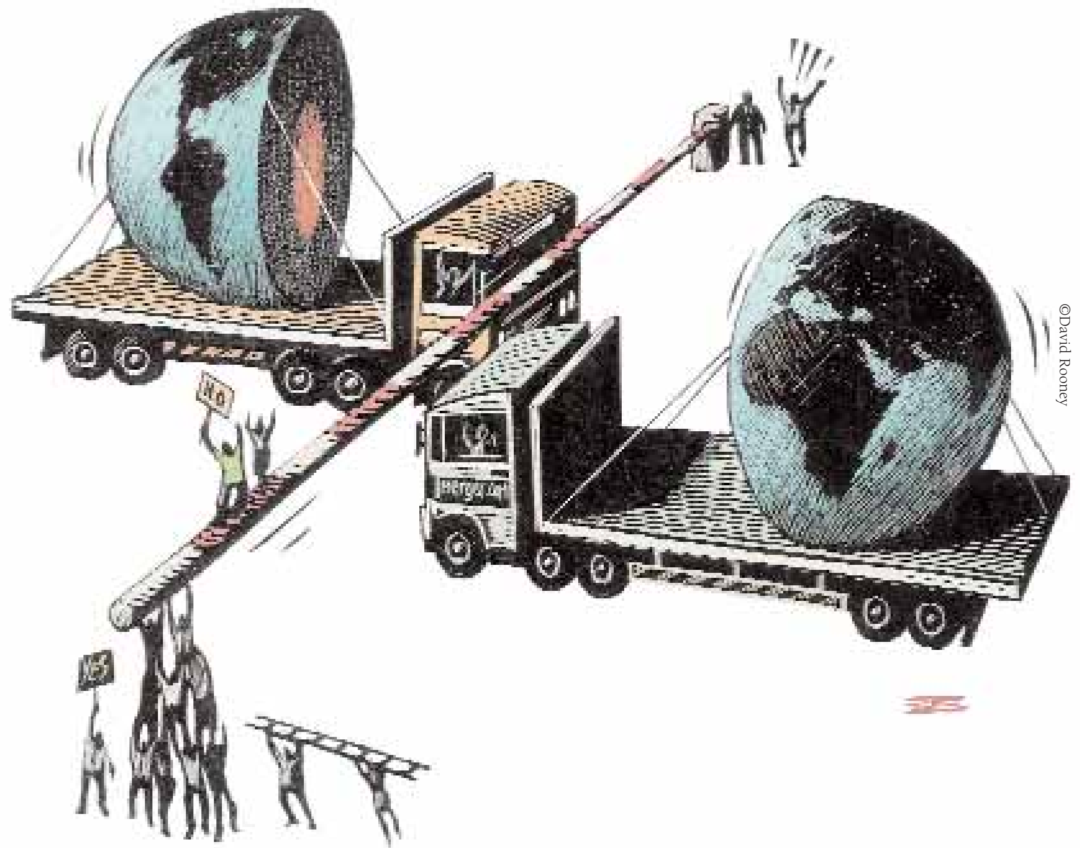

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Resist protectionism

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There seems to be a backlash among major OECD governments against free trade and investment. Businesses are worried.

A dangerous new trend is emerging in many industrialised countries. Widespread pockets of anti-globalisation sentiment, furthered by alleged national security concerns and a perceived need to protect "strategic" sectors have led to a resurgence of protectionism. Even in countries that have long promoted and benefited from global markets, politically-motivated barriers are being resurrected. These winds have temporarily chilled economic progress.

We have all watched the trade debacle as governments played tit for tat in the WTO negotiations on the Doha Development Agenda, regardless of the consequences for world development. The missed deadline for making a deal on agriculture and industrial goods on 30 April was merely the most recent chapter in a long story of missed opportunities to show real commitment to delivering the great benefits of free trade to the world. Policy leaders must now take the process out of the realm of one-upmanship and give negotiators the green light they need to make a real difference.

However, what we are seeing in the investment arena signals that government support for trade liberalisation seems to be waning and OECD policy leaders appear to be turning their attention to stop certain cross-border investments. This is worrying. Several governments have

recently interfered in business deals involving "domestic" and "foreign" companies, no matter how sensible those deals may be.

Earlier this year, the French rushed in a merger between domestic energy companies to fend off a bid by a foreign one. In the wake of a takeover case involving Arcelor, a steel company, Luxembourg flirted with the idea of anti-merger legislation. Several European countries have intervened to prevent mergers in their banking sector. In Asia, normally dynamic Korea recently resisted a US bid for a tobacco company. Meanwhile, the US's lawmakers have proven themselves to be no angels either by vigorously opposing, amid much public fanfare, a foreign investors' plan to take over running some ports.

Nobody can really know how many more similar investment plans were dumped in CEOs' waste baskets because potential investors anticipated knee-jerk government protection. But let's not confuse protectionism with patriotism. For politicians, resorting to protectionism can boost short-term popularity. However, the reality is that such responses harm the very industries–and jobs–they claim to protect. How? Protection deprives targeted companies of additional capital, for a start. Improving management, restructuring business strategies, opening new markets: all of this is sacrificed. Protectionism not only means missed opportunities, but can prolong weak management or underemployment among production workers. That is why it makes countries poorer.

In contrast, there are very many examples of sectors and economies that have benefited from takeovers and mergers. Your employer, your airline or your bank may be the result of one. Nor are mergers and acquisitions (M&A) abating: from January through March, the global value of M&A averaged $10 billion a day. This is the highest since the dot.com boom in 2000. Governments, through good policy, have contributed to such successes. They should continue to welcome bidders from other countries, rather than trying to scare them off.

This is not to say that mergers are always the right thing to do. They can work or they can fail, but that is a business matter. If a merger goes wrong, markets will push companies into making changes, and probably at much lower expense and at greater speed than the cost and time it can take to correct a heavy-handed government decision.

We are not saying globalisation is perfect, but the alternative would be disastrous.

Sure enough, governments have a duty to assure that strategic interests and security are not compromised, but that argument is too easily abused. In ports, for instance, national interests can be served through proper governance and oversight–whoever runs the business. As for steel, quite how a national interest can be justified to stop a cross-border merger that promises higher output in that stricken sector is unclear.

Ultimately, most OECD governments know perfectly well that protectionism will not prevent overall cross-border merger activity from happening. Also, thanks to existing international rules under the OECD, WTO and regional agreements, governments have only limited leverage left to actually block deals. Governments themselves wanted it that way! After all, they set up these organisations with a mission to remove obstacles to growth and development, not to introduce barriers.

Meanwhile, the dynamics behind globalisation continue strong. Companies have cut costs, reduced debts, restructured balance sheets and raised profits. Cash is abundant, debt can be financed cheaply and most economists, including those at the OECD, are generally upbeat about the world economy, despite some downside risks. In this context, companies will persevere with restructuring, hunting economies of scale and higher international market share through investment and M&A activity.

While protectionist-leaning politicians cannot stop this, their interference can drive up costs and generate the kind of uncertainty that forces companies to look for less beneficial alternatives. This makes life more painful for the sectors, companies and employees affected. Surely, policymakers should concentrate on creating a growth-friendly environment and developing a legal and regulatory framework in which economies can smoothly adapt to the pressures of globalisation. Clearly, recent government actions show that all countries have much to do before this lesson is fully understood.

The OECD must play a lead role in changing this. The organisation has done more to promote the benefits of foreign investment over the past four decades than any other international body. Its members, who are home to the vast majority of global investors, have all made binding commitments under the OECD Codes of Liberalisation and the Declaration on International Investment and Multinational Enterprises to promote international investment long before the WTO started to negotiate investment under the GATS. Furthermore, the OECD's Guidelines for Multinational Enterprises have positively influenced the responsible behaviour of multinationals and through this further enhanced the benefits of direct foreign investment. Now, the Policy Framework for Investment continues this work.

Still, the OECD must become more vocal in warning against the dangers of unnecessary government protection, whether in trade or investment. More must be done to defend the merits of globalisation and call the bluff of protectionist policymakers and cynics. We are not saying globalisation is perfect or that investors have all the answers to the world's problems. But the alternative of more protection and less trade, investment, wealth creation and jobs would be disastrous for everyone, rich and poor alike. ■

Reference

- Visit www.biac.org.