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New globalisation debate threatens Asia

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THE world is suddenly faced with a new economic policy dispute: National governments questioning the benefits and wisdom of cross-border mergers and acquisitions versus the imperative of economic globalisation relentlessly pushing such restructuring in the name of productivity and cost-cutting.

The depth and importance of this battle is not widely understood, despite its obvious importance for the future of globalisation.

The battle lines are visible both in Europe and in the United States, and are beginning to be seen in Asia. After the implementation of the single European market in 1993, the Europeans reaped considerable benefits from economies of scale, and restructuring of the continent's businesses was the next logical step. A truly European industrial structure, it was argued, should replace the out-of-date structures tailor-made to individual national markets.

Consolidation got off to a promising start. A wave of mergers and acquisitions swept through European nations. But the cross-border variety - which promised the largest efficiency benefits - proved a harder nut to crack. Admittedly, there have been some European cross-border mergers and acquisitions, but not nearly to the extent hoped for; and the apparent lag in productivity compared to the US has been partly ascribed to the lack of European restructuring.

Recently, several proposed deals have run into trouble with national governments in Europe: the plan by Italy's ENEL to purchase France's Suez; a planned merger of German energy and environmental giant E.ON and Spain's Endesa; the global steel giant Mittal's attempt to purchase Luxembourg-based Arcelor, itself one of the most prominent results of cross-border European mergers; a prospective union of Italy's Unicredito and Germany's HVB; and a merger between the Dutch bank ABN Amro and Italy's Antonveneta. That is not to mention the French government's uproar last summer when rumours circulated that Pepsi planned to buy the French food giant Danone.

In the US, the China National Offshore Oil Corp (CNOOC) was not allowed to buy the oil company Unocal. Chinese PC manufacturer Lenovo managed to get the green light to buy IBM's personal computer division, but only after a hard struggle. And now opposition has seemingly revived with the uproar over the US State Department's purchase of 16,000 computers from a Lenovo/IBM wholesaler.

An upcoming case is the French telecommunications giant Alcatel's bid for Lucent, where the delicate point is Lucent's defence and intelligence-related activities for the US government.

A political majority in the US Congress threw a spanner in the works for what the Bush administration thought was a done deal - the purchase by a Dubai-based organisation of a company running US ports - when commentators and politicians began to question the wisdom of allowing container ports to be managed by a company based in the Arab Middle East.

A deeper analysis reveals three motives that threaten not only restructuring of global industry but globalisation itself.

First, the fear of losing jobs and income has jumped from blue-collar workers to white-collar workers with higher education. Globalisation implies that no job is 100 per cent safe. Education, skills and even performance do not protect jobs from outsourcing.

Politically, that makes a difference, because white-collar workers have a potentially stronger political influence than their blue-collar counterparts. They know how to play the political game, because they form part of the political elite. Opposition from their side is thus far more dangerous for globalisation than resistance from blue-collar workers and trade unions. White-collar workers used to be the elite troops of globalisation. For them, it was almost entirely beneficial: No risk of job lost, but considerable gains from lower prices.

Now, these workers suddenly realise that their jobs may also be in danger, and they are reacting similarly to blue-collar workers and the trade unions. If this trend continues, globalisation may lose some of its most vocal supporters.

Second, governments worry about cross-border restructuring not because of the potential loss of jobs, which is manageable, but because of the potential loss of brainpower. After a merger, the purchasing company is not generally inclined to run duplicate planning staffs, strategic offices, research and development branches, financial headquarters, etc. These activities will be concentrated in one, or at most, a few places.

And in cross-border mergers, it is highly doubtful whether the 'brains' of the purchased enterprise will stay in its original home country.

Thus, the loss for this country becomes twofold. It loses the brainpower of the purchased company. Then, it loses the benefit of other companies either having or planning to establish brainpower to interact with the existing one now on its way out. Any ambition of creating an 'industry cluster' or building up a high-performing group of enterprises can be swept away.

The government's position to fight to keep brainpower is logical. It cannot be brushed aside or labelled old-fashioned protectionism. It goes deeper than that. The coalition between white-collar workers switching their political view from staunch supporters of globalisation to scepticism and governments strongly motivated to keep brainpower at home augurs a potentially formidable and acute threat to globalisation.

The third motive is national security. After the end of the Cold War, the most serious threat to the West disappeared. Instead, terrorism, infectious diseases and international crime pose a threat against not the nation but the well-being of societies. If and when a cross-border merger or acquisition is perceived as a security threat, politicians hit the brakes. And after having stimulated awareness in the population over precisely this kind of threat, they find it difficult or politically inopportune to run any risks.

This explains the Dubai case and also explains why the first reaction to the Alcatel/Lucent case was the raising of national security questions, pointing out that Lucent is a provider of high-tech weapons and intelligence-gathering systems at the heart of the US defence system.

What are the implications for Asia of this new pattern of behaviour? The new scepticism over cross-border mergers is emerging precisely at the moment when many of Asia's largest and most vibrant companies plan to go multinational, and many of them look at mergers and acquisitions as the right way to obtain the expertise and management know-how they need.

CNOOC's failed attempt to purchase Unocal, in this light, may be considered an ominous sign. If the Europeans and Americans start to put on the brakes, Asia may end up the big loser, finding its easiest route into the big league of multinationals full of obstacles, or, in the worst case, entirely blocked.

A warning shot has been fired. If the momentum of globalisation is to be maintained, both business leaders and politicians must understand the underlying fear driving opposition to cross-border mergers and acquisitions. Even more, they must find ways to deal with that fear and anxiety to ensure an equitable distribution of globalisation's benefits, as developed-country economies transition from a manufacturing base with threatened blue-collar jobs, to a service or IT economy with white-collar jobs under fire.

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