Geneva Centre for Security Policy
Centre de Politique de Sécurité, Genève
Genfer Zentrum für Sicherheitspolitik

Program on the Geopolitical Implications of Globalization and Transnational Security

GCSP Policy Brief Series

The GCSP policy brief series publishes papers in order to assess policy challenges, dilemmas, and policy recommendations in *all aspects* of transnational security and globalization. The series was created and is edited by Dr. Nayef R.F. Al-Rodhan, Senior Scholar in Geostrategy and Director of the Program on the Geopolitical Implications of Globalization and Transnational Security.

GCSP Policy Brief No. 6

Oil, Ports, and Steel: Symptoms of Global Insecurity

Dr. Graeme Herd
Faculty Member
Geneva Centre for Security Policy

Dr. Nayef R.F. Al-Rodhan
Senior Scholar in Geostrategy and Director of the Program on the Geopolitical Implications of Globalization and Transnational Security
Geneva Centre for Security Policy

July 7, 2006

To comment, please email Bethany Webster at b.webster@gcsp.ch.

Avenue de la Paix 7bis
P.O. Box 1295
CH-1211 Geneva 1

Telephone +41 22 906 83 17
Telefax +41 22 906 16 49
www.gcsp.ch info@gcsp.ch

Abstract

The United States rebuffs China over an attempt by the Chinese National Offshore Oil Corporation to take over Unocal. Dubai Ports World fails in its bid to acquire port operations in the US. And Mittal Steel fails to purchase the European steel giant Arcelor. All three of these recent cases can readily be understood within the context of globalization and can be seen as symptoms of an insecure world. The increasing economic penetration of Euro-Atlantic markets and industries (steel, ports, and oil) places stress on a Euro-Atlantic and particularly a US self-perception of economic success and status. It highlights a deep-seated and barely acknowledged Euro-Atlantic resistance to the increasing pace with which economic power is being redistributed toward India and China and its implications: the realities of relative decline. These issues challenge key assumptions that underpin today's globalization (not least the supposed relationship between global economic interdependence and stability) and so begin to identify the contours of the next phase of globalization.

Policy Challenges

Dubai Ports World (DP World), Mittal Steel, and the Chinese National Offshore Oil Corporation (CNOOC) all provide high-profile contemporary examples in which Western states have prevented companies in the Middle East, India, and China from buying domestic ones; by doing so, these same Western states have prevented the global economy from operating according to free-market principles, whereby acquisitions should be governed by economic considerations, not political ones. Collectively, these episodes suggest that "economic patriotism" is as much a political response to the perception of untrammeled globalization as it is an economic one. As the dynamics of globalization have undercut the importance and influence of national leaders, these leaders have stressed their patriotic credentials by appearing to "take a stand" in the national interest. Such political posturing has two short-term political virtues: Politicians appear stronger and more effective, and, at the same time, they undercut the source of their diminished status and power (globalization). Ultimately, though, such short-term actions undermine the legitimacy of free-market principles and a liberal economic order – the hallmark of contemporary globalization – and the system that provides more benefits than costs to developed states (if not all developing states as well). This paper demonstrates the tensions, challenges, and dilemmas generated as politics remains national, but economics and security global.

DP World made a $6.8 billion offer to acquire London-based Peninsular & Oriental Steam Navigation Co. (P&O), which controlled five US port terminal facilities.[1] By acquiring P&O, DP World would have assumed control over those port operations. Given the close ties between the US and the United Arab Emirates and the fact that US intelligence agencies did not object to the deal, it was expected that the acquisition would proceed. However, in response to fierce opposition from the US Congress, which cited security concerns ("giving Arabs control of our ports" and so imperiling national security), DP World was forced to divest its container terminals in the US. It did so to an American entity in March 2006 after the House Appropriations Committee voted 62-2 to block the deal. The DP World deal came in an election year (the US mid-terms), and this, more than objective security considerations, appears to have politicized the issue.[2]

In mid-2005, US Congressional detractors and Chevron lobbyists forced the CNOOC, China's largest offshore oil producer, out of the running for Unocal, which was eventually taken over by Chevron. Although more than half of Unocal's oil and gas production comes from seven countries outside North America, it was argued that oil and natural gas are strategic assets critical to US national security; hence, Unocal ought not to be in foreign hands, the argument went. This acquisition would have been the largest international acquisition by a Chinese company.

In line with global consolidation in the steel industry, bankers working for Mittal Steel (headquartered in Amsterdam but run from London), whose chairman is Indian-born Lakshmi Mittal, have made a bid for Arcelor, a Luxembourg-based company, in a move that would create the world's biggest steelmaker, three times larger than its nearest rival.[3] European politicians, particularly parliamentarians in Luxembourg, France, and Spain, have attempted to prevent this acquisition through new anti-takeover measures and have justified these restrictive protectionist practices in terms of "economic patriotism", an expression coined by Dominique de Villepin, France's prime minister.[4]

In May 2006, Arcelor announced plans to merge with a Russian steel company, Severstal, which is run by Aleksei Mordashov. If the merger succeeds, it would create the largest steelmaker in the world and therefore replace Mittal as the industry leader. Joseph Kinsch, Arcelor's chairman, stated that the Russian merger made better sense: "We are close to one another, because we are steel makers and because of our origins… just like us, [Mordashov] grew up in this business… he's a true European."[5] Such statements have reinforced the perception that the original Arcelor reaction to the Mittal bid was xenophobic and racist. The merger with Severstal would undercut the Mittal bid and create an industry rival instead of an ally. Some analysts have questioned the validity of the deal, and the economic and political implications will most likely have larger policy consequences.

Although Mittal Steel did eventually merge with Arcelor on June 29, 2006, the policy challenges raised by these three closely watched and controversial acquisition attempts center on how to manage growing economic interdependence (which is presumed to increase stability) while avoiding or minimizing politicized reactions that aim to maximize electoral support – in other words, on how to balance objective national economic security benefits with the more subjective political advantage.

Responses

Chris Koch, president and chief executive of the World Shipping Council, characterized Congressional efforts to limit foreign ownership of US port terminals as "myopic." Rather, Koch said, the U.S. must include companies such as DP World as partners in efforts to protect the global supply chain: "Congress just told the third-largest terminal operator in the world that it did not trust them. The facts presented did not justify such a judgment of the company."[6] US Homeland Security Secretary Michael Chertoff tried to assure Congressional opponents of the deal that the proposed acquisition of London-based P&O's local ports by DP World would not threaten national security because, as a precondition for the proposed buyout, DP World was committed to cooperating with future port-security initiatives.[7]

As a result of the CNOOC's failed bid, Unocal shareholders lost about $2 billion in comparison with Chevron's lower bid (the CNOOC offered $18.5 billion, a premium compared with the $17.3 billion bid offered by Chevron), and the US executive branch's well-established regulatory framework to deal with foreign acquisitions of U.S. companies was damaged. The CNOOC was set to benefit from a subsidized state loan to fund the acquisition ($7 billion, at low interest), thereby exacerbating concerns that the playing field was not level and encouraging political opposition in the US.[8] The policy response was characterized by the classic "political blame game," as different actors tried to "out-tough" each other by justifying their opposition with references to national strategic interests. Protectionist instincts and politics won the day. After the deal was prevented, policy responses centered on two Congressional proposals aimed at giving the US Committee on Foreign Investment more power over mergers. A bill from Rep. Duncan Hunter, R-Calif., sought to stop foreign companies from owning infrastructure or "systems" vital to national security.[9]

The Mittal Steel issue highlights a rather paradoxical French (and more widely European and even global) attitude towards manipulating the free-market system in favor of national economic interests rather than in accordance with free-market principles. While France is keen for its own multinationals to invest globally and acquire assets abroad, and for foreign firms to create businesses in France, it contests foreign efforts to merge with and then own French firms. Ten major companies on the CAC 40 index of the Paris Bourse are exempt from foreign takeover bids. At the same time, as the Doha Round of international trade negotiations illustrated, China, India, and Brazil are also resisting calls made by developing countries for greater liberalization, as they seek to protect their state-controlled economies and national industries. As Patrick Sabatier, the deputy editor of the Paris daily "Liberation," noted: "Economic patriotism is the flip side of free-market liberalism and part of the current fashion for globalization à la carte."[10]

Dilemmas

1. How much security does the Western world want, and how much can it afford? How can greater security be ensured without undermining the global economy and free-market principles? Congressional demands for more powers to review foreign contracts following the DP World bid, for example, risk stifling foreign investment into the US, and policy makers attempting to maximize national security can undermine economic security based on an open investment culture.
2. Moves to increase domestic security can have a negative impact on foreign economic policy and weaken the ability of states to secure their foreign policy objectives. Given that the UAE is a staunch US partner in the region and supports the US in the so-called global war on terror, how can domestic economic security considerations be balanced with broader international security objectives?
3. How can responsible political actors undercut the power of self-indulgent populists who enflame public fears through political theater without isolating themselves from their

publics? To what extent must mature actors pander to the worst fears of their electorates and target audiences, and to what extent can they challenge and change public opinion?

Implications

Paranoia over the proposed Dubai ports deal and Chinese-owned oil companies and Indian-owned steel companies are proxies for a growing European and American discomfort with globalization. Such angst represents a generalized fear of foreigners squeezing out US and European corporations and taking employment from middle-class workers who have experienced the phenomenon of growth without job or wage increases. This reaction is not completely new to the US. In the 1980s, at a time when the US economy was also struggling, Japan was viewed in much the same light when attempting to purchase large buildings in New York.

This reaction also reflects a deep insecurity about globalization and its implications: a process over which Euro-Atlantic governments feel they have lost control and are now increasingly vulnerable to the forces they have unleashed.[11] As a result, political elites in the US and Europe are increasingly willing to securitize issues – "soft on terrorism", "soft on US jobs" – in order to gain political advantage, and this increases pressures toward isolationism and nationalism. The backlash against globalization is justified by claims of state exceptionalism and the promotion of "national champions." Such a policy approach, paradoxically, increases the danger of nationalism being reignited even as globalization downgrades the importance of states. It feeds the growing xenophobia that is currently felt in the US due to the security crisis in Iraq and the current standing of the US economy.

Since the U.S. has no experience with state-owned companies, the bid by DP World naturally caused many negative reactions about the possibility of a foreign, state-run company taking control of a number of US ports. While it is true that, if this company were not state-owned, the government probably still would have opposed it, the reaction would have most likely been much less severe.

There is a common perception that state-owned and state-run Chinese energy firms are one and the same and that both are vehicles of Beijing's foreign policy in the field of energy. However, the owners of the CNOOC would argue they are state-owned but independently run and not a foreign policy instrument. Regardless of the relationship, it is difficult to accurately forecast the implications of the Unocal episode on how China will exert its influence on the global oil market in the long run.

The Mittal Steel issue has drawn accusations of racism and discrimination from India. Indian Commerce and Industry Minister Kamal Nath stated: "We have told [the French authorities] that [skin] colour and nationality should not be… criteria in such deals... [they] should be

[made] on the basis of purely commercial considerations."[12] Although French Trade Minister Christine Lagarde was quick to assure India that Paris did not discriminate on the basis of skin color, nationality, or race, the perception of double standards in attitudes to globalization was apparent. This attitude appears universal: France did not object to the acquisition of a French firm by another European company; India would not be open to a major investment by a company owned by Pakistan's government. Such restrictions on cross-border investments in the global marketplace only hinder development and economic growth.

Future Trajectories/Scenarios

The issues touched on in this policy brief are likely to become even more accentuated in future phases of globalization that even now appear to be characterized by a scarcity of energy supplies, increasing competition for these resources, and accelerating climate change.[13] The way in which the high-profile takeover bids examined in this policy brief were politicized by state elites and non-state actors in 2005 and 2006 challenges the notion that increasing economic interdependence among the world's economies through globalization enhances their stability.

US strategic interests weakened: Long-term consequences for the US include damage to its strategic interests and the possibility of destabilizing global markets. The way in which the US reacted demonstrated that it was afraid of terrorism, that it did not trust Muslims, and that it was prepared to alienate and then abandon an ally (UAE) when put under pressure. This reaction also has the potential to weaken the US dollar as a major currency, as it stigmatized and undercut the basis upon which the dollar maintains its value: the fact that it offers a wide range of investment choices and opportunities. If foreigners decide that their cash is better spent elsewhere, then this could damage prospects for US growth.[14] The present economic order is largely an artifact of US actions following World War II, one that was constructed to serve US interests but that no longer works only to the advantage of the US. If the US uses inward-looking protectionist measures to insulate its economy, this will damage globalization, which is based on a liberal international order and free-market economies (underpinned, for example, by the WTO), and may cause its retreat.

EU protectionism increasing: Europe's leading business lobby group has claimed that industrialists want stronger political leadership in the event of sensitive takeover battles, such as Mittal Steel's hostile bid for Arcelor. Ernest-Antoine Seilliere, head of UNICE, a European employers federation, said that there had been "no meaningful political answer" to the Mittal bid at the European level, only national responses from Belgium, France, Luxembourg, and Spain. He suggested that a stronger sense of political direction was needed and that, without a stronger EU voice, "business [would] become less interested in what's happening in this part of the world". Steel, he argued, was a symbolic industry whose future had sparked great passion – the Mittal bid was "a symbol of globalization against a symbol of

Europeanization".[15] It would be paradoxical if such a reaction were to become more widespread: states consolidate into regional economic blocs in order to protect themselves against the perceived encroachment that globalization poses for national economic independence.

Policy Recommendations

In general, policies need to be developed that center on the implementation of awareness-raising campaigns to increase recognition among policy makers, politicians, the media, civil society, and ordinary people of the dilemmas associated with each aspect of globalization. Globalization carries with it the triggers that can cause a backlash against the processes it promotes.

1. In the US, political-marketing and public-relations mistakes need to be rectified. The US administration should have demonstrated the nature and integrity of its review process in order to undercut allegations and political posturing by politicians. Transparency of the review process was needed. In the case of DP World, the administration should have stated more forcefully that how ports examine incoming goods – the competence and prerogative of the US Customs and Coast Guard and Department of Homeland Security – is much more important than which commercial administration owns the port facilities. Unless this action is taken, policy becomes a random expression of political expediency, hypocrisy, and unthinking emotionalism, which damages trade relations, relations with allies, and the pursuit of strategic objectives.
2. Governments should promote actions and arguments that can inform US and European media, politicians, and the general public on the incoherence of arguments that support the idea of patriotic criteria for takeovers. Protectionism harms Euro-Atlantic economies, and it hinders the sale of their goods to emerging markets in countries like China, India, Brazil, thus decreasing global stability.
    a) "Could French giants be good for Europe, but European giants bad for France? That is a hard motto to sell."[16]
    b) Alan Johnson, UK trade and industry secretary, rather pointedly warned against trying "to repel the surge of globalization by creating a Fortress UK or a Fortress Europe. There are advocates of protectionism amongst some of our closest European neighbors. Measures to protect key industries from foreign takeovers where there are no state security issues are futile and self-defeating. The paradox of protectionism is that it destroys what it seeks to protect."
    c) Gerard Augustin-Normand, president of Richelieu Finances and an Arcelor shareholder, said political interference in the proposed bid by Mittal Steel did "no credit to our country" and noted: "Fund managers need to consider the offer in all independence – beyond philosophical, religious and political concerns. The only context is the price."[17]

d) One analyst noted with regard to US responses to the DP World deal: "the world's largest economy was prepared to change the rules, undermining its investment credibility and signaling to others that this type of parochial behavior is acceptable."[18]

e) Stephen Roach, chief economist of investment bank Morgan Stanley, raised concern over the negative impact of rising American protectionism on Sino-US relations and the global economy. "The Sino-US relations are perhaps the world's most important bilateral economic relationship in the 21st century. That relationship is now at risk, and if not attended to it could backfire, with significant negative impact on China, the United States, and the broader global economy."[19]

f) Kamal Nath, India's trade and industry minister, said: "This is an era of globalization, cross-border investment and liberalization, not one in which investors are judged by the color of their skin in breach of... national treatment rules. If the color of the shareholder, the nationality of the shareholder, or the passport of the shareholder is to be looked at, then we will have to give new definitions to national treatment." He argued that governments should allow shareholders to determine a bid's outcome and that, "Countries must wake up to the new economic architecture."[20]

3. Foreign companies can also learn lessons and change their approaches to the US. Assistant Secretary of State for Near Eastern Affairs David Welch noted: "Did we learn some lessons from this? I think absolutely. The American administration has to be careful to make a more convincing case about issues such as foreign investment in strategic areas. And our foreign partners likewise want to pay attention to the political environment in the United States and to make presentations in a way that is responsive to that political environment."[21] Chinese companies, for example, need to heed and manage public opinion for sensitive transactions in order to try to not remain hostage to the larger dynamic of Sino-international relations, over which they have little sway.

References

[1] The ports were: The Port of New York/New Jersey, The Port of Philadelphia, The Maryland Port of Baltimore, The Port of Miami, and The Port of New Orleans.
[2] N. Kumar, "Has globalisation gone too far", *The Financial Express*, March 28, 2006.
[3] P. Marsh, "Mittal comes under pressure to improve bid for Arcelor", *Financial Times*, April 17, 2006, p. 18; S. Liatner and P. Marsh, "Steel hardens opinions in Luxembourg", *Financial Times*, March 22, 2006, p. 26.
[4] J. Plender, "Europe feels the toxic effect of corporate nationalism", *Financial Times*, April 6, 2006, p. 19.
[5] H. Timmons, J. Kanter, and A. E. Kramer, "Arcelor Offers Deal to Russian Steel Giant", *International Herald Tribune*, May 26, 2006, see http://www.iht.com/articles/2006/05/26/business/arcelor.php.
[6] "Koch: Don't limit foreign investment in US ports", *Shipping Digest*, April 10, 2006.
[7] R. Block, "Chertoff Says U.S. Ports Takeover Would Tighten Grip on Security", *The Wall Street Journal*, March 7, 2006.
[8] P. Parry, J. McCreery, A. Del Maestro, and B. A. Hamilton, "Opinion: UNOCAL: A Bump in the Road", *Petroleum Economist*, April 11, 2006, p. 32.
[9] J. N. Hoover, "Politicians Missed The Memo That Global Tech Has Arrived", *InformationWeek*, April 3, 2006, p. 26.
[10] "France's Economic Patriotism", *The Statesman*, May 21, 2006.
[11] P. Stevens, "A perilous collision between nationalism and globalization", *Financial Times*, March 3, 2006, p. 17.
[12] PTI news agency, New Delhi, June 1, 2006.

[13] Mapping the Global Future: Report of the National Intelligence Council's 2020 Project. Washington, DC: NIC 2004-13, Dec. 2004; J. Gray, "The Global Delusion", *The New York Review of Boo*ks, Vol. 53, No. 7, April 27, 2006.
[14] "When nations get overprotective", *Investment Adviser*, February 27, 2006.
[15] G. Parker, "Mittal bid shows need for 'strong EU role'", *Financial Times*, February 6, 2006, p. 8.
[16] D. Moisi, "'Economic patriotism' will be Europe's undoing", *Financial Times*, March 6, 2006, p. 19.
[17] C. Adams, P Hollinger, and P. Marsh, "UK attacks French line on protectionism", *Financial Times*, February 2, 2006, p. 29.
[18] "Dubai Ports Debacle Will Return To Haunt An Over-protective US - Protectionism And Nationalism Can Only Harm The Reputation Of Developed Countries That Use Them To Retain The Status Quo", *The Banker*, April 1, 2006.
[19] "US Economists hit out at American Protectionism", *Business Daily Update*, March 21, 2006.
[20] J. Johnson, P. Marsh, and R. Minder, "Racism alleged over Mittal's Arcelor bid", *Financial Times*, February 11, 2006, p. 1.
[21] C. Stratford, "US official: No longlasting fallout over DP World issue", *Gulf News*, March 30, 2006.