heiduk's] article draws on a selection made at key events before, during and after China visits by Merkel, visits to Germany by high-ranking Chinese officials, and a number of high profile national and international events. Altogether 57 public communications were used for this study."

92 Ibid.
94 Ibid, 118.
95 Heiduk, “Conflicting Images? ,118.
96 Ibid, 119.
From these public communications Heiduk observes that China's economic capabilities "are of primary concern to Merkel as she envisions China first and foremost as an economic powerhouse." Notably Heiduk observes not only Germany's economic dependence on China but Europe's, citing Merkel who stated:

‘China has managed to surmount the international financial and economic crisis in an impressive manner and has thereby made a contribution to the abilities of others, especially Germany as an export-oriented nation but other nations as well, to overcome the crisis, too’. Or, in the words of one interviewee: ‘It is obvious to everybody that if China is doing badly, the world economy will do badly’.

Most alarming while Merkel does speak of human rights as an important issue it appears that her policy preferences are in fact “devoid of any references to policy actions such as policies to contain China, to increase pressure on China or to isolate China.” An example of this can be found her press statement regarding her 2012 China trip where mentions the Tibet issue:

"We spoke about the situation of human rights as a whole. The topic of Tibet was also brought up, but not quite explicitly, but as one of many topics that also worry us. It has been repeatedly pointed out here that there is a great interest in stable development. For my part, I always say that I believe that the vitality, diversity of a civil society should still be allowed, and that it will ultimately lead to the strengthening of a society and its capabilities."

Yet, as she does mention Tibet the statement was without any discernable action oriented language suggesting a policy correction in light of it and Heiduk aptly sums up that there is a "strong emphasis on a stable development of China as one of Germany’s main trade partners.

97 Ibid, 121.
98 Ibid, 124.
99 Ibid, 128
101 Heiduk, Conflicting Images, 128
While Heiduk's research spanned until 2012, Merkel's logic is still in line with current events as the past year has shown; during the six months of unrest in Hong Kong and throughout the Uighur oppression in Xinjiang, Merkel has been careful not to “explicitly support the pro-democracy, or condemn the internment camps.” This fits into the perception of China as “an (ever-rising) economic powerhouse and the self-perception of Germany as an export-driven trading state, Merkel’s policy preferences toward China are strongly dominated by economic concerns.” Looking at Merkel's position over time, however, is an exercise in contrast as she entered office championing the practice of Mut zu kritischen To¨nen, her “rhetorical commitment to a value-driven foreign policy towards China.” How so? Has Germany acted in specific ways (in terms of its policy statements on China or within the EC) which indicate that it is ignoring Chinese human rights abuses?

With Germany, the PRC gains access to the largest and most efficient, reliable economy in the European Union and with Greece, they gain a foothold, geographically in the Union, from port to rail to road. As the above data indicated these are no insignificant sums, and the investments have far-reaching implications, beyond the financial. There is a simple observation that can be made with such important economically dependent relationships, while both parties require their opposite, this is not symbiotic. The PRC is providing significant investment funding; thus, Germany and Greece are in the unenviable position of "policing” their language towards China, in effect not pursuing diplomatic or economic recourse. In Germany, PRC FDI is targeted at investing in German states which account for “nearly 90% of GDP and nearly 90% of manufacturing turnover” and PRC SWFs are funding acquisitions to gain footholds outside of German  

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103. Heiduk, Conflicting Images? 129.
104. Ibid, 129.
105. Hanemann, Huotari, and Kratz, Chinese FDI in Europe, 19
manufacturing and into different sectors. PRC FDII in Greece is targeted towards Greek ports and transportation hubs that promise both jobs and GDP growth. In short, these investments are pinpointed at critical revenue generating economic and geographic centers and are thus massively important to both countries.

As this research project set out to capture data that would affirm the alternate hypothesis it did indeed find qualitative and quantitative data that revealed the scale, scope, and breadth of PRC foreign investment in Germany and Greece. From this data it can be implied, with certainty, that PRC foreign investment, in the forms of FDI, SWFs, and FDII play a not insignificant role for China, Germany, and Greece. China clearly benefits via broad access to critical manufacturing and consumer markets, all while financing key strategic entry points to allow for further growth, Germany and Greece benefit as Chinese investment provides, at least for the moment, a stable capital investment source. This benefits GDP output for Germany, and in the case of Greece, besides a potential GDP bump, it contributes to both a stabilized economy and employment outlook. This data strongly implies that PRC foreign investment is quite important to Germany and Greece, and from this it can be inferred that PRC foreign investment, and its importance to both countries, carries with it significant influence. This is primarily observed in Germany's notional addressing of PRC human rights violations in their public discourse and not following up with any type of punitive measure towards the PRC as well as Greece's public statements seemingly defending the PRC, or at the very least showing indifference towards, their human rights violations. However, the critical data that was not uncovered in this research that was hoped for were policy statements and diplomatic and or inter-governmental communiques regarding the PRC, PRC foreign investment, human rights violations, and optimally, a nexus between the two. The absence of this material is likely due to the sensitive nature of the discussions and thought
processes behind any strategies or courses of action on the part of Germany or Greece. Accordingly, these materials, if they exist, are likely marked in some type of classification not accessible for public consumption. Without these sources it is not possible to see the definitive influence of PRC foreign investment on the governments of Germany or Greece. In other words, a causal relationship, while highly likely, cannot be determined.

**Discussion**

There are a great deal of factors involved with one country influencing another, this papers hypothesis, that *liberal democracies, who receive foreign investment from known human rights violators, tone down their rhetoric towards the violating investor country*, is merely a more obvious lens from which to examine this. While analyzing geopolitical influence can be nuanced, in the case of human rights via the lens of the UDHR, where a country stands on or more importantly what it says in regard to human rights is a telling indicator. The PRC is a known human rights violator, that is beyond question and in light of the Uighur situation, the public language of Germany and Greece is a telling indicator of just how Chinese investment has influenced both. While this papers hypothesis has fallen short of proving *causation* there is every reason to suspect that with further policy and position research, and through the natural development of Sino-German and Sino-Greek investment activity, a causal relationship will have a high probability of being established. What is needed is *more* policy data, the aforementioned diplomatic and inter-governmental material, a larger sample size of available data, and more thorough analysis.

The research question asked whether or not *influence of foreign investment from known human rights violators on liberal democracies with regards to attitudes towards these violations was part of a soft power strategy* and to those ends this dynamic was shown to have merit. Based
on the size and importance of PRC foreign investment in Germany and Greece and based on both countries’ language with regards to Chinese human rights violations, which occurred after the investment relationships had been established, it can be concluded that these investments absolutely influenced the German attitude and Greek criticism. This was not a coercive move, there were no known diplomatic pressures or otherwise on either nation to take these positions, yet nevertheless they did; this very much lines up with Nye's belief in the co-optive nature of soft power. In other words, a direct benefit from ample PRC foreign investment is the recipient country looking past, and as in the case of Greece, appearing to defend an authoritarian regime and its human rights violations. There is one particularly serious implication for theories discussed previously, mainly that globalization is a force for good. While it has connected economies, allowed nations to develop and grow faster, and has connected the world it also carries the ability to export anti-democratic views, and in the case of the PRC, authoritarian ones. While something like tied aid has strings attached, terms and conditions, FDI, SWFs, and FDII don't require these as their importance is implied by their size and importance to recipient economies. An important perspective that should be adopted is to view not only what foreign investment is for but to as well consider who it is from.

Conclusion

It is no secret that China is doling out massive amounts of foreign investment the world over. Of course, every country and investment situation are different, to examine them all would be an ambitious, if not difficult venture. Germany and Greece were each selected because they represent the opposite sides of EU economic strength, the former with an efficient and dependable economic engine and the latter on constant uneven ground; the former representing a stalwart and sound investment and the latter a risk-based opportunity with geographically
strategic value. Both, per the definition of this research project, are liberal democracies. While there needs to be more data to allow a pattern to emerge, the tenet question simplified of whether PRC foreign investment is influencing Germany and Greece was revealing. Both countries take on PRC human rights violations are concerning and very public admissions of impartiality. If Germany and Greece are willing to allow PRC foreign investment to attain such a status that it prevents them from speaking out against Chinese human rights violations what else might this portend?

Despite their economic attractiveness and potential, Germany and Greece are also likely attractive to China for strategic reasons as both are NATO members. While investing in Germany and Greece gives China entree to European markets and access to vital sectors and a first world consumer class, the fact that both reside within the US sphere of influence is not a fact lost on Beijing. As China extends its reach globally, out beyond the littorals of the South China Sea where they have, and are, using coercive hard power measures to mitigate territorial maritime disputes, it is likely they are employing co-optive soft power measures where hard ones would not be appropriate. As the global power structure is changing, with both China and Russia exerting their presence in what they consider their “backyards” and beyond, it would make sense to employ elements of soft power that do not raise outright suspicion in areas of strategic interest. It appears Beijing may indeed be deploying their foreign investments for precisely these purposes.

Germany and Greece have punted, so to speak, on PRC human rights issues, and while this is not a definitive interpretation of either's foreign policy with regards to China it does set an uneasy precedent. As China continues to assert itself will other questionable and aggressive acts draw condemnation or indifference from Germany and/or Greece? Will both nations remain
mum on PRC expansion in the South China Sea and other hegemonic type actions? As China increases investment to other EU partner nations, will those nations do likewise? What should be a major concern is how this impacts NATO. As the PRC expands its reach in Europe it is only a matter of time before NATO becomes an issue. If Germany and Greece are indicators, Chinese investment and its increasing influence will likely play a significant factor in how the EU and NATO carry out policy, coordination, and the execution of their mission. Degrading NATO's readiness would be a strategic win for Beijing, potentially expanding its own spheres of influence in the process. What has emerged, at least as a minor but significant indicator, is that at the very minimum China appears to be buying silence and at worst, compliance. It is likely this has not escaped Beijing's eyes but has in fact been a strategic cornerstone of their foreign investment strategy all along.
Bibliography


Curriculum Vitae

John Terrance Maguire was born on June 18, 1981, in Bronxville, NY. John attended the University of Delaware, where he earned a Bachelor of Arts in International Relations with a minor in Economics in 2005. John began his career at UBS Investment Bank in Stamford, Connecticut, and later moved into positions with Johnson and Johnson and SECO Group USA. He matriculated to the Krieger School of Arts and Sciences at Johns Hopkins University in January of 2014 and completed his initial class requirements. In 2015 John enlisted in the United States Army and attended Basic Combat Training at Ft. Jackson, South Carolina. In August of 2017, he matriculated back to Hopkins and was contracted into the Army Reserve Officer Training Corps program. In May 2020, he will earn a Master of Arts in Global Security Studies from the Krieger School of Arts and Sciences.