WSJ.com THE WALL STREET JOURNAL. ONLINE

Ports Deal Shows Roadblocks for Globalization

Foreign Buyers, Not Trade, Spark a Political Backlash; Angst from Bolivia to France

By GREG IP and NEIL KING JR.
March 11, 2006

Not so long ago, the globalization of business looked like an unstoppable steamroller. But the steamroller has run into some big roadblocks.

In the U.S., facing an almost certain congressional veto, Dubai Ports World said it would shed U.S. port operations acquired when it took over a British company. That came just months after a political uproar derailed a Chinese bid for a U.S. oil company. In France, Spain and Poland, governments have sought to block foreign bids for domestic companies.

In Korea, U.S. corporate raider Carl Icahn's march on a tobacco company is fueling calls for restraints on foreign investment. And in Bolivia, a new populist government has joined a Latin American revolt against free markets by vowing to renationalize several major businesses that came under foreign control during a wave of privatization in the 1990s.

The new bidders are targeting sensitive industries such as port management, energy, banking and utilities -- businesses once owned, in some cases, by governments. The ensuing uproar reflects not just xenophobia stoked by fears of terrorism, but a broader anxiety among workers in developed countries: that their livelihoods are threatened by imports, immigrants and low-wage workers.

If this backlash doesn't fade, it could disrupt a world economy that has become increasingly interdependent. The risk to the U.S., in particular, is that it will discourage the flow of foreign money on which the U.S. economy depends, potentially raising interest rates and slowing the pace of economic growth.

In the last decade, globalization increasingly has moved beyond the exchange of goods and services across borders to the purchase of entire companies. Last year, cross-border mergers and acquisitions totaled almost $900 billion, according to Thomson Financial, up more than 50% from 2004, and the highest ever except for the bubble-economy years of 1999 and 2000. Countries that have long looked suspiciously at foreign investment are now big recipients: Total foreign purchases of French companies hit an all-time high last year.

Yet increasingly, would-be buyers aren't familiar multinational brands such as **General Electric** Co., **Royal Dutch Shell** PLC and **Nestle** SA, which have been crossing borders for years. They are unfamiliar firms from newly wealthy lands such as China and the United Arab Emirates.

Two recent high-profile bidders for U.S. assets, DP World and China's **Cnooc** Ltd., which unsuccessfully bid for oil company Unocal Corp. last year, are state-owned companies from countries outside Europe. Both proposed deals involved strategic assets: ports for DP World, and oil and natural gas for Cnooc.

"We are dealing now with a brand-new international animal called state-owned enterprises that are looking to spend a lot of money abroad," says Rep. Donald Manzullo, an Illinois Republican and vocal opponent of the DP World deal. "They are not capitalistic. They are not free market. They are not bound by the rules of profit and loss...and they are going to gobble up international businesses as we know them."

Mainstream economists and senior government officials in the U.S. and elsewhere often welcome globalization. It can bring outside expertise and capital to domestic industries, lift living standards and create more efficient global supply chains. But the outrage over the ports deal shows that many voters think they aren't benefiting from globalization and, in fact, blame it for their economic insecurities.

Raghuram Rajan, chief economist for the International Monetary Fund, cites fear of terrorism, fear of unskilled labor taking away good jobs in rich countries and shock at the types of companies that are now up for grabs. As deals get bigger, he says, the target companies are "more central to a country and are raising fundamental questions."

Treasury Secretary John Snow dismissed the port furor as "an isolated incident" that did not reflect overall trends in the U.S. Indeed, China's **Lenovo Group** Ltd. managed to overcome complaints from some politicians and acquired **International Business Machines** Corp.'s personal computer business for $1.25 billion last year. The Korean government, so far, has resisted calls for restrictions on foreign investment, and India and Japan have become more receptive to foreign investors.

But in Washington yesterday, President Bush told a group of newspaper editors that he was "concerned about a broader message this issue could send to our friends and allies around the world, particularly in the Middle East."

The U.S. must attract more than $10 billion in new capital each week to compensate for its inability to save enough to finance domestic investment and spending. That capital comes in two forms: "direct" investment, the purchases of land or companies or construction of new factories; and "portfolio" investment, the purchases of U.S. stocks, bonds and other IOUs.

If foreign direct investment is driven away because of political hostility, the U.S. will have to offer higher interest rates to attract additional, compensating portfolio investment, Mr. Rajan warns.

The uproar over the Cnooc and DP World deals is likely to give some potential foreign investors second thoughts, particularly those from developing countries. "It does make it more difficult for people to bid for U.S. deals," says Raimund Herden, global head of mergers and acquisitions and corporate finance at Dresdner Kleinwort Wasserstein in Frankfurt.

Since World War II, the U.S. has led efforts to break down barriers to trade, and in recent decades, the barriers to investment. Separately, many governments have moved to deregulate much of their domestic economies, particularly in finance, telecommunications, utilities and transportation, and to sell off government-owned enterprises to private, often foreign, investors.

Many consumers understand how free trade can bring them cheaper goods but find it difficult to grasp how they benefit if a foreigner buys the company they work for. Starting in the 1980s, Bolivia instituted harsh stabilization policies prescribed by the

International Monetary Fund and sold off many government-owned enterprises, in some cases selling control to foreign owners. The policies ended hyperinflation and boosted Bolivian economic growth to among the fastest in Latin America. But few benefits trickled down to the average worker, and both extreme poverty and a wide gap between rich and poor persisted.

Demonstrations against foreign investment began several years ago, culminating in the election last year as president of Evo Morales on a platform of renationalizing the natural gas industry. This past week, his government said it would seek to regain control of privatized companies in energy, oil, telecommunications, air and rail.

Even though the government hasn't spelled out specifics and has suggested foreign investors would be fairly compensated, foreign investment has dried up. If the sector is renationalized, the "state treasury of Bolivia doesn't have the resources to continue exploring for natural gas," says Ivan Rebolledo, president of the Bolivian-American Chamber of Commerce in New York.

Moreover, because Bolivia has not participated in a free-trade agreement between the U.S. and several other Andean countries, it risks losing preferential access to the U.S. market at the end of this year.

In France, rumors last year that U.S. snack-food giant **Pepsico** Inc. would bid for French dairy company **Groupe Danone** prompted the French government to call for "economic patriotism." It followed with a decree last December declaring that 10 strategic sectors would be subject to heightened scrutiny in the event of a foreign takeover.

When French water, waste and energy company **Suez** SA became the target of a bid last month by Italy's Enel SpA, the French government hastily arranged a merger with state-controlled Gaz de France. One goal of such government-backed domestic mergers, and of similar ones in Spain, is to create national champions that can then buy companies in other countries, a kind of one-way strain of globalization.

The spasm of economic nationalism in France obscures the fact that government intervention in its economy has been shrinking. Over the last decade, numerous government-owned enterprises have been privatized, and several major French companies, such as aluminum maker Pechiney SA, insurer **Assurances Generales de France** SA, and the bank Credit Commercial de France have been bought by foreign companies.

France has "schizophrenia with respect to globalization," says Sophie Meunier, a specialist in French international economic relations at Princeton University. "You have these extremely public displays of worry about foreign investment, and on the other hand an extremely open French economy."

The backlash against foreign takeovers is fueled by anxiety over France's move to a more flexible, market-driven economy. Inside France, the arranged marriage of Suez and GDF is under fire from opposition Socialists and labor unions because it would result in the de facto privatization of GDF, as the government would have a minority stake in the combined enterprise.

Opposition to foreign investment in the U.S. springs from some of the same roots. Though the U.S. economy has grown strongly in the last three years, wages have not, and many workers blame that on competition from China. High oil prices, blamed on

foreign producers, also have contributed. Both those anxieties fueled hostility to Cnooc's bid for Unocal.

Now, a flurry of legislative proposals seeks to put foreign investment under more intense scrutiny. Two House Republicans, for instance, are pushing a bill that would block foreign companies from buying into a wide array of enterprises, ranging from energy companies to utilities. Many lawmakers, citing the need to protect "American sovereignty," are also fighting an effort by the Bush administration to further open the U.S. airline business to outside investment.

Other legislative proposals would give the interagency Committee on Foreign Investment in the United States, which typically weighs and signs off on about 250 foreign deals a year, purview over a broader array of deals, while raising the hurdles that investors must clear. There is even talk of giving Congress some form of veto power, a move that U.S. business and the Bush administration would fight strenuously.

It may be hard for the U.S. to turn its back on foreign investors, not just because it needs to finance its overseas borrowing, but because of evidence that such investment creates jobs.

Mr. Manzullo, the Republican opponent of the DP World deal, represents a heavily industrial corner of northwest Illinois centered around Rockford, which has been hit hard by the downturn in U.S. manufacturing. The region's saviors have been foreign investors from China, Israel, Italy and Germany who have swooped in to buy bankrupt companies.

Across the state, more than 250,000 people now work for foreign-owned companies. "People in my district are very aware that we live in an international economy," says Mr. Manzullo. But the ports deal, he said, "went right to the gut."

---- Jason Singer in London contributed to this article.