Geopolitics of M&As policies

Navigating Mergers & Acquisitions within the Geopolitical Landscape

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Geopolitics for Business
20763

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1. Why is M&A important for companies?

What is M&A activity and why is it so important for companies? In the current geopolitical climate, comprehending mergers and acquisitions (M&A) activity holds paramount importance for companies eyeing international expansion. M&A, constituting pivotal strategies for growth and diversification in a globalized economy, demands a nuanced understanding both from a business perspective and for companies to start acting as proper geopolitical players.

A firm is considered 'multinational' if it engages in foreign direct investment and can acquire control over value-added activities in more than one country (Brewer et al., 2000). Foreign direct investment (FDI) is only one of the many activities multinational corporations can engage in. Firms, in fact, become multinational through a gradual process that begins with exports and then only at a later stage involves FDI, defined as investments where the investor acquires 10% or more of the voting stock of a foreign business. This percentage allows participation in managerial decisions in most countries, giving significant influence over the foreign corporation to the investor. Control is the central concept behind this kind of operation. In fact, the goal of FDIs is to acquire enough ownership to be able to influence business entities outside of the domestic market. Graduality also applies to the firm's financial and non-financial risk exposure, as procedures become progressively more complex, but greater risk, on the other hand, calls for opportunities to increase profits. M&A's are exposed to the possibility of destroying value because they may turn out to be overly expensive or risky. If the firm pays too much for future potential benefits, it may capitalize all future profits or even earn less than what it paid for. Therefore, it is crucial for the buyer to have a strong rationale to justify a cross-border acquisition whether it is large synergies or the control of strategic assets. The alternative is to 'make' rather than 'buy' and involves establishing a foreign subsidiary directly instead of approaching a local player. The option of making rather than buying turns out to be slower as costs and efforts must be carefully evaluated (Gigante 2022). Establishing a subsidiary abroad is difficult; different requirements and regulations must be met and respected, and everything has to be built from the ground up. In today's environment speed of execution can be crucial, for this, our analysis will focus on 'buy' decisions, in any case this should not entail giving up a thorough risk assessment.

Nowadays, assessing cash flows and financial risks is not enough. Operating in a foreign country means that a company will potentially have to deal with economic, exchange rate, business, and other types of risks. In today's geopolitical landscape, corporations confront a new dimension of risk: geopolitical instability. Geopolitical risk has various definitions in the literature. Most define it as unpredicted government actions that have an impact on business operations (Fayweather, 1972). For example, national governments might change laws, restrict import and export, or even expropriate businesses. Other studies instead focus on the environmental changes (acts of violence, instability, riots) caused by political actions, which ultimately impact firms' economic activity (Green et al., 1974). Even though definitions may vary, we can say that the two are correlated: environmental changes can provoke government action and vice versa (Sethi, 1986). Political risk represents the most important source of country risk since local subsidiaries' operations could be compromised by politically driven events. Many MNCs do not use a formal method to assess country risk. This does not happen because they do not want to do so but rather because it is difficult to precisely estimate and quantify such a complex risk with a simple model (Gigante, 2022). Most models try to quantify risk but usually yield incomplete results. The data needed for the estimation is hard to find or inaccurate. Moreover, data used for estimation is historical and may not be the best way to predict the future, especially when considering unpredictable events such as those related to politics. It is therefore vital for firms to understand the whole political environment and be able to address it critically to succeed abroad.

Neglecting geopolitical uncertainties in international expansion efforts can lead to misinformed decisions. Multinational corporations must adopt a holistic approach, including an internal foreign policy system that tackles issues of corporate diplomacy and due diligence focused on geopolitics, to navigate the global landscape successfully.

2. Geopolitics is back

As aforementioned, understanding and being able to assess geopolitical risk during all the phases of M&As, from preparation to post-acquisition performance, is fundamental to navigate the so-called "New Normal", where increasingly low economic growth and structural changes in economic policies are combined with more and more complicated political dynamics (Hasija et al., 2020; Levaux, 2017; El-Erian, 2010). This tendency has become particularly evident in the post-2008 moment. The Global Financial Crisis opened a breach and defined a "tectonic shift" in the global division of economic and political power (Allison, 2020). The subsequent decrease of international cooperation under the Washington Consensus and of the US unchallenged economic and political dominance led to a renewed importance of geopolitical dynamics and risks both for governments and MNEs (Hasija et al., 2020; Russel Mead, 2014). On a political level, new powers, primarily China and Russia, have entered and conquered more space in the global scenario, putting more and more into question the existing world order and the consequent ranking of powers (Russel Mead, 2014). The "Unipolar moment" of Pax Americana, defined by Putin in 2007 as a "world of one master, one sovran", is growingly shadowed by revisionists countries (Krauthammer, 1990; Russel Mead, 2014). It is most of all China, a candidate to become a Superpower and already close to the status of "second Superpower", that is drawing a considerable amount of attention by engaging in rebalancing strategies aimed at overtaking its competitors, first and foremost the US. According to Waltz (1979), the shift in the combined capabilities of a country will reshape the geopolitical and geoeconomic strategies of the competitor. Consequently, the possible rise of China as Superpower re-sparks discussions about bipolarity and new spheres of influence at global level (Allison, 2020), with important economic and business consequences for MNCs. In this sense, Chipman (2016) states the importance of foreign policies for companies in order to develop transnational characters and identities, maximizing the use of corporate diplomacy as a strong competitive advantage to navigate this "New Normal" environment. However, a situation of "Thucydides' trap" (Allison, 2020) does not only propose a reconfiguration in the world order for the current and next decades, but it also reintroduces the relevance of political affinity and ideological differences in the contemporary geopolitical and managerial discussion (Hasija et al., 2020; Bertrand et al., 2016). In the continuous confrontation between the US and China, the conflict between democracy and autocracy also plays a crucial ideological role and might question the idea that both political and economic liberalism is necessary to reach the status of superpower (Cooley and Nexon, 2022). As a matter of fact, it also sheds light on the complex intertwined relationship between geopolitical risk together with economic and political uncertainty (Carney, 2016).

Although the post-1989 hyperglobalization was crucial in creating a "flat" and highly interconnected world, countries still presented themselves as particularly focused at securing their own national power and strength (Friedman, 2005; Luttwak, 1990). Inside their borders, even in a globalized environment, States had the objective to strengthen their domestic power and support national innovation outcomes (Luttwak, 1990). These strategies were carried out by the single States in order to increase their possibility of reaching the status of major economic powers and become strong competitors in the global trade, showing that economies still reflect territorial and national characteristics (Luttwak, 1990). As a matter of fact, albeit after the end of Cold War unipolarity implied a lack of direct confrontation at a political level, this could not be applied to the economic environment and it has become the opposite in the contemporary economic landscape, which is increasingly competitive and influenced by complex geopolitical dynamics. As pointed out by Cowen and Smith (2009), an evolution of geopolitics into "geoeconomics" is not the result of a natural process of transition, but it's rather the outcome of "very real scalar shifts in economic relations" more and more paramount in our current global order. Thus, States continue to leverage their position in the global market, protecting their national interests using instruments to achieve favourable geopolitical results (Blackwill & Harris, 2017). The goal of beating economic competitors as well as achieving beneficial geopolitical outcomes resulted in an environment of direct economic confrontation, now progressively sharper in an era where war is not only “by other means”, i.e. trade and soft power, but it’s taking the form of real world-scale conflicts, e.g. the Russia-Ukraine War and the resurgence of the Israeli-Arab dispute (Bown, 2022; Blackwill & Harris, 2017). However, geoeconomics still remains one of the main instruments used by rising and old powers to assert their dominance (Park, 2023). Often combined with other forms of hard and soft power, geoeconomic strategies are expanding their importance and increasingly weight on political and economic decisions of countries.

Since the collapse of the USSR, the world economy has been globalized, with national economies becoming increasingly interconnected and open, as evidenced by the exponential growth in world trade (WTO, 2024) and foreign direct investment (UNCTAD, 2023) since that time. In this context of liberal globalization, where capitalism has prevailed over other economic systems, companies are seeking to strengthen and grow in order to survive in this increasingly competitive environment, in particular through M&A transactions. In 1990, there were just 10,814 M&A deals worldwide, a figure that has increased fivefold in almost 30 years, with almost 50,000 deals in 2022 (Statista, 2023). These M&A deals foster the creation of large international corporations, MNCs, which in many cases become de facto geopolitical players alongside governments. What is even more interesting is that cross-border M&A transactions have increased fourfold between 1990 and 2022 (Statista, 2022), raising the number of potential international transactions in sectors linked to "essential security interests" of states.

In the case of China, we can see that outbound M&A by China-based acquirers have exploded since 1998, with the number of such deals multiplying by 14 between 1998 and 2016, while the value of these deals has multiplied by 55 over this period (FDI Intelligence, 2023). Since 2018, the creation of a Chinese Communist Party cell has been compulsory within private Chinese companies. These companies are supervised and even controlled by the Chinese Communist Party and serve the country's interests. While China is exploiting M&A to gain influence in different territories and meet the country's geostrategic and geo-economic interests, it should be remembered that all countries are increasingly doing so to reach their own geopolitical purposes and that. In Europe, between 2003 and 2022, the United States is the country with the most cross-border acquisitions with a total of 17,825 deals and China not even appearing in the top 10 (Drazdou, 2023). Faced with this competition, governments have developed numerous legislative tools to control these deals. An OECD study on changes in investment policies in 62 economies shows that almost 60% of foreign acquisitions are filtered by governments (OECD, 2021). Despite WTO membership, these countries still have some latitude when it comes to filtering and controlling mergers and acquisitions on their territory. The most convincing example is China which, despite joining the World Trade Organization in 2001, maintains a highly asymmetrical position in terms of openness. While it benefits from the openness of other countries, it itself remains largely closed, both in general terms and in terms of acquisitions of companies and technologies.

3. Industry analysis

Although a growing general tendency of states to defend the interests of a plethora of national industries can be detected, some sectors of the economy can be considered more important from a national perspective and worth of a more proactive role of the government in their protection. This occurs for different reasons.

Tech and Semiconductors

Firstly, as in the case of the semiconductor industry, the vital importance that this silicon-based technology plays in a wide range of equipment, from commercial electronic devices to defence systems, strongly impacts international politics and economy and has led to a growing attention for matters of "national security" (Park, 2023). In this industry, geoeconomics considerations consistently merge with a new resurgence of technonationalist approaches, where states engage in high-tech national industries and support them to maintain a dominant position in the GVC to capitalize on their market power for diplomatic and political interests (Park, 2023). Since the 2010s, the semiconductors have also emerged as a symbol of national power in the escalating hegemonic rivalry between Washington and Beijing, leading to an increasing need for national industry dominance. However, the "race for semiconductor supremacy" presents a number of different implications. Firstly, it shows the evolving nature of technological progress in changing geopolitical dynamics, moving from a free-market orientation in the 1990s and the 2000s with global production and self-regulation to a contemporary paradigm where state power is derived from domestic high-tech capabilities and potential technological asymmetries (Park, 2023). In this perspective, geoeconomics strategies of disruption of "prosperity drivers" as well as manipulation and control of "choke-points" in the GVCs of these technologies become particularly clear. Sources of disruption include capital intensity and high geopolitical risk with huge consequences for potential M&As transactions. The firms in this sector, including the three main leading firms TSMC, Samsung and Intel, are increasingly going to be exposed to these threats with growing need for R&D capital and fear of Chinese occupation of Taiwan, where TSMC is located. Moreover, potential mergers and acquisitions in this industry might be exposed to intensifying geoeconomic risk and government interventions. Finally, uncertainty might contribute to higher and more aggressive pre-emptive measures in M&As negotiations, such as the High-Water Clause that is irrespective of the potential problems that the paying part might encounter (Heinemann, 2012).

However, a knowledge-based and data-driven economy does not involve only chips but includes all technological revolutions in services and Intellectual Property that chips are able to create, primarily AI systems that became "the epicentre for geopolitical conflict" between US and China (Ciuriak, 2023). Risks associated with control of citizens' data are progressively becoming a matter of national security for countries and the presence of national privacy regulations that shield against foreign companies' data interests are increasingly more common (Gaur, 2023). The very recent TikTok bill discussed and passed in April 2024 at the US congress might represent a strong signal and perhaps a controversial landmark for the USA. It gives TikTok's Chinese owner, ByteDance, nine months to sell its stake or the app will not be available anymore in the United States. As in the BBC (2024) "Fears that data about millions of Americans could land in China's hands have driven Congressional efforts to split TikTok from the Beijing-based company". The upcoming election period might be another significant reason to shut down TikTok as the possibility of influencing the outcome of 2024 presidential elections needs to be taken into account. However, TikTok has repeatedly stated the independence of the platform, with key corporate leaders based in Singapore, US and Ireland and no intention to share the data with the Chinese Government. Losing the American market potentially represents a considerable loss for the company, which stresses its role in contributing to the US economy for $24 bn per year (Yang, 2024). This continues to fuel the tense geopolitical dynamics and shows the considerable trade-offs between business and corporate needs and remerged geopolitical conflicts.

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. Strong dependence on other countries for food production is slowly showing its darkest outcomes as global food crisis remains one of the main unsolved dilemmas in the ongoing race for global improvement and tense geopolitical dynamics might jeopardize the resilience of food GVCs (Koch, 2020). Strengthening food domestic supply might be fundamental in an environment of extremely 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 (Belhadi et al., 2024). A new form of "weaponization of food" or "food geopolitics" has shown its specific characteristics during the Qatar embargo in 2017 (Koch, 2020). In that moment, Qatar's diplomatic relationships and routes' blockage, the only land border with Saudi Arabia, by regional neighbours led to the concerning issue of food supply for a country lacking domestic agriculture. Additionally, it is essential to consider the more widespread and violent effects of wars. The invasion of Ukraine carried out by Russia has caused significant disruption to global agricultural markets (Devadoss & Ridley, 2024). 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 (BBC, 2024). 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 (BBC, 2024). This forced Ukraine to find new routes for exports in the Black Sea, in a context of military aggression and invasion, and led to reductions of EU tariffs on Ukrainian wheat with negative consequences for farmers of other EU export-led countries, such as Poland (BBC, 2024). These complex dynamics introduce other aspects brought by war for countries and companies. In this perspective, food industry remains extremely relevant at a global level and potential M&As negotiations and transactions are increasingly perceiving the effects of geopolitical tensions. 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 (Pathak et al., 2022). 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 as well as domestic regulations, 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. As in the semiconductor industries, issues of national security and most of all sovereignty and independence in domestic affairs have become one of the problems related to current trends in M&As activities in the sector of infrastructure. 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 rather than a geographic and economic means (Oakes, 2021). 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 (Hurley et al., 2019). The Chinese-State dominance in infrastructure development might affect trends in infrastructure M&As activity, most of all in the medium and long-term.

Moreover, 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 (Morningstar et al., 2024). 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 (The Economist, 2022; Morningstar et al., 2024). 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 (Morningstar et al., 2024). The Atlantic Council has described this situation as "an existential crisis" for the old Continent (Morningstar et al., 2024: 2). The final outcome of the war as well as its continuation might deeply influence trends in M&A activities for companies involved the energy sector.

Key takeaways

As previously outlined, these sectors more than others have been:

1) considered 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

2) they have been regarded as particularly crucial for the next coming decades, which are going to face increasingly more issues related to shortage and need at a global level

3) they have widespread GVCs and, as in the case of the semiconductors, they were born in a context of accelerated globalization and international cooperation, while they are currently extremely vulnerable to "Slowbalisation"/Deglobalization tendencies and shakes in geopolitical equilibria at a global level.

4. Case studies

In a current geoeconomic landscape that greatly affects these industries, analyzing real cases of M&As deals and transactions impacted by geopolitical dynamics is fundamental to understand new imposed difficulties and limitations. As we present cases that discuss matters of national security due to M&As negotiations, it is necessary to take into account the danger of government interventions. Structural increases in initial price premia as well as increased government involvement in cases of reduced political similarity and affinity have been defined as key features in the current cross-border M&As deal-making (Bertrand et al., 2015). Our cases underline these specific implications in the presented and most impacted industries.

Semiconductors: Qualcomm's attempt to take over NXP

As discussed in the paragraphs before, the semiconductor industry serves as a prime example for M&A's due to strategic geopolitical importance on the world stage for companies. At the moment, the semiconductor industry is holding an estimated US$ 673.1 billion in market value in 2024, which is expected rise up to US$1,307.7 billion value by the year 2032 (Market.Us, 2024). The influence of macroeconomic trends on geopolitical dynamics continues to grow: Emerging innovations such as the Internet of Things (IoT), the rise of

AI, autonomous vehicles or the introduction of 5G networks are boosting the production of semiconductors further (Market.Us, 2024).

Buyer

Qualcomm, an American semiconductor and telecommunications equipment manufacturer based in San Diego, California is the world's biggest smartphone-chip maker. Qualcomm's portfolio comprises products for processors, modems, platforms, as well as dedicated software and hardware (Qualcomm, n.d.). The company is run by CEO Cristiano R. Amon who assumed his role in 2021 mid-year (Qualcomm, n.d.). In 1988, Qualcomm had its first merger when it partnered with Omninet to develop satellite communication systems for transportation companies. This gave the company a major boost as demand for these very products skyrocketed, generating large sales of 32 million dollars the very next year (Populartimelines, n.d.). The company founded further holdings which operated in China and India later, making the company a big multinational corporation. Qualcomm had several lawsuits filed against them, the first being by the Chinese National Development and Reform Commission in 2013, when it held an investigation of antitrust nature within the licensing division of Qualcomm and two years later the dispute was settled for nearly $1 Bn. However, from then on, many more lawsuits followed.

Target

NXP Semiconductors is a global semiconductors manufacturer based in Eindhoven, Netherlands, known for producing a wide range of semiconductor products and solutions throughout industries like automotive, industrial or consumer electronics and a particular specialization in automotive solutions, such as in-vehicle networking, security, identification and safety systems (NXP, n.d.). NXP's timeline as a standalone brand does not date back as far as Qualcomm's, but NXP does have historical ancestors. The Dutch company Philips NV founded NXP first as Philips Semiconductors, which later was sold to a private-equity consortium and renamed in 2006 to its current name (Woo S, 2016). With an EBITDA of $3.15 billion in 2018, NXP presents itself as a company in very good financial health, which suggested strong growth in both revenues and profits over the next few years (NXP, Q4 2018 Earnings Presentation). In 2015 the company acquired Texas-based Freescale, the worlds largest automotive supplier and 4th largest company in the semiconductor sphere (NXP, n.d.). NXP‘s CEO, Rick Clemmer, focused on the strategy of having only a slim portfolio of products which are already established on the market or show great potential to become so (EEtimes, 2012). Although NXP is headquartered in the Netherlands primarily due to tax reasons, the company operates largely on the global stage, with a strong presence in China where it has around 8‘000 employees and a major part of the components used for their products are produced, designed and manufactured (EEtimes, 2012). Even though NXP did not offer a breakdown of its revenues by geographical region in 2018, in 2023 China represented the main market for NXP, accounting for 32% of its revenues in this territory, compared with 24% for EMEA and 16% for America.

The Deal

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, 2018).

- October 2016: Qualcomm announced its intention to acquire NXP Semiconductors for $110 per share which amounts to a total value of equity of $47 Bn (Massoudi, A., 2018).

- After initial contestation from Paul Singer‘s Elliott Management, reveiling their stake in the deal, Qualcomm raised the offer to $127.50 per share (Nolter, C. 2018).
- April 2017: the deal got approval from U.S. antitrust regulators (Populartimelines, n.d.).
- Beginning 2018: the deal became embroiled in the trade war between the US and China. Former US President Trump blocked the China-based ZTE Corporation from acquiring components manufactured in the US, such as those from Qualcomm, and levied tariffs on Chinese goods and services (Populartimelines, n.d.).
- Chinese approval problems first emerged when the Trump-administration imposed tariffs on imports from China amounting to 34 billion dollars (Freeman, 2018).
- March 2018: In its media release Qualcomm announced that the acquisition of NXP had been approved by eight of the nine required government regulatory authorities worldwide, but that approval from the Chinese Ministry of Commerce (MOFCOM) remained pending (Qualcomm, 2018).
- April 2018: China still demands concessions before giving the deal a green light.
- July 2018: In what was seen as a retaliatory measure in the context of the general trade dispute between the two countries, the Chinese regulators refused to approve the takeover (Baker, L.B. & Reoumeliotis, G. 2018).
- July 2018: Qualcomm extended its takeover bid to NXP at least 29 times in anticipation of Chinese approval, but ultimately canceled the deal (Nolter, C., 2018).
- After the unsuccessful merger, discussions about this deal had been re-opened by the presidents of the two major powers, but Qualcomm took the decision not to pursue this lead any further and instead focused on building up its own chip production in the automotive industry (Baker, L.B. & Reoumeliotis, G. 2018).

The deal ultimately failed. On the surface, it was due to regulatory challenges. However, digging beneath the surface, it becomes clear that the real reason lies in geopolitical tensions. The failure of the merger had a significant impact on both companies and highlighted the influence of geopolitics on cross-border M&A deals. Moreover, it had significant impact on the semiconductor industry as other companies were alarmed by the failed merger of the two major players. It even led to a certain standstill in other ongoing deals of semiconductor companies as they too had implications for production in China, which also required further approval.

The Government‘s Rationale

Despite approval from regulators in various countries, the deal met resistance from the Chinese governmental authorities. But why does an American corporation have to win China‘s approval to buy a company that is not Chinese? An alternative scenario could have been to ignore the country‘s decision and to proceed with the merger as planned. However, the cost of ignoring the Chinese government would be higher than to respect its harsh decision, as China simply could ban both companies and prevent them from operating in the market, causing a disruption of the supply chain and production and therefore devalue both companies. Furthermore, the chip and semiconductor industries are highly data-intensive and -sensitive. The production requires specific know-how and the production and manufacturing cannot simply be outsourced to another production site. As NXP's turnover in China is twice as high as in Europe and a large part of the company's employees are Chinese, the deal needed blessing from China in order to happen (Baker, L. B. & Roumeliotis, G. 2018). In addition, it can be argued that a merger of two major companies with a large Chinese market share could create a western monopoly in the Chinese market.

This example perfectly illustrates the politicization of corporate mergers and acquisitions taking place on the world stage as well as the speed of recovery of the companies involved. By scuppering the deal of the two companies mentioned above, China is sending a clear signal to the world that it has a substantial say in the ongoing global economy.

Agri-food: Syngenta's takeover of Verisem

Another interesting case is the proposed acquisition of Verisem by the Syngenta group that got eventually blocked by Mario Draghi's government which made use of the "Golden Power". Although a lot of attention is spinning around the semiconductor's industry for obvious reasons, examples of governments intervening in M&A deals as protectors of "national interests" can span a vast array of industries. In this case we delve into the details of a deal in the agri-food industry and try to understand their main features and implications.

Buyer

Syngenta Group, founded in June 2020 as a result of the fusion of Syngenta AG, ADAMA and Chinese Sinochem agricultural businesses. Head-quartered in Switzerland, Syngenta is a leading agricultural innovation and technology company. Its main business units are Crop Protection, Seeds, Programs & Services. They operate in R&D, Production, Commercial and Supporting activities. Although located in Switzerland the group is registered in Shanghai and owned by Chinese chemical Sinochem, fully controlled by the Chinese Government. The Group currently encompasses Syngenta AG, a company domiciled and incorporated in Switzerland, and all of its more than 150 subsidiaries globally, and covers the following operations: Syngenta Crop Protection, Syngenta Seeds and operations of Syngenta AG group that now form part of Syngenta Group China.

It is one of the largest players in the seed industry boasting sales for $32 billion, EBITDA $4.5 billion with most of its revenues (50%) coming from the crop protection segment.

Target

Verisem B.V. is an international biotech and seed producing holding, headquartered in Amsterdam, that came to life building on the story of Suba Seeds. Founded in 1974 by Antonio Suzzi in Longiano (FC), Italy. It began as a small domestic producer of seeds but over 20 years it built itself, also through acquisitions, into an international player. From Suzzi, the company passed under the ownership of Quadrivio, an Italian investment fund, in 2012 until in 2015 the company got acquired by, US private equity house, Paine Schwartz Partners. Under PSP, the group gets renamed Verisem and further strategic acquisitions get completed, including the acquistions of Brotherton Seeds and Franchi sementi, to diversify the production and overall product offering. We can say that today it is one of the leading players in the industry as it 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).

Verisem is an expert in vegetable seed production including coriander, beans, peas, radish, chicory and other crops where hybridization is either uneconomical or not possible. 54% of its sales are contracted with global seed majors (Bayer, Syngenta, etc.) and end markets include both professional and hobbyist growers worldwide. It is not Italian, rather it is incorporated in the Netherlands but it has Italian origins (Suba Seeds) and to this day is of significant relevance for the Italian economy as three of its production plants employing approximately 200 people, are located on Italian soil. For this reason we can say that Verisem is one of the most important Italian entities in the seeds field (a market already controlled by two-thirds by foreign multinationals) an thanks to its heritage of scientific and production technical knowledge it is a strategically relevant asset.

The group generates approximately €300m in revenues and €30m in EBITDA with the following geographic mix: Europe (54%), Americas (20%), APAC (19%), Middle East (6%) (Orbis, 2023). Despite its relatively small size it is a highly relevant company in the industry due to its focus on innovation, consumer needs, and sustainability.

The Deal

PSP,the major shareholder of Verisem, has tried to sell its stake in the company since 2021 when it had agreed for a sale to Syngenta Group and is still looking for potential buyers that are willing to offer approximately €200m.

- In 2015, PSP Investments, a US-based private equity firm, acquired a majority position of approximately 90% in Verisem alongside management, which held the remaining 10%
- In June 2021, Paine Schwartz Partners, a global leader in sustainable food chain investing, announced that Paine Schwartz Food Chain Fund IV had agreed to sell Verisem BV to Syngenta's vegetable seeds business.
- In October 2021, the Italian Government exercised its veto on the sale of the Italian companies of the Verisem Group to Syngenta AG by applying the "golden power" mechanism
- Chinese-owned Syngenta appealed Italy's veto of the seed producer deal
- On January 9, 2023, the Italian Administrative Court of Second Instance (Consiglio di Stato) upheld the government's veto of the acquisition, confirming its jurisdiction over governmental acts for the use of the golden power

The Golden Power (Istituto Affari Internazionali, 2021)

What is it? Why is it so powerful and important for the Italian state?

The golden power rule was introduced in 2012, granting the Italian government authority to block or impose conditions on corporate transactions involving assets deemed strategic for Italy. This law mandates that companies operating in specific sectors notify the Italian Presidency of the Council of Ministers of all transactions before completion. The Ministry then has 45 days, extendable by up to 20 days if further information is needed, to issue a decision. Initially applied to defense, energy, transport, and telecom, the legislation expanded after the Covid-19 pandemic and new guidelines from the European Commission. Sectors now covered include critical infrastructures, technologies, dual-use products, iron and steel, agri-food, and data-intensive financial sector technologies. Notably, since 2020, the law applies retroactively, allowing the Prime Minister to block deals even in their final stages if not reported.

The Governement's Rationale (Bizzotto, 2021)

Verisem, located in Italy's Forlì-Cesena province, employs approximately 200 individuals and specializes in producing over 90 seed types and 2,000 vegetable and herb varieties. Coldiretti asserts that the company, based in Emilia-Romagna, plays a vital role in preserving Italy's genetic biodiversity by safeguarding seed varieties passed down through generations of farmers.

China's acquisition of Verisem aims to establish global dominance in the market for vegetable and herb seeds. This move raises concerns about the potential loss of Italy's agricultural heritage. This concern arises from several factors:

1. The agri-food and seed market is predominantly controlled by three multinational corporations, giving them significant influence
2. China is expanding its strategic influence across various sectors, including agriculture, which poses potential risks to global food security
3. 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

In summary, the proposed acquisition of Verisem by the Syngenta Group carries significant geopolitical implications, especially regarding China's expanding influence in the global agricultural sector. This move underscores China's broader ambitions for dominance in key industries worldwide. While the acquisition could strengthen China's economic presence in Europe, particularly in Italy, it also raises concerns among European policymakers about increased Chinese influence in critical sectors like agriculture. Moreover, it could impact EU-China relations, as European leaders navigate the delicate balance between economic opportunities and concerns about sovereignty, security, and reciprocity in trade relations with China.

Conclusion: why corporations should consider privatizing foreign policy

Over the past three decades, global business dynamics have undergone a significant transformation. Previously, corporations maintained a stance of political neutrality, viewing it as pivotal for success in a collaborative global economy. However, this paradigm has shifted drastically in recent times. Corporations now find themselves navigating a complex landscape characterized by tensions emanating from governments and rising populist sentiments in domestic spheres. Governments, increasingly driven by the imperative of safeguarding their national interests, have adopted assertive measures and regulations. This shift stems from concerns about retaining sovereignty over strategic national assets and responding to pressures from a growing populist electorate. The waning hegemonic position of the United States has paved the way for rising powers to exert influence, even in corporate realms (Chipman, 2016). Consequently, heightened scrutiny is being directed towards cross-border mergers and acquisitions, particularly in key strategic sectors such as technology, energy, infrastructure, and agri-food. On the other hand even in case of government blessing on a given transaction risks of boycotting coming from domestic consumers might pose a serious threat for international M&A deals. 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 (Volpe and Colli, 2023).

Survival in this landscape necessitates companies adopting an international identity and internalizing foreign policy imperatives, with a focus on corporate diplomacy and due diligence (Chipman, 2016). For those lacking established political relationships worldwide, geopolitical due diligence emerges as a short-term solution. It entails a comprehensive evaluation of the viability of a business strategy in foreign environments, encompassing factors like political instability, regulatory frameworks, economic conditions, socio-cultural dynamics, security threats, and international relations. As a broader strategic orientation and long-term strategy companies should seek to establish strong and continuous relationships with governments that are relevant for their current and future operations. By fostering positive political ties preemptively, companies insulate themselves against unilateral government actions that may impede their objectives. Furthermore, leveraging soft power can help garner support from consumers who may diverge from governmental decisions.

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. Or else get caught up in geopolitical tensions in which the climate changes rapidly and unpredictable elements emerge. In today's geopolitical arena, 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.

Geopolitical volatility now stands on par with traditional business risk sources, necessitating a proactive approach (Chipman, 2016). To navigate these challenges effectively, we recommend adopting an approach centered around fostering continuous political relationships and engaging in strategic lobbying efforts with governments in countries of interest. By establishing and nurturing positive ties with relevant government officials and policymakers, your company can significantly reduce the risk of encountering unforeseen regulatory hurdles or unilateral government actions that may hinder your objectives. 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. By advocating for policies aligned with your own interests, you can create a more favorable operating environment and mitigate potential geopolitical risks.

As we know that you are considering foreign acquisitions also in the short term, we advise you to prioritize geopolitical due diligence as an integral part of your M&A strategy which will enable you to make informed decisions and avoid risks in the near future. This strategic approach will enable you to navigate the current environment effectively while concurrently pursuing our proposed long-term foreign diplomacy relations strategy.

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