



BUSINESS CONSULTING
FOR GEOPOLITICS

Geopolitical Risk Index | Case Studies | 2024

Geopolitics & M&As

Navigating Mergers & Acquisitions in
the Geopolitical Landscape

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M&A and Geopolitical Significance

WHY IS M&A IMPORTANT FOR COMPANIES

1

M&A activities

M&A serve as a **cornerstone for companies** seeking international expansion, vertical integration and horizontal diversification

It necessitates a comprehensive understanding, spanning both business and geopolitical realms.

2

Geopolitical Impact

Geopolitical uncertainties, such as unpredictable government actions, pose significant threats to multinational operations.

These include legal alterations, trade restrictions, and even expropriation, requiring meticulous navigation.

3

Multinational Dynamics

The journey towards multinational status typically evolves from initial export activities to foreign direct investment (FDI), aiming for control over overseas entities.

This gradual process exposes firms to escalating risks and potential rewards.

4

Navigating Uncertainty

Success in the face of geopolitical volatility demands a holistic approach.

This entails adopting corporate diplomacy strategies and conducting thorough geopolitical due diligence to mitigate risks and seize opportunities



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The “New Normal”: companies and governments increasingly concerned about M&A transactions in this new international context



From a corporate perspective: why assessing the geopolitical risk during all the phases of M&A

- **Global Financial Crisis defined a “tectonic shift” in the global division of economic and political power**
 - The end of the Pax Americana: a decrease of international cooperation & renewed importance of geopolitical dynamics which cause risks for MNCs
 - A multipolar world that causes instability: emergence of revisionists countries (China, Russia & Iran) which will reshape new spheres of influence at global level with important economic and business consequences for MNCs
- **The result is a 'new normal' where political and economic instability reigns**
 - Chipman states the importance of foreign policies in to develop transnational characters and identities, maximizing the use of corporate diplomacy as a strong competitive advantage



From a government perspective: the economy and business as a lever of power

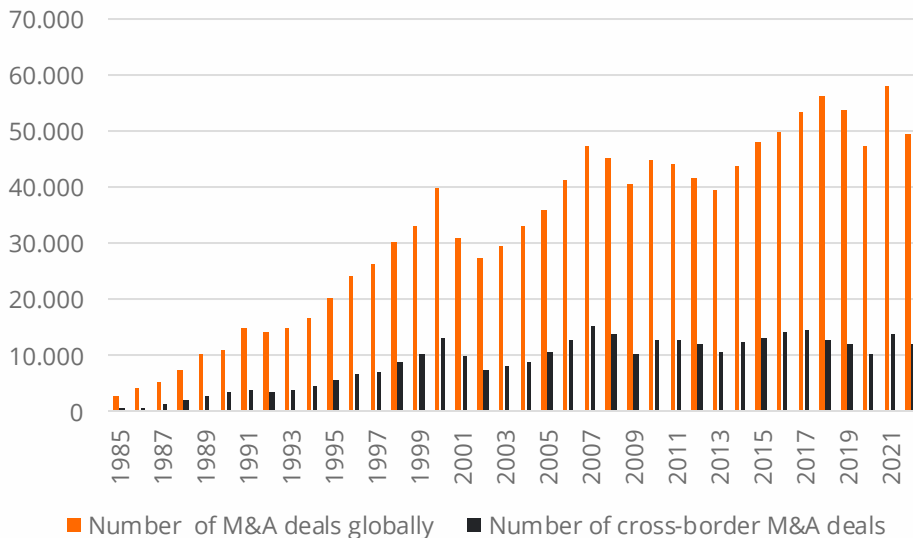
- **Although the post-1989 hyperglobalization, countries are still focused at securing their own national power and strength**
 - States have always had the objective to strengthen their domestic power and support national innovation outcomes to reach the status of major economic powers
 - Despite the end of the Cold War and the end of land conflicts, conflicts and power rivalries have shifted to the geo-economic arena.
 - Despite the resurgence of armed conflicts (Russia-Ukraine war, Israeli-Arab conflict), geoeconomics still remains one of the main instruments used by rising and old powers to assert their with other forms of hard and soft power.



Changes in the M&A market since 1990

- Since 1990, the expansion of liberal ideology has led to the interconnection of economies.
- In this context, companies sought to grow through M&A transactions which **have increased 5-fold in 30 years**, creating major MNCs.
- A national security issue for states: **cross-border M&A transactions have increased x4** between 1990 and 2022.

1 An exponential growth in M&A transactions since the 1990s

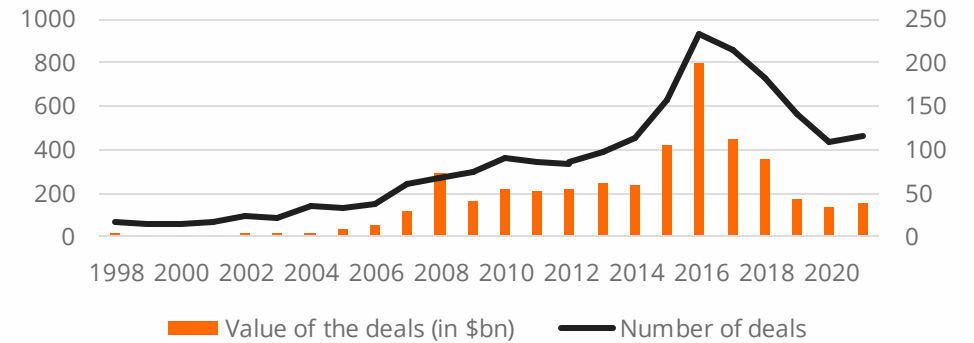


Sources : Statista, 2023, number of mergers and acquisitions worldwide since 2005
FDIIntelligence, 2023, Chinese investors slow M&A overseas



The case of China: an explosion in M&A transactions in the service of the government

Outbound mergers and acquisitions (M&A) by China-based acquirers



- Since 1998, **outbound M&A by China-based acquirers have been multiplied by 14** while the value of these deals has multiplied by 55.
- **State influence in companies**: since 2018, the creation of a Chinese Communist Party cell has been compulsory within private Chinese companies.

...But all countries are taking part in this competition: the US example

- While there is a lot of talk about China : In Europe, between 2003 and 2022, the US is the country with the most cross-border acquisitions, China not even appearing in the top 10.



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Tech and Semiconductors

1 The importance of the semiconductor market for states

- **Resurgence of technonationalist approaches:** support high-tech national industries to maintain a dominant position in the GVC.
- **A change in the paradigm:** from a free market orientation to a contemporary paradigm where state power is derived from domestic high-tech capabilities.
- **Major risks for the 3 main players** (TSMC, Samsung and Intel): growing need for R&D capital, fear of Chinese occupation of Taiwan
→ M&A might be more exposed to geoeconomic risk and government interventions

2 Semiconductors are used for many future technologies, including AI

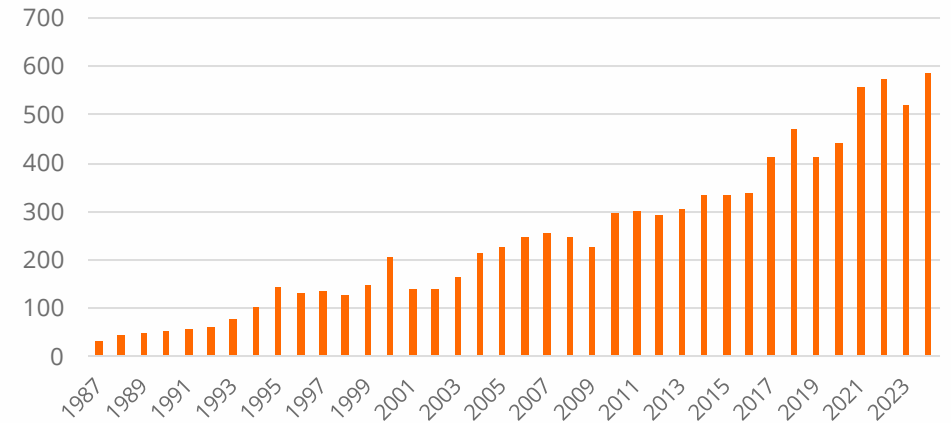
- **Data control is a matter of national interest** for states that are putting in place regulations to protect themselves from foreign companies.
- Tiktok case : obligation to sell its stake in the US

Sources:

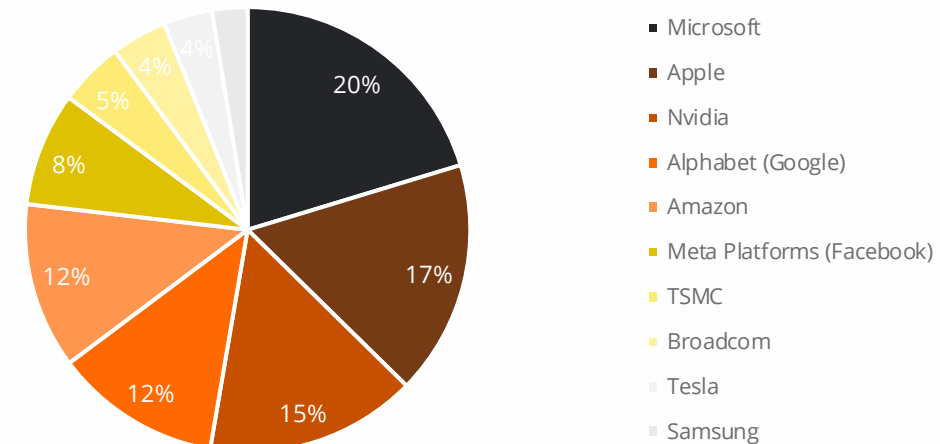


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Semiconductor market revenue worldwide 1987-2024 (billion USD)



Leading tech companies worldwide 2024, by market cap (billion USD)





Agri-food



Nevertheless, the dynamics of global competition and high interdependence in GVCs is not only typical of high-tech industries but applies to other fundamental economic sectors, the **agri-food sector**.

1

Global food crisis is still a major problem on a global scope, increased by geopolitical tensions



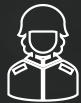
Strong Dependence

of countries for food production is showing its darkest outcomes as global food crisis remains one of the main unsolved dilemmas and tense geopolitical dynamics might jeopardize the resilience of food GVCs



Delicate equilibria

between states most of all for low and middle-income countries in Africa, Middle-East and Asia which lack of supply chain resilience to face the effects of disruptions



"A new form of "weaponization of food"

In 2017, the blockade imposed on Qatar by regional neighbors, created a significant concern regarding food supply

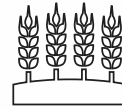


The invasion of Ukraine

has caused significant disruption to global agricultural markets as Ukraine is the world's ninth largest producer of wheat



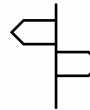
Focus on the Ukrainian War



As Ukraine is the world's ninth largest producer and fifth largest exporter of wheat, the beginning of war created fears over the country's ability to harvest and keep up with its exports.



Thus, world prices for grain soared, affecting the poorest countries' access to wheat. The end of the Black Sea grain deal between Ukraine and Russia, Russia stopped giving safe passage to cargo ships in the sea and announced to view any vessel going to Ukraine as a potential military target.



This forced Ukraine to find new routes for exports in the Black Sea, and led to reductions of EU tariffs on Ukrainian wheat with negative consequences for farmers of other EU export-led countries, such as Poland.



What are the effects on M&A ?



The "food weapon" might become increasingly used in a context of geoeconomics strategies, with a strong increase of food nationalism. In these conditions, M&As deals in agro industries might be particularly affected since the tendency to reduce dependence on food supply from MNEs or companies based in other countries is definitely becoming a burning issue in political agendas.



In addition, as ESG stances continue to drive M&A global activity, the agri, food and beverage sector is going to deal increasingly more with government interventions and practices with increasing impacts and disruption on the current GVCs



Energy and infrastructure



National sovereignty and security become rising concerns also for infrastructure construction and development between countries.

1

The expansion of world-scale infrastructure initiatives and projects

- **Primarily, the BRI initiative** proposed by **China** has reshaped the narrative on geopolitical approaches and has defined infrastructures as a strong geopolitical tool.
- This sector is particularly growing in **low and middle-income countries** and strongly supported by the Chinese presence through a **system of loans and debt**, exposing these areas to “debt-trap” issues.
- The Chinese-State dominance in infrastructure development might affect trends in infrastructure M&As activity, most of all **in the medium and long-term.**



Focus on the Ukrainian War

- Strong implications of geopolitical dynamics of the Russian-Ukraine War highly involve the energy sector and, after February 2022, open discussions about the energy supply issue have been particularly acute, especially in Europe
- The status of Russia as one of the foremost energy exporters in the world provided Moscow with the ability to substantially disrupt the GVC of energy supply and it is currently showing the effects of a new tendency in repositioning of States in terms of energy geopolitics
- Substantial dependence of Western EU countries from Russian gas is a reality and the Russian cut off country after country has led to industrial gas prices increased by 1000 % compared to previous decades and risen costs of heat and basic goods in Europe



Global Finance (2023) “China: 10 Years Of One Belt, One Road”, Global Finance



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Qualcomm's takeover bid for NXP

In 2016, Qualcomm sought to acquire NXP for **\$47 Bn** due to its strong positioning in the automotive chip and IoT market, a growing market with high potential in the future and to accelerate their growth.

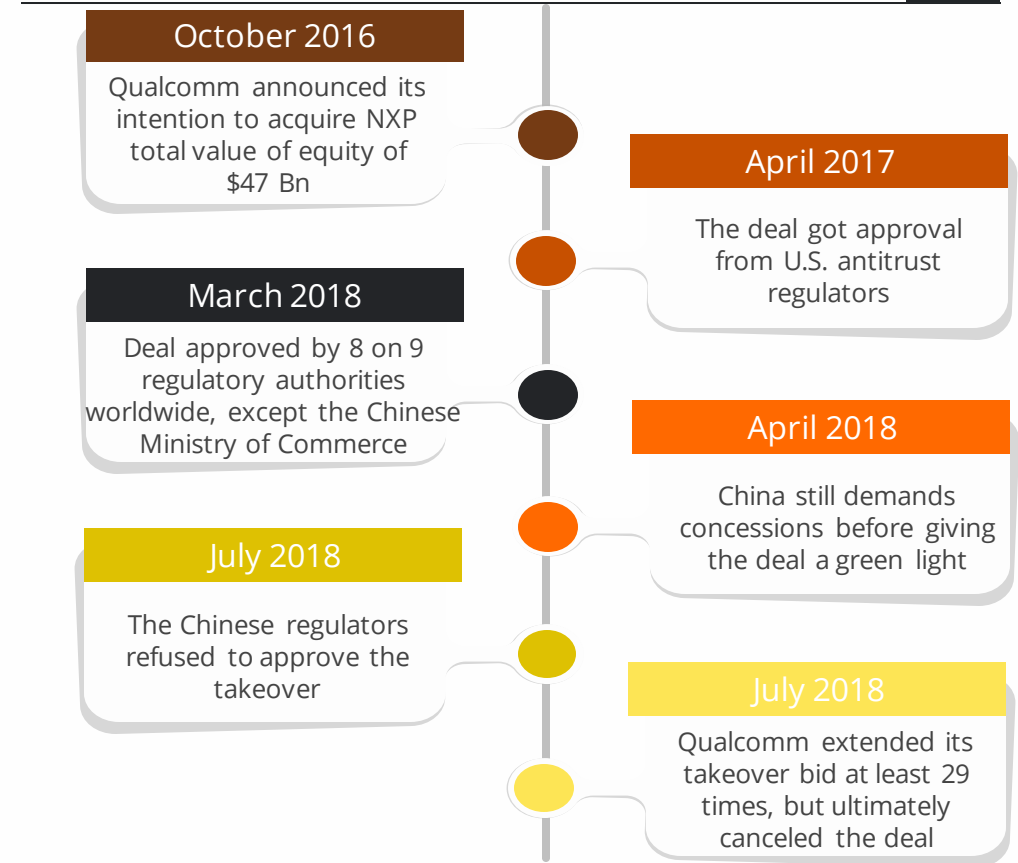
Qualcomm

- **American semiconductor and telecommunications equipment manufacturer** based in San Diego, California.
- **World's biggest smartphone-chip maker**
- **Portfolio comprises products for:** processors, modems, platforms, software and hardware
- **A big multinational corporation:** holdings which operate in China and India



- Global semiconductor manufacturer based in Netherlands (Eindhoven)
- Wide range of semiconductor products throughout industries: industrial, consumer electronics and **a particular specialization in automotive solutions**
- **An international company:**
 - 8'000 employees in China
 - China : 32% of revenues EMEA : 24%
 - America : 16%

Timeline of the deal



The deal failed due to **regulatory challenges on the surface**, but deeper analysis reveals that **geopolitical tensions** were the real reason. The merger's failure significantly impacted both companies, highlighting geopolitics' influence on cross-border M&A

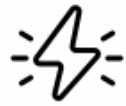


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The reasons that prevented this deal from going ahead

 **A tense geopolitical situation between the two states**



2018, the start of the trade war between the US and China : the Trump-administration imposed tariffs on imports from China amounting to 34 billion dollars.



Coincidence? This is also when the problems started to appear with the Chinese authorities : While the United States did not want to give up any ground, it can be seen as a retaliatory measure in the context of the general trade dispute between the two countries.



A perfect example of how corporate M&A are becoming politicized on the global stage : By thwarting the deal, China signaled its significant influence on the global economy.



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 **Could another alternative have been envisaged?**

Alternative scenario

Ignore the country's decision and to proceed with the merger as planned

Reasons for impossibility



Banning
companies from the Chinese market



Know How
of the Chinese workers



NXP's turnover
in China is x2 Europe





1

2

Syngenta's acquisition of Verisem

In 2021, Syngenta Group tried to acquire Verisem when Verisem's main shareholder decided to sell its stakes, seeing the possibility of expanding their synergies in the same industry.



- Founded in 2020 as a result of the fusion of Syngenta AG, ADAMA and Chinese Sinochem agricultural businesses.
- Leading agricultural innovation and technology company, **one of the largest player in the seed industry**
- Main business units: Crop Protection, Seeds, Programs & Services.
- Located in Switzerland, **the group is registered in Shanghai and owned by Chinese chemical Sinochem, fully controlled by the Chinese Government**

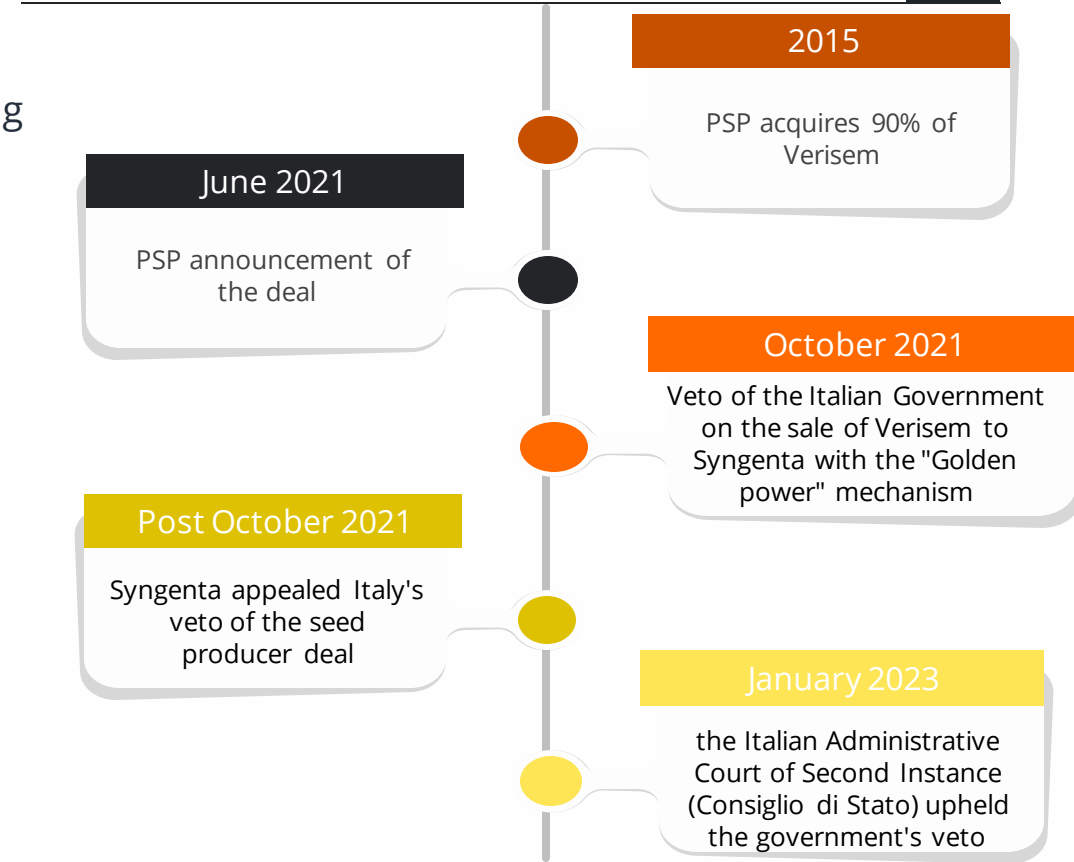


- Founded in Italy in 1974, now headquartered in Amsterdam and under the control of the US private equity house Paine Schwartz Partners (PSP).
- International biotech and seed producer company
- **An international company, with strong presence in EU and US:** exports its products to 117 countries leveraging on 6 state of the art production sites located in Italy (3), the US (2), and France (1).



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Timeline of the deal



This case shows that examples of governments intervention in M&A deals as protectors of "national interests" can span a vast array of industries. There is a strong dependence on the "key strategic sectors" of the country and the agri-food carries significant implications for the Italian economy.



1

2

The reasons that prevented this deal from going ahead



The Chinese expansion in the agricultural sector and in EU



Agriculture is a strategic sector for the Italian economy which needs to be preserved.



The COVID-19 crisis and the supply chain disruptions caused by conflicts around the world have highlighted the critical importance of ensuring food supplies and protecting agricultural assets at a domestic level.



Global expansion of China in key industries such as the agri-food sector with potential threats to global food security (increased risks of forms of soft and hard power control).



Strengthened Chinese economic presence in Europe that raises concerns in terms of security and sovereignty.



The Golden Power rule

Introduced in 2012, it grants the Italian government authority to block or impose conditions on corporate transactions involving assets deemed strategic for Italy.

Growing expansion in the industries involved: from defense, energy, transport, and telecom to critical infrastructures, technologies, dual-use products, iron and steel, agri-food, and data-intensive financial sector technologies

What do all these sectors have in common?



STRONG GEOPOLITICAL IMPLICATIONS





Key Takeaways

Why are these industries so important?



VITAL

for country's economy and/or national security as they are decisive for the survival and prosperity of the country's economic system and independence



CRUCIAL FOR THE FUTURE

They are going to face increasingly more issues related to shortage and need at a global level from every country



VULNERABLE TO SLOWBALIZATION

Because of their widespread GVCs. "Slowbalisation"/Deglobalization tendencies and shakes in geopolitical equilibria at a global level might greatly affect availability and supply of products in these sectors



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CONCLUSION

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A shifted paradigm

Governments increasingly driven by the imperative of **safeguarding their national interests**, have adopted assertive measures and regulations to protect especially their **strategic national assets** and responding to pressures from a **growing populist**. This scrutiny is being directed towards **cross-border M&A**, particularly in **key strategic sectors** such as technology, energy, infrastructure, and agri-food. Furthermore, companies face risks in host countries coming from **local political actors** including expropriation and nationalization but also coming from **political actors outside of the host country** as in the case of economic sanctions

2

Developing a foreign policy for companies has become imperative

This foreign policy must entail a **comprehensive evaluation of the viability of a business strategy** : political instability, regulatory frameworks, economic conditions or socio-cultural dynamics. The cases we analyzed are a prime example of **how companies can be shortsighted by not engaging in political relations** and not even consider a thorough geopolitical due diligence process in M&A deals. In today's geopolitical area, **neutrality is a luxury companies can ill afford**. Instead, they must actively pursue their interests while prioritizing **corporate diplomacy**, with **due diligence** serving as a tactical tool to mitigate immediate losses stemming from ongoing activities and transactions.

3

Our recommendation : developing political relationships and strategic lobbying

By **establishing positive ties with relevant government officials**, your company can significantly **reduce the risk of encountering unforeseen regulatory hurdles**. At the same time, engaging in **lobbying activities** can help shape regulatory frameworks in a manner that aligns with your company's interests and objectives.





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