

The Dangers of 'Economic Nationalism'

Flaring 'economic nationalism' in both Europe and the US threatens to hamper not only industry consolidation but the success of Europe's Single Market and the broader process of globalisation. We discussed the current pressures and the role of CEOs and shareholders with former EU Competition Commissioner Mario Monti, who sees this as an important moment in Europe's economic development.

Sandra Lawson: Economic protectionism is not a new phenomenon, but it is grabbing headlines. Today's 'outbreak' seems more widespread than in the recent past. Is it also more virulent? What is new now?

Mario Monti: The rise of economic nationalism is part of a backlash against globalisation. In the US we see opposition to foreign investment, and in Europe we see the rise of economic nationalism or economic patriotism, in which governments intervene in cross-border transactions. The actions by the US and the EU have a mutually reinforcing—and harmful—effect, in which each encourages the other to be protectionist. And in Europe it is even more worrying, because this protectionism is undermining the European Single Market.

Mario Monti served as European Commissioner for Competition from 1999-2004 and as Commissioner for Single Market, Financial Services and Tax Policy from 1995-1999. In his role as Competition Commissioner he was responsible for European merger control, state aid and significant antitrust cases. He joined Goldman Sachs as an international adviser in 2005. He is President of Bocconi University in Milan and Chairman of Bruegel, the European economic think tank based in Brussels.

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But at the same time this economic nationalism shows the growing vitality of the Single Market. Only a few years ago, most transactions in Europe were domestic. Little went on in terms of cross-border transactions, and CEOs contemplating such deals could be dissuaded simply by governments exercising negative moral suasion. Many deals never even got as far as announcement because it was enough for governments simply to indicate their opposition.

What we see now is a more assertive attitude among CEOs, which I think is a very positive signal. It is as if the business community is finally realising the potential for the Single Market, which after all was created by politicians years ago. CEOs now want to exploit this potential, but this has led governments to be apprehensive about the consequences of their creation.

Their opposition has also been strengthened by political opportunism. Following the rejection by the French and Dutch people of the EU Constitutional Treaty last year, some European governments have the sense that doing something that is 'anti-EU' may go down rather well with public opinion.

So this is a moment of vibrant willingness by the business sector to put the Single Market in place. Politicians try to resist, but fortunately the European Commission has the instruments to step in and to enforce European Community law. That was done

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several years ago in 1999 in a landmark Spanish/Portuguese transaction when Santander wanted to acquire Champalimaud. The Portuguese government reacted but the European Commission stepped in, and the transaction was completed.

In recent years we have not seen such confrontations, because CEOs have not been as bold. For instance, the French government was in favour of the Sanofi/Aventis transaction; Novartis was interested in Aventis but ultimately it did not make a bid in the face of government pressure.

Now things are becoming more confrontational. I think this is positive. What is also quite significant and positive is that we are no longer seeing the exercise of a Franco-German axis against the advancement of the Single Market. Until recently, France and Germany would reinforce each other in blocking cross-border deals. Now, with the new German government, we see a visible lack of solidarity vis-à-vis these attitudes of France, and a greater willingness to play the European game.

SL: Why are CEOs now more willing to be confrontational and to take on political risk in this way?

MM: Within Europe, what could easily be done in terms of domestic consolidation has largely been done, and so the appetite for cross-border consolidation is there because economic reality calls for it. I think there is also a greater realisation and understanding of the EU instruments that can help enforce the Single Market.

CEOs have become adult citizens of the Single Market. The completion of that process—if this is not asking too much—would be that, when they are the target, they should refrain from calling their national governments for help. This would be the full emancipation of the CEO community from the political interference they always claim they don't want.

SL: What can CEOs do in order to diffuse some of the tensions around cross-border M&A, both within Europe and elsewhere?

MM: CEOs should not hesitate to enter into transactions even where they are likely to create tensions. When tensions do arise, CEOs should not give up. They should call for the use of the existing enforcement instruments. They should also avoid the 'psychodrama' that surrounds cross-border transactions and instead strongly advocate the merits of integration, not only in Europe but worldwide. This advocacy is sorely needed, and being assertive and bold in transactions is part of it.

SL: What role can shareholders play in this process? Is it helpful for them to become involved or to stay out and let management take the responsibility?

MM: I think shareholders should try to understand on a case-by-case basis what their interest is. This in itself is likely to reduce the space for excessive politicisation of these deals.

Of course there can be cases where the government is a shareholder, and in these cases it is probably impossible for the government to exercise its rights as a shareholder in isolation from its other concerns. In the European context it is perfectly

legitimate for governments to be shareholders; the EU Treaty is entirely neutral between public and private ownership.

But of course the Treaty requires that companies—whether government-owned or privately-owned—comply with the competition and Single Market rules. Governments cannot exercise their public authority powers—other than their powers as shareholders—to interfere with the playing out of competition in the Single Market.

For CEOs it is also increasingly important to understand the political landscape—very early on.

Let me give you a couple of examples of the sort of political reactions that should now be expected. For example, is there any link per se among steel, energy and banks? Probably not. Yet we have seen the French prime minister's bold intervention in the Gaz de France/Suez case, in part because the French government wanted to be able to show that it did have a say, whereas it had remained rather powerless vis-à-vis the Mittal/Arcelor transaction, which it did not like but where it was difficult for the French government to intervene.

So an energy case was handled in a way which reflected in part what had happened a few weeks before in a steel case.

Downstream, the Italians were furious about this French government intervention, which closed the possibilities for Enel to acquire Suez. Many Italian politicians had the

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reaction that Italy should stop the acquisition of Banca Nazionale del Lavoro by BNP Paribas. This was not done, but it was felt to be the thing to do, and it created almost a 'grand coalition' of right and left in Italy for a few days. So these cross-industry, emotional and political reactions will have to be taken into consideration.

Another example is the Polish government's reaction to the completion of the Polish part of the Unicredito/HVB transaction. The president of the Polish central bank has very courageously stood firm in support of this deal (in his capacity as chairman of the banking supervisory committee) in spite of strong political pressures against the transaction.

At the same time, he rightly points out that we have to understand Polish

public opinion. For many Polish citizens it is not so evident that there *should* be free movement of capital and the possibility for foreign acquisitions in Poland. After all, 'Polish plumbers' have been the scapegoat for opposition to the EU services directive and labour-market flexibility.

So you see these links within the M&A world, links between transactions in unrelated industries or in different parts of the Single Market in Europe that are linked through the political reflexes of the authorities.

As transactions become bigger, bolder and more cross-border, strong national reactions will likely continue to emerge. These are all factors that CEOs and their advisers should carefully consider—besides of course the usual antitrust considerations—

before announcing anything. And then of course CEOs should not be surprised at the hostility once they launch an unsolicited bid, and should stay their course.

SL: Over the longer term, how do you see this playing out? Will economic nationalism subside and the vast majority of deals get done, or will the deals not get done and the nationalism be stronger? What does protectionism mean for Europe and for globalisation more broadly?

MM: I believe the deals will eventually get done, or most of them will. The global perspective in two or three years will depend very much on whether the globalisation process becomes more acceptable. This will require a better organised governance of the globalisation process.

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What is required is something similar to what enabled the success of the 'continental globalisation' process in Europe over the past 50 years.

Although Europe's own integration has its weaknesses, on the whole it has been a success. Why? Because in the DNA of European integration, you have two components. One is liberating markets and dismantling various barriers to the free movement of goods, services, capital and people. The other component is co-ordinating some public policies. What we have had on a global scale over the last few years is a lot of the first but too little of the second.

Only five or ten years ago people were convinced that globalisation was a triumphant march without obstacles. Now it is obvious that there are backlashes against globalisation. These probably can only be overcome through a greater global co-ordination of public policies.

One small example of that taking place, in order to avoid undue backlashes, is a form of 'soft coordination' of antitrust principles, including the way in which mergers are reviewed by different jurisdictions. This was launched by the International Competition Network in 2001.

SL: What else would you like to see to smooth the process of globalisation? Within the Economics Department we often discuss the need to reform the G8 structure. Do you think that is important?

MM: I think that in order to achieve a more satisfactory governance of the globalisation process, we do need to

have more updated institutions and indeed more inclusive institutions. That is necessary to reduce the concerns within the BRICs countries, and in the emerging countries generally, that they don't have a voice.

I think an equally important component is rescuing globalisation from the backlash through a huge pedagogical exercise, a huge effort to explain to public opinion what the benefits from globalisation are. Despite the impressive statistics about the gains to be had from globalisation, it is easier to find politicians advocating protectionist measures in particular areas than it is to find forceful politicians arguing the case for globalisation.

SL: Recent developments in the US suggest that little is going to change soon on that front.

MM: Once again, what the US does has an exemplary impact elsewhere. Nothing is more keenly awaited by some in Europe than protectionist moves in the US—because they give courage to those leading the protectionist cause in Europe and weaken the position within Europe of the European Commission and of the free-market politicians. ■