The strange paradox of economic nationalism

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In his blackly humorous book, Air China, Tom Chastain relates how he and a US business partner blew some $400,000 in the trying to buy mainland companies that turned out to be flubs. The company would have quite different problem today. Chinese companies are generally better run than a decade ago. But they are becoming harder for foreigners to acquire.

Lengthening official delays in approving deals, combined with a political backlash over foreign companies’ growing role in the economy, have put international investors on guard. China’s door may still be open but those waiting outside are less sure of a welcome than even six months ago.

Empirical signs are also being posted elsewhere in Asia. In Japan, “priceless” defense decisions are withholding, while takeover raider have been weighing agains foreign bidders. In South Korea, where economic nationalism has long been the latest mission, the idea of using “golden shares” to block unwelcome bid approaches, such reactions are perhaps understandable in long-closed economies that have opened up to foreign capital as never before. But as dramatic to the China, whose foreign direct investment inflows are 8% of gross domestic product. While FDI levels are much lower in Japan and Korea, over $10 billion of Tokyo’s stock exchange into almost half of Seoul’s are foreign-owned.

Hostile bids from abroad are still unknown in both countries. But many firms see as a probe being foreign investors who moved in after the 1998-99 economic crisis. In Japan, the buyout wave started early this year, with Japanese companies like the Sanyo Electric Company and the Matsushita Electric Industrial Company raising bids for both Japanese and foreign targets.

In Korea, the buyout wave started early this year, with Korean companies like the Samsung Group and the LG Group making bids for both Japanese and foreign targets.

Foreign investors offering to build new facilities are faced almost everywhere. Yet trying to buy local businesses can lead them into a minefield.

Investments are sometimes “briber” because they visibly raise national opinion, employment, and exports. While acquiring are being seen as a way to preserve “national” and “strategic” companies to the world. One is the case of the Sanyo Electric Company, which has been seen as a threat to the Japan economy if it is not acquired by a Japanese company.

The new threat is that foreign ownership turns companies into new branches of remote head offices. Yet only is the evidence for that claim most; it is at odds with subsidiaries companies’ growing tendency to become the decision-making and with western workers’ complaints that foreign-owned companies are displacing more highly skilled jobs at home. Nor, utility to popular perception, are foreign-owned companies in general seen more ruthless than local ones about moving work abroad.

Equally misplaced are fears that foreign takeovers threaten national economic sovereignty. These fears are often greatest in countries such as China, where local producers who are less efficient than their privately owned counterparts - seems recently to have been extended to a broader producer of defense equipment.

Typically, the main beneficiaries of such policies have not been national economies, but the managers of “strategic” companies and their bureaucratic overlords. Their status creates powerful advantages to power and, above all, the transparency of procurement. Therefore, they are often less likely to have to compete for new projects.

Of course, not all foreign takeovers are always beneficial for any reason. But the fact that the result depends on the location of every case.