# OVERCOMING FOREIGN DIRECT INVESTMENT'S POLITICAL HURDLES

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*In 2012, the Canadian government approved a controversial deal that many expected legislators would reject. CNOOC (China National Offshore Oil Corporation), a state-owned energy conglomerate, successfully acquired Nexen, one of Canada's largest energy companies. The deal struck political nerves: a foreign government controlling some of the country's prized natural resources along with concerns about the Canadian oil and energy sector and CNOOC's commitment to jobs. However, approval was granted, avoiding the kind of controversy that can stop a deal in its tracks.*

Contrast CNOOC's Nexen experience with its 2005 failed attempt to buy U.S.-based Unocal — the poster child of public opinion hurdles that can thwart emerging market company acquisitions in the West, especially in the United States.

The Unocal acquisition began auspiciously enough — CNOOC made a healthy $18.5 billion bid in response to an original tender by Chevron of $16.8 billion. Although CNOOC had significant backing from U.S. and Chinese banks, it quickly found itself in a protracted public battle from which it never emerged. Both companies stated that the deal was a friendly takeover, but policymakers didn't see it that way. Several U.S. senators lobbied the White House arguing that the merger threatened to place American energy under the control of a foreign government, even though the vast majority of Unocal's oil reserves were in Asia. Congress went so far as to pass legislation that extended the review process, and word spread that legislators might halt the deal altogether. Eventually, CNOOC withdrew its bid saying the political terrain was too uncertain.

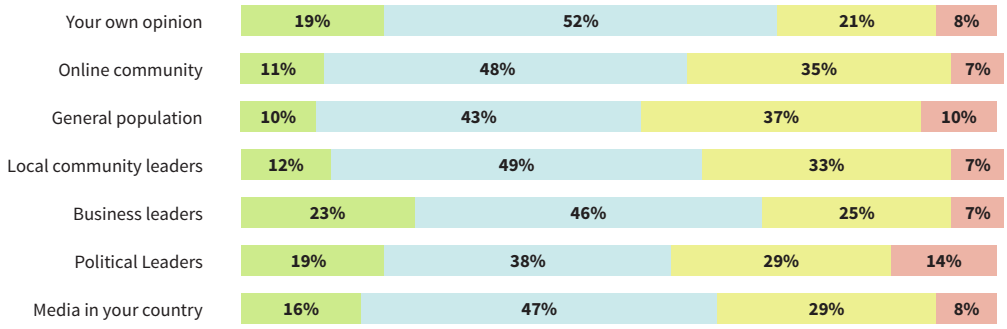
Although seven years separate the two deals, the CNOOC-Unocal experience is no relic of the past. When inflamed, public opinion still can scuttle M&A deals coming from foreign markets — as it did in 2010, when the Saskatchewan government blocked Australia-based BHP Billiton's $39 billion bid for Canada's PotashCorp. Media and public officials frequently rally around negative opinion, often in the belief that they are in synch with the public's broader perception. However, a global study by FTI Consulting revealed that a negative view is far from widely held. We discovered striking contrasts and paradoxes in public opinion that can drive efforts to win approval, even in cases with sensitive dynamics.

## Public Opinion Contrasts and Paradoxes

Inward foreign direct investment (FDI) has been a hot political issue for decades. Public officials, regulators and a large portion of the media often focus on what they believe are the public's concerns, including job losses, national security and country competitiveness. However, our global study found that this is only one side of the coin.

The study polled a broad cross section of adults about FDI coming from companies in emerging markets. Although the public has its reservations, it is just as likely to see important benefits from emerging market FDI. In fact, in several developed countries, the public feels that the media and political figures have a harsher attitude toward the issue than the general population does (see Exhibit 1). Furthermore, in the United States, for example, 65 percent of the public views FDI from emerging markets as important yet says that only 49 percent of politicians and 50 percent of the media share that view. In the United Kingdom, more than 70 percent of the public is quite favorable toward emerging market FDI but feels that only 61 percent of politicians and 54 percent of the media share that view.

**Q: How positive or negative do you believe the opinions of the following groups are with regard to invesment coming to your country from overseas?**




As a consequence of rounding up percentage results, the answers to some questions might not always add up to 100%

In the case of China, our research found a particularly striking paradox. On the one hand, China is a source of great public concern — especially in the United States, the United Kingdom and Germany. Although the public's reservations of FDI from China often are stronger than the unease they perceive on the part of government officials and the media, a clear majority — 65 percent — also say FDI from China has an economically positive impact on their countries.

The implications for business and the global economy are significant. If public fears are ignited, strategically important acquisitions can be thwarted, impinging on everything from job creation to country competitiveness.

## Growth with a Chilling Effect

FDI from emerging markets is on the upswing. According to the investment management firm Rhodium Group, annual FDI from China into Europe grew from less than $1 billion before 2008 to an average of $3 billion in 2009–2010. It then tripled to more than $10 billion during the next two years. In the United States, Chinese investment grew from less than $1 billion in 2008 to $5 billion in 2010. Although investment dropped to $4.7 billion in 2011, it hit a record $6.5 billion in 2012. Similarly, FDI flows from India are increasing steadily. According to India's Economic Times, the country is the world's 21st largest foreign investor, pumping more than $75 billion in FDI over the past 10 years.

Although the appetite for outbound deals from emerging markets is growing rapidly, many enterprises, especially in China, have put a strong focus on partnerships and minority stakes. If companies fear a potential eruption of public opinion and negative political sentiment, that can have a chilling effect on their pursuit of full acquisitions that are strategically important yet sensitive. If a large public debate ensues, the costs to navigate it can be extreme with no guarantee of success.

BGI-Shenzen, a Chinese genomics organization, experienced such a protracted costly effort in its acquisition of U.S.-based Complete Genomics, a provider of human genomics sequencing. Public fears flared when Illumina, a Complete Genomics competitor, launched a hostile bid in response to BGI. Illumina argued that the deal was a threat to national security. Illumina shareholders filed suit and rallied government support claiming that the technologies could be used by hostile governments to develop chemical weapons — even though Illumina had been selling similar technologies to BGI for many years. The public battle landed in a November 2012 article in *The Atlantic*. The authors argued that BGI's low pay might prompt young researchers to seek better fortunes in countries such as Iran, North Korea and Syria — all willing to pay more handsomely, the authors asserted. The controversy swirled endlessly before BGI finally prevailed.


BGI's success, by no means, is a common outcome. Chinese telecommunications giant Huawei has all but given up on the United States, where it has confronted repeated and concerted opposition. The conflicts reached their peak in 2012, when the U.S. House Intelligence Committee issued a report urging the government to block any acquisitions or mergers involving Huawei. Earlier this year, the company announced it would focus on China, Europe and 26 other countries, not including the United States. Huawei also has curtailed its U.S. hiring.

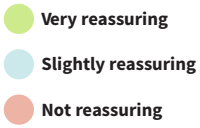
Although Huawei failed to succeed in the United States, our research and experience demonstrate that mergers can prevail against the latent fears in public opinion. To do so, however, both parties must proactively engage the public, the media and policymakers with messages that quell concerns and bring positive views into the fore.

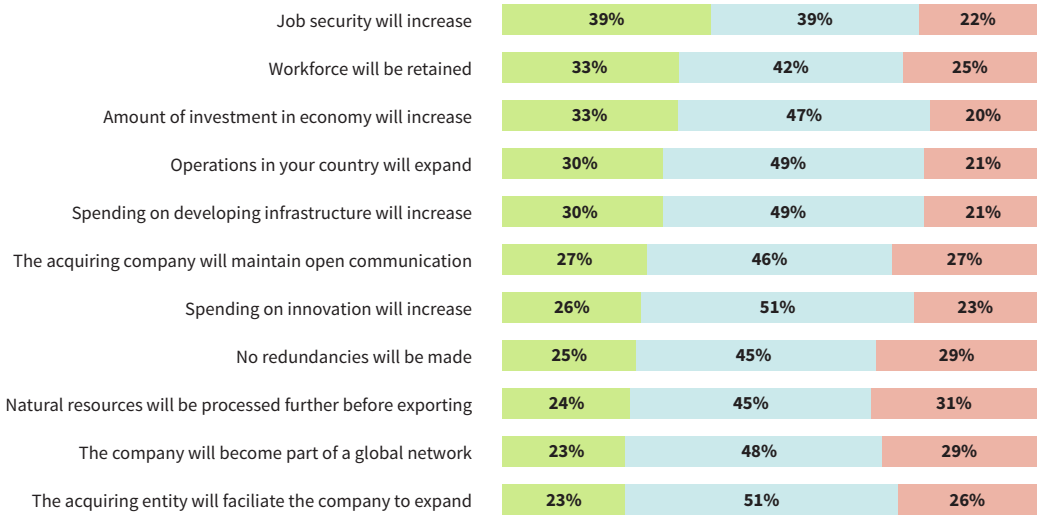
## Sealing the Deal

The public is likely to take action when its fears are aroused. Our research found that the majority of citizens, 60 percent, will discuss an issue with people they know, including social media connections. These discussions can easily start a negative chain reaction. The news media follow social media carefully, and if issues flare, journalists are likely to cover the contention. When the story lands in the press, politicians take notice and act.

To prevent a negative chain reaction — or counter one — both parties in a potential deal need to emphasize the positive dimension of the public's support of FDI. Our research found several areas that resonate well (see Exhibit 2). For example, an overwhelming majority of respondents, nearly 80 percent, view deals favorably if job security increases. It comes as no surprise that our survey found that if local investment and infrastructure development increase, 79 percent of the public will feel confident in the deal's positive impact. If the acquiring company's plans boost the economy overall, the fears of 80 percent will be eliminated.

**Q: How reassuring would the following statements be if an organization from overseas made them as it acqured a prominent company in your country?**

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CNOOC aggressively and proactively tapped into these sentiments. CNOOC and Nexen reached out to all of Nexen's constituents — employees, shareholders, politicians, reporters and even customers. CNOOC committed to retain all current Nexen employees and to keep their jobs in Canada. The company also agreed to headquarter its North American operations in Calgary and list on the Toronto Stock Exchange. Equally important, CNOOC made specific commitments to the Canadian government about transparency and open communications.

CNOOC took a proactive and strategic role in engaging public opinion. It didn't leave a void for the politicians and the media to fill. PetroChina took a similarly proactive approach in its acquisition of 50 percent stakes in two strategically important oil refineries in Scotland and France. Before the deal was announced, PetroChina had reached out to national, regional, and local governments as well as to employee representatives. The company made sure it had secured these stakeholder endorsements and was ready to make them public minutes after the deal was announced. A wall of support from key stakeholders can counter any potential controversy about the sale of strategically important national assets. To achieve comparable results, companies would be wise to take these steps:

## Assess the Landscape

*Before finalizing a potential transaction announcement, understand the landscape of public opinion, not only on the part of the general public but also by key stakeholders in business, government, academia and the social sector. Stakeholder research needs to be an essential tool.*

## Draw a Roadmap

*Once a proposed transaction is announced, define the major milestones that must be achieved in order to demonstrate ongoing benefit to the target company's home country. Then develop a long-term communications plan to boost the deal's value and secure public and political support.*

## Build Influence

*Left in a vacuum, the public and the media will tell their own story about a proposed transaction. When they do, control slips away from the companies involved, deal values erode, talent leaves, and approval can become a costly legal and public relations nightmare. To build influence, companies should start by engaging employees and customers: The public may want to hear these debates – especially from employees – to help form opinions. Employees and customers can be engaged as grassroots ambassadors to deliver a company's message.*

## Use the Right Communications Mix

*Our research found that the most trusted sources for news on politics and business are television (44 percent), print media (35 percent), radio (29 percent), Internet websites and apps (25 percent ), and social media/blogs (13 percent).*

*Social media, however, is on the rise and should be a major component of the communications mix, especially since it has become a primary source for traditional media. During due diligence, for example, both companies participating in a transaction can evaluate postings made by third parties to assess reputation and sentiment in the market. In addition, companies should monitor social media to discover fears and misinformation that can spur a negative public debate. Even after the deal, social media monitoring can spot issues of concern that the ongoing communications strategy can address immediately.*

Although the general public in the West harbors fears about the implications of foreign direct investment, people clearly see the economic importance. The public's concerns are tied to jobs, economic investment and confidence in the transparency of companies from emerging markets seeking to do business. To keep a positive narrative going, both companies involved in a transaction must take charge of the story and reach out to all stakeholders whose opinions will be needed in order to seal the deal. ■

**Research Methodology**

This research was conducted online with n= 6,375 respondents representing the adult (aged 18+ yrs) general population in Australia, United States, South Africa, Germany, United Kingdom and Canada. Fieldwork was conducted from November 23rd to February 1st, 2013.

Below is a breakdown of the respondents for each country:

- Australia (n=1,023)
- Canada (n=521)
- Germany (n=1,238)
- U.K. (n=1,086)
- U.S. (n=1,078)
- South Africa (n=1,429)

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