Fortress Europe? Protectionism and populism raise political risk in the European Union

Is Europe starting to close its doors to foreign competitors? Recent calls to establish "European Champions" in the wake of the U.S.-led trade wars and an attempt to invigorate flagging economies suggest that Europe is starting to pull up the drawbridge of Fortress Europe. Increasing populism throughout the EU, especially in core economic leaders such as Germany and France, are driving political leaders away from globalist principles and towards a more nationalistic economic strategy.The growing Green party politics at the European and national levels are also helping to restrict foreign market access: raising non-tariff barriers (NTBs) for exporters under the guise of consumer safety and environmental protection. As formerly staunch globalists leave center stage and attacks are made on the existing competition structure in the EU, what political risk might foreign firms face in Europe in the near and mid-term future as these political and economic protectionist movements play out?

Paradigm shift towards protecting domestic/European businesses?

In early February, Germany's Federal Minister for Economic Affairs and Energy, Peter Altmaier, announced a new industrial policy to protect domestic technology companies. This also includes a potential investment fund to boost their competitive development. Soon thereafter, France and Germany jointly called for the creation of European "Industrial Champions" that could take on heavyweight companies, especially in the high tech industries, from the U.S. and China. This strategic shift is in direct response to the U.S.-led, multi-front trade war, but also reflects a new paradigm in the EU. Globalist leaders are losing political clout across the continent to parties on both the right and left edges of the political spectrum. With the UK – traditionally a free-market champion – divorcing from EU economic planning, this Franco-German push for government support for domestic business will have an overwhelming voice in European Union strategic thinking.

France and Germany have faced structural challenges with the competition regulations in the EU, which torpedoed the recent attempt to combine French Alstom and German Siemens into a larger train-producing company. However, in the face of slowing growth and a recognition that the rules of the global trade game are changing, EU nations are hoping to shift to a more Euro-centric and aggressive mode to protect their interests. Back in December, nineteen European member states announced their joint interest in modifying the competition rules in the EU to help facilitate the creation of European powerhouse companies. More recently, Dutch PM Rutte highlighted that the EU has to get more "streetwise" in competing with other powers on issues of global trade and politics. The gloves are coming off.

Populist parties as the driving force towards protectionist policies

The Alternative für Deutschland (*AfD*), as a surging German populist party which did not focus much on economic woes among its voting bloc, nevertheless pulled the national dialogue away form the globalist rhetoric that had been previously espoused by Angela Merkel's CDU. Prior to the 2017 elections, the party hung its economic hat on departing the Euro zone, and railed against the Greek bailout which Germany had reached out to finance over the last few years. Now the party has decided to back the German diesel car industry in an attempt to capture voter interest, seizing on the protest movements in France as inspiration for the protection of domestic markets.

As in Germany, the populist movement in France is running on a platform to protect its own national interests over European unity. Titled 'intelligent protectionism', the proposed policies of Marie Le Pen's National Rally party are intended to shield French industries from outside competition. Le Pen laid out her approach in 2017, and of special concern to foreign businesses is her interest in establishing an Economic Security Agency to limit and monitor foreign investments in France, as well as her intent to force the French state to buy exclusively from French companies. While these approaches would require changes to existing, EU-wide law, the popularity of such approaches in the populist rhetoric across Europe is clear. Certainly, voters in key nations such as Italy – once a strong and reliable proponent of an integrated EU – will also be willing to consider changes to EU regulation which would give their government greater authority to defend national industries from foreign competition.

The risk of greater government scrutiny and political attacks against “foreign” firms (*most of who are of course also registered as European companies*) seems to be increasing, especially if they appear to compete with domestic start-ups in the tech area. Attacks on established tech giants over privacy concerns, competition law and taxation issues are well-known. The campaign against Huawei, prompted initially by the U.S. and U.K. and increasingly taken up by continental EU nations, helps to show that many European officials are more comfortable taking a stand against Chinese state-owned enterprises that compete directly with European firms such as Ericsson and Nokia. There is certainly an element of national security driving these public condemnations and concerns, however, economic nationalism undoubtedly flavors the recent actions many EU states are taking, as they strive to keep domestic firms competitive in a tepid EU economy.

Green party politics are limiting market access

Another important element of this shift away from globalization and open markets are the policies of Green / environmental parties in Europe. Both at the national and European level (*where the Greens hold only 6% of the seats at the European Parliament, but have grown steadily over the last three elections*), Green parties have encouraged policies which serve to limit non-EU business access to the common market. Programs such as REACH (*regarding chemical limitations*), phytosanitary restrictions, limitations on packaging, an emphasis on consumer rights and sustainability/fair trade requirements and restrictions on GMO content in food products indirectly limit market access for outside companies that rely on less stringent or politically-driven standards in their home markets. As the UK – where its Green Party is not as influential as that of other EU countries – is leaving the EU in the next few months, the sway of Green party politics on the European regulatory regime may increase, further closing the European market to outside companies.

How businesses can respond to the risk of Fortress Europe

Apple, Ford and Amazon are identified as U.S. companies no matter how they might be structured, but for the majority of foreign companies, much of the threat of a defensive European market can be rendered toothless by establishing a European corporate arm in the EU or partnering/merging with existing European companies. For the purposes of public tenders which may see heightened restrictions based on burgeoning populism/nationalism, question of board composition may eventually come into consideration, but for now, flexibility of corporate structure may be the easiest solution. For exporters, the issues are more complex. Facing a “Fortress Europe”, companies will likely see more NTBs and state support to European companies (*especially in the tech sector*) which will hamper their ability to compete. Rhetoric against “foreign” companies is an easy balm in election season when the economy is struggling. In the next decade, expect to see European politicians proactively defending national companies and “European champions” over the previous globalization rhetoric as populism swings the economic pendulum towards protectionist policies.

Kirk Samson

Kirk Samson JD, MBA is a former international law advisor for the U.S. military and served as a diplomat in Prague, Oslo, and Tunis. He has over 20 years experience in international political analysis and is currently the owner of Samson Atlantic LLC, a Chicago-based business consulting company which offers market research, site selection assistance, political risk assessment, and international negotiations coaching.

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