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BRUNSWICK REVIEW

A JOURNAL OF COMMUNICATIONS AND CORPORATE RELATIONS ~ ISSUE SEVEN ~ SUMMER 2013

IN THE PUBLIC EYE

What business and government can learn from each other

Portugal's Prime Minister, the EU's Internal Market Commissioner, the US Ambassador to the EU, and Barclays' regulatory chief on communicating "big picture" visions in public affairs

CHINA'S EMBRACE

How to interpret its newly assertive cultural diplomacy

A CYBERSPACE ODYSSEY

Mashable's CEO and Editor on creating foot soldiers for brands

INSIDE THE FACT TANK

Alan Murray on his new mission at Pew Research Center

Plus **NEIL MACGREGOR: BRITISH MUSEUM'S OBJECT LESSONS**

TROY CARTER ON BUILDING LADY GAGA'S SOCIAL NETWORK

BRUNSWICK REVIEW ~ ISSUE SEVEN ~ SUMMER 2013

BRUNSWICK

Brunswick is a corporate relations and communications consultancy. We provide informed advice at a senior level to businesses and other organizations around the world, helping them to address critical communications challenges that may affect their valuation, reputation or ability to achieve their ambitions.

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Since the financial crisis, the rules of engagement have changed. Many companies have found that they must deal with a far more intense level of scrutiny from politicians and regulators, who are pursuing their own agendas. Companies also have to navigate a more complex and hostile public terrain.

In dedicating much of this edition of the *Review* to public affairs, we thought we should hear directly from political and regulatory leaders, as well as businesses operating largely in the public sphere, about how they are dealing with the communications demands of the post-financial crisis world. Understanding these complex challenges is vital if we are to learn how the private and public sectors can build better relationships with each other and with the public at large.

As companies come under greater scrutiny, it is not just about what they do, but also how they do it. Politicians, regulators, and the media may take the lead in this, but in many cases they are doing so in response to public demands. This greater public engagement has gained force through new media, or what is now being described as the "public information space" – the swirling sea of content that surrounds and connects us in the digital world.

In this atmosphere, companies are facing difficult questions with increasing frequency on issues such as tax, jobs, the environment, and ethical sourcing. Also, it is now widely appreciated that failure to adequately articulate the full benefit of an organization's social purpose can have serious consequences for its reputation, market value, and even its very existence.

As a consequence, business leaders find they must perform on a much more public stage than ever before and have to acquire the skills of politicians. This has been starkly illustrated on both sides of the Atlantic by political committee hearings, which have become an increasingly popular (and populist) form of holding business to account. In this issue, we look at the traps that these hearings can set, and consider how a company can keep its own agenda center stage.

Also in this issue, we hear from Portugal's Prime Minister, Pedro Passos Coelho, about how his government is striving to keep the public focused on long-term objectives as they cope with the short-term pain of economic reform. Similarly, Michel Barnier, the European Union's Internal Market Commissioner, and William Kennard, US Ambassador to the EU, both discuss efforts to forge a freer but also more robust transatlantic marketplace.

Around the world, there are new and interesting approaches to meeting the challenges where public and private interests intersect. Exemplars of these new models are discussed by Luis Alberto Moreno of the Inter-American Development Bank, Choo Chiau Beng, CEO of Keppel in Singapore, and Francis Yeoh of YTL in Malaysia. These questions also arise in the cultural sphere, as the British Museum's inestimable Director, Neil MacGregor, and Mashable's Pete Cashmore and Lance Ulanoff recount.

The principles of best practice are surprisingly clear and straightforward when dealing with public affairs, even though there are many local variations around the world. Transparency is the key. In a world that is increasingly open, it is important for companies also to be open and straightforward. The winners will be those who walk towards difficult issues in a constructive, honest way without resorting to spin or obfuscation. It is a stronger and safer course of action to be clear and honest about your goals. That has always been the basis for good corporate communications and it is no different when dealing with public relationships.

I hope you enjoy this edition and thank you for your time.

ALAN PARKER — *Chairman, Brunswick Group*

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PUBLIC AFFAIRS

FEATURES AND DIFFERENT TAKE

Public

Business and politics have always endured a turbulent relationship, but they have come into collision with alarming regularity over the past five years. Part of that is the fallout from the financial crisis, as leaders of all institutions seek to win back legitimacy and public confidence. But more fundamentally, business leaders and the political classes are both struggling to adapt to the challenge of what is being called the "public information space."

This mass of content sharing and social networking is giving people an influence and power it has never had before. Today, everyone is in a position to scrutinize, criticize, commend, and complain. The result is a world of instant analysis and armchair auditors – in which no single voice commands respect and authority in quite the same way any more and some say public discourse has suffered as a result.

Affairs

In this section, we hear from a Prime Minister, senior bankers and respected diplomats about how they are dealing with the aftermath of the financial crisis, rebuilding public trust, and setting the agenda for renewed growth. We look at how governments in Asia, the Middle East, Africa and Latin America are exploring new ways of engagement with a wider range of stakeholders.

In this age of accountability, we hear how business executives can find themselves in the public spotlight, for example, when called on to testify before politicians about the ramifications of a business decision. We also examine the way trade negotiations can have a critical effect on a business's survival and success. The lesson that emerges from all of this is that no business today can afford to ignore politics. Business and public affairs are entwined like never before.

READY FOR YOUR CLOSE-UP

Political committee hearings are often an arena for the ritualistic humiliation of those called to testify. Executives can mitigate the risks by being prepared

— US congressional committee hearings

A HIGH-STAKES GAME FOR THOSE CALLED TO TESTIFY

BY DAVID SELDIN AND ERIK HOTMIRE, BRUNSWICK, WASHINGTON, DC

In the early 1950s, a series of hearings chaired by Estes Kefauver, a lanky, drawling Senator from Tennessee, became a political and media landmark in America, captivating the country in a way that no previous Congressional proceedings had.

The Senate Committee to Investigate Crime and Interstate Commerce (the “Kefauver Committee”) held its sessions in 14 cities across the country, hauling mobsters and their alleged accomplices in for questioning by Senators. Taking place at a time when television was becoming all-pervasive, the hearings were broadcast to live audiences that regularly exceeded 20m, and featured moments such as mobster Frank Costello nervously rubbing his hands together while “pleading the fifth,” and red-haired Virginia Hill Hauser, in a silver mink cape, coyly ducking questions about her dealings with Benjamin “Bugsy” Siegel and other leading organized crime figures.

It was pure theater and made a star of Kefauver, who went on to run on the Democratic Party ticket in 1956 as presidential candidate Adlai Stevenson’s running mate. The Kefauver Committee set the prosecutorial tone for subsequent hearings, which have included the notorious Army-McCarthy hearings, Watergate, the Fulbright hearings on Vietnam, and Iran-Contra.

In 1988, the “made for TV” nature of the proceedings was tacitly acknowledged when Congress opened the cavernous Central Hearing Facility in the Senate Hart Building, about which Senator Daniel Patrick Moynihan quipped, “I think we must have borrowed the design from the Supreme Soviet.”

> “KNOWING YOUR STUFF IS IMPORTANT. BUT JUDGING THE POLITICAL NARRATIVE IS EVEN MORE CRITICAL”

Members of Congress have good reason to covet the attention that hearings bring. Not only are they an effective stage for ambitious politicians, but hearings can also function as a sharp-edged tool to advance a policy agenda. That fact was starkly demonstrated in 1994 when Ron Wyden, a member of the House Energy and Commerce Committee, ignited a firestorm with a simple, dramatic question to the chief executives of seven major tobacco companies: “Yes or no, do you believe nicotine is not addictive?” If a video could be said to “go viral” in the pre-internet age, this one certainly did – the camera-ready scene played out over and over again on news broadcasts across America, and is now looked back on as a pivotal point in society’s long debate about tobacco regulation.

Congressional hearings are a high-stakes game for executives, as anyone who saw the ordeal endured by car executives in 2008 will recall. Flash back to the depths of the financial crisis, when General Motors and Chrysler were in dire need of help from government in order to avoid bankruptcy. CEOs were summoned for what promised to be an extremely high-profile hearing of the House Financial Services Committee. Even before the session began, a swarm of press homed in on the corporate jets that the executives used to ferry themselves to Washington. A populist frenzy was further stirred up by Committee members competing for TV air time. The situation went from embarrassing to humiliating when the politicians asked the CEOs if they would consider forgoing some of their hefty compensation as part of a bailout agreement – a question for which none of the executives seemed prepared. The already-weak public support for the aid package diminished considerably in the wake of the hearings.

The private jet debacle highlighted a critical communications issue: the disconnect between perceptions in the corporate and Washington worlds. Surprisingly, that risk was raised in internal discussions at lower levels at one of the auto companies, but was never considered seriously at headquarters.

“That whole hearing, we failed to match the tone to the circumstances,” says one car company adviser. “The company was very used to a style of communication that was all about projecting strength, and didn’t understand that what Members of Congress were looking for from an industry seeking this kind of help was humility. By not paying close enough attention to the audience and specific circumstance, the optics really suffered and we endured a serious setback.”

How do corporate leaders avoid getting snared in such traps? There are a few key things to keep in mind. Primarily, they should remember that it is a show – a show run by the politicians. Executives have had a tendency to approach these hearings as if they are taking an exam and spend their preparation time trying to cram facts and figures into their

You're not on the list

It's not exactly the hottest club in town, but look down the hallways outside Congressional committee rooms in the hours before hearings and you'll often see a group of fairly scruffy-looking, mostly young people waiting in a well-organized line.

Why are they there? You could be excused for thinking these are students, activists, or simply interested citizens, checking up on their legislators. But as hearing time approaches, the line transforms radically as the queuers are replaced by well-dressed lobbyists. It eventually becomes clear that the former were hired by the latter to reserve seats at the hearings, which are available to the public on a "first come, first save" basis.

Congressional committee staff and the "line sitters" closely follow well-established rules of etiquette, and securing a seat is seen by lobbyists as an essential part of doing business. "So much work goes into getting ready for a big hearing, lobbyists don't have the time to stand in line for hours as they prepare," says Larry Harlow, a prominent lobbyist. "But you want to be sure to have a seat. Being in the room can make a big difference as a hearing plays out. You need to be there to protect your clients' interests."

Line sitting is an industry unique to Washington.

heads. Knowing your stuff is important but judging the political narrative is even more critical. If you want to know how to prepare for a Congressional hearing, look at the way most Members of Congress do it, which is to focus mainly on how to ask a question that will get TV time and advance their agenda.

Often, the primary goal of committee members in a hearing is to push a company representative to make some particular statement, whether one of contrition, or an acknowledgement of responsibility, or perhaps the acceptance of a "commonly-believed fact," regardless of the evidence.

Company representatives should avoid getting boxed into corners by understanding clearly what committee members are likely to be looking for, and formulating an acceptable response that they can deliver in the opening statement. Otherwise, they risk becoming hostage to the politicians' agenda.

Executives may ask whether they are compelled to testify. Although negotiations often take place with committee staff about who should appear and when, frequently the answer is "yes" – in effect, a subpoena; indeed sometimes it literally is one. Failure to appear can result in citation for contempt of Congress, which can result in financial penalties and even prison. Pleading the Fifth Constitutional Amendment right to decline to testify on the grounds that it may incriminate is possible, but obviously should be avoided in all but the most extreme circumstances.

Though it may seem obvious, company representatives should carefully run through a media appearance checklist in advance of a Congressional committee appearance:

- Body language and tone of voice communicate as much as words. It is vital to project the appropriate balance of respect and confidence.
- Don't lose patience. Each committee member will treat their five-minute question period as their own mini-hearing, which means witnesses get variations on the same question over and over. Stick to the script and go with the flow of the hearing.
- Prepare for protesters. The higher profile the hearing, the greater the likelihood it will be interrupted by chanting, sign-waving, or other forms of protest. Have a strategy for handling it. Generally, staying calm and keeping your attention on the committee chair works.
- Don't guess. It is always better to admit to not having a particular fact at your fingertips than to say something that turns out to be inaccurate. Promise to get the questioner the information later, and then make sure that the appropriate follow-up happens.

Dealing with elected officials who may lack knowledge of their business is a major challenge for executives. Allen Ertel, a successful entrepreneur who served three terms in Congress, sums up the problem: "The biggest difference between politics and business is that in business I don't have to deal with people who don't know what they're talking about."

CEOs spend most of their time meeting with people who are well briefed. Politicians, on the other hand, must engage frequently on issues of which they have scant knowledge. But showing up a Congressperson's lack of knowledge is a risk not worth taking. It is best to show deference – and explain not lecture.

Understanding the media and political dynamics of a hearing can help CEOs not only avoid the pitfalls but advance their own agenda. Take the auto executives. A few weeks after their corporate jet fiasco, the same CEOs came back to Congress but this time better prepared. Ford CEO Alan Mulally – supporting his rivals' request for funds – drove to Washington in a hybrid car and said he would take just $1 in salary and sell Ford's corporate jets if it ever needed bailout money. The funding for GM and Chrysler came through, and ultimately became a popular talking point in President Obama's re-election campaign.

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— UK PARLIAMENTARY SELECT COMMITTEES

HOW TO AVOID GETTING PIE ON YOUR FACE

BY ANDREW PORTER, BRUNSWICK, LONDON

UK Parliamentary Select Committees used to be rather staid and sleepy affairs, concerning themselves primarily with the inner workings of government departments or arcane constitutional issues. In recent years, however, committees have been thrust into the public spotlight as their members have aggressively gone after big corporations and their high-profile executives.

We have been treated to such spectacles as media baron Rupert Murdoch declaring before the House of Commons Culture, Media & Sport Committee, "This is the most humble day of my life," before narrowly avoiding a protestor's pie in the face thanks to the intervention of his wife Wendi, who was sitting behind him in the committee room.

Meantime, the Treasury Committee was the arena in which a leading banker was grilled so mercilessly that he took the unprecedented decision to hand back his knighthood after the committee issued its damning report. Sir James Crosby, formerly CEO of HBOS, reverted to plain old James.

Given the higher profile of some Parliamentary committees, Clerk of the House Robert Rogers, the House of Commons' top adviser on procedure, issued a report last summer reviewing the powers of committees. As in the US, the UK House of Commons has the power to cite for contempt people who refuse to appear, though penalties are limited and rarely applied. The penalties for lying to the committee are more severe, though the decision to prosecute rests with the courts and the burden of proof is high. While Rogers' report leaves open the question of whether committees should have greater powers, it notes that censure alone can do considerable reputational damage.

"In the nature of things, most people who fall foul of a select committee will be people in public life, or who in some way carry public responsibilities," Rogers wrote. "The finding by the House of Commons ... that an individual is in contempt, and making specific criticisms of the individual's conduct, must be hugely damaging to that individual."

Writing for the London School of Economics' (LSE) politics blog, Adam Lent, director at the Royal Society of Arts, and a former head of economics at the Trades Union Congress says, "Select committees have effectively become public courts where individuals are tried not on the veracity of their case but on how well they manage to perform in the committee room bear pit. And the sentence, should one's performance not be up to scratch, can be a severely damaged reputation or even loss of employment."

As in the US, politicians are well aware that the higher media profile their committees are enjoying is an excellent platform to advance political agendas.

Margaret Hodge, a Labour Party politician and chair of the powerful Public Accounts Committee, last November paraded executives from Google, Amazon, and Starbucks in front of the nation to ruthlessly probe their tax arrangements. This followed a report in October 2012 by Reuters which found that Starbucks had made "perfectly legal" tax payments of just £8.6m ($13.3m) on £3bn ($4.8bn) of coffee sales since starting business in the UK in 1998.

"INDIVIDUALS ARE TRIED NOT ON THE VERACITY OF THEIR CASE BUT ON HOW WELL THEY MANAGE TO PERFORM IN THE COMMITTEE ROOM BEAR PIT"

The committee hearing topped TV news broadcasts and millions saw the company executives struggling to deal with unexpected questions about the "morality" of the tax code – it was no longer sufficient to say simply "we obey the tax laws."

Hodge says, "They were not prepared and came in with a certain arrogance. We called Starbucks and then it was a question of deciding who else. We actually looked through the newspapers to see who was paying the least tax. It was literally like that – rather fortuitous, but it could have been other companies."

Hodge adds, "We are in a new world where the private sector plays a much bigger role in public life ... What these episodes show is that reputation matters. "

In the wake of the hearings, Starbucks said it would voluntarily pay more UK tax. "These decisions are the right things for us to do," said Kris Engskov, head of Starbucks UK and Ireland. "We've heard that loud and clear from our customers."

Members of committees and executives who have survived hearings say there are key points to remember when notified that you might be asked to testify:

- You could be informed of your appearance date just a few days before, so prepare as soon as you know you *might* be called.
- Research which committee members tend to ask the headline-grabbing questions, anticipate those questions and establish your response.
- Get the feel of the occasion – watch videos of previous committees or sit in on a hearing in the public gallery.
- Accept that the dice will be loaded against you.
- Be humble. This is a rare moment when backbench MPs have some authority, so let them have their moment.

Practitioners who have prepared executives for hearings say that the things that annoy committee members include:

- Ignorance. If you do not know the answer to a question, say so, and promise to send in a supplementary memorandum.
- Evasiveness. The Public Accounts Committee was recently so annoyed by a lawyer from HMRC (the tax office) that they produced a Bible and forced him to give evidence under oath.
- Repetition. If you are appearing alongside other witnesses, do not repeat what they say. If you agree, say so, and move on.
- Jargon. It always brings a rebuke.

The power of committees has been growing in recent years, but it was the banking crisis that redefined their role as populist forums for politicians to vent anger on behalf of the public. A thorn in the side of the banks is Andrew Tyrie, the independent-minded chair of the Treasury Committee. A former bank economist himself, he has demonstrated that he is prepared to go against fellow Conservative Party members, including Chancellor of the Exchequer George Osborne, in taking a hard line with bank executives, some of whom were dragged before the committee for what was essentially a public flogging.

Political grandstanding aside, it is important to recognize that at least some committee members feel a sense of duty in increasing their scrutiny, particularly in banking. As one bank adviser commented, "The select committees have stepped into a void. The regulators and ministers failed to hold business to account and so they are now doing it."

The debate about growing committee powers continues, especially as new reforms are put in place to reduce their number but increase their power. Answering Adam Lent on the LSE's politics blog, William Brett of Cambridge's Judge Business School, says, "Select committees are able to operate in the ... space between the law and private entities. Ideally, their inquiries feed into the process of changing the law so that the public interest is not so compromised by otherwise relatively unaccountable blocs of power."

In any case, it seems certain that the UK Parliamentary committee system is traveling down the same path as the US, where wider powers and a higher profile mean they pack a greater punch. "It is definitely moving that way," says David Ruffley, a Conservative MP and a member of the Treasury Committee since 1999 who was critical of banking oversight from early on.

Business executives can't say they weren't warned.

Andrew Porter is a Director in Brunswick's London office and specializes in public affairs and media. He is a former Political Editor of *The Daily Telegraph* in London.

DEAL TRAFFIC CONTROL

Navigating a deal safely home means avoiding political turbulence

BY MICHELE DAVIS AND SU-LIN CHENG NICHOLS, BRUNSWICK, WASHINGTON, DC

It is one of the most intense times for a company: making a significant acquisition means following a strict due diligence program to deal with all the financial and regulatory hurdles. However, companies are increasingly finding that they must also consider the myriad political obstacles that can disrupt their plans.

When it comes to acquisitions, politics is best thought of in its broadest sense. Dealmakers would do well to consider the full panoply of actors who might be motivated to disrupt their deal. A potentially disruptive force, for example, could be a competitor creating political obstacles to a deal for purely commercial reasons.

As Stephanie Kirchgaessner, Washington correspondent for the *Financial Times*, says, "I have gotten pitched by parties that are opposed to a deal – often for competitive reasons – and are trying to drum up opposition on the Hill on national security grounds. I have a high degree of skepticism about pursuing such stories, but whether I do or not, these pitches do catch my attention."

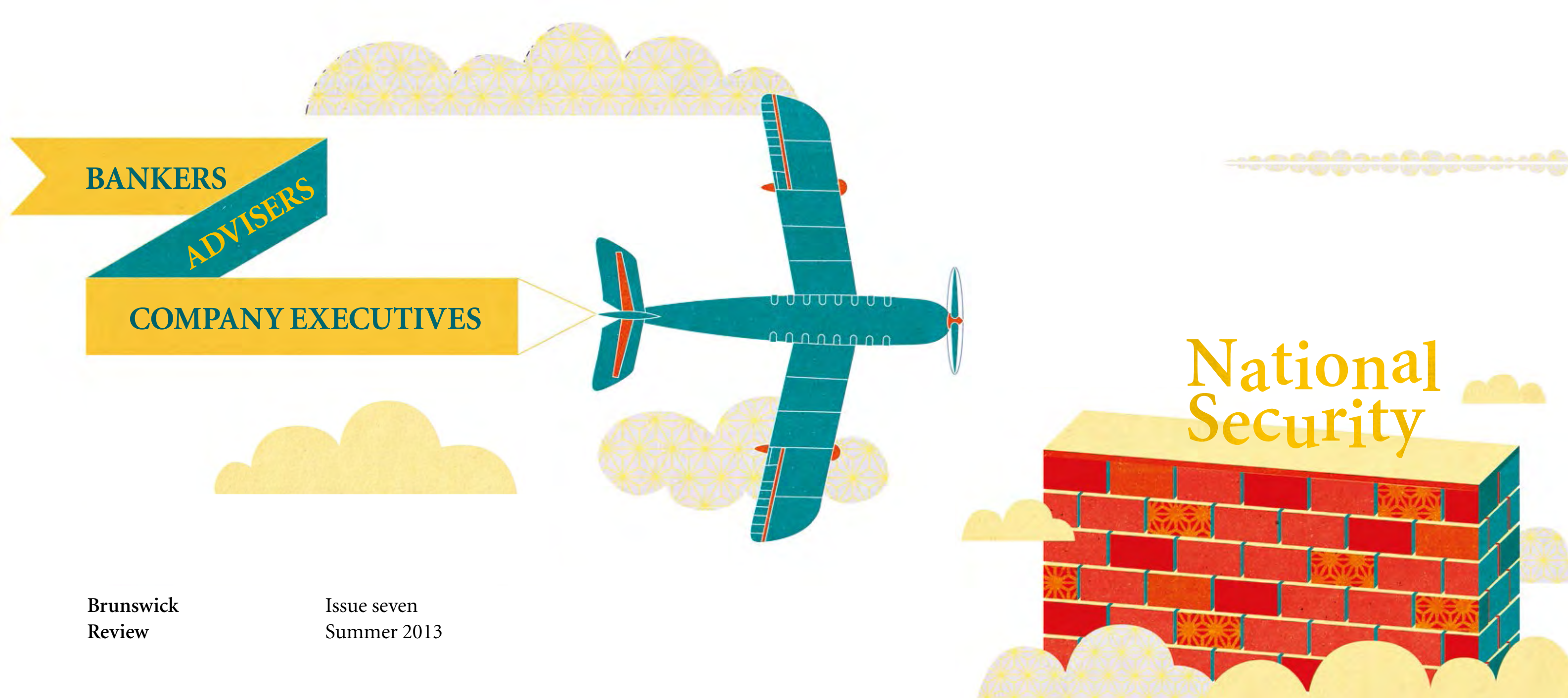
Activist groups, similarly, might care little about a specific transaction but could see it as an opportunity to stoke a policy debate or to lobby for investment and jobs. It can be easy to become ensnared in a broader debate – and once that happens, it becomes far more difficult to control your own destiny.

Governments around the world have been putting foreign acquiring companies under greater scrutiny, especially if there is a question of national security involved. In Washington, DC, this is governed by the Committee on Foreign Investment in the United States (CFIUS), a collection of federal agencies led by the Treasury Department, which can deny permission for a foreign investment that the committee judges would represent a significant risk to national security.

Cases that are candidates for CFIUS scrutiny often garner press interest too. "There are certain companies and countries and sectors that pique my interest because I know they also attract the interest of CFIUS and could be controversial," says Kirchgaessner. "A company's preparedness or lack of preparedness for the CFIUS process is also something I look out for as it can be a good sign of how the review is likely to go. I try to glean as much information as possible for our readers about this very secretive and opaque process."

Indeed, the language of CFIUS can be vague – deliberately so – in order to give the government and its agencies (which include Homeland Security and Defense) plenty of scope to determine what types of deals might pose a threat to national security. This can run from fairly obvious, off-limits transactions in the defense sector, to assessments more difficult to predict, such as those that might impact on "critical infrastructure."

Earlier this year, a highly publicized CFIUS intervention derailed a Chinese company's deal that, on the face of it, seemed to involve fairly innocuous wind farms in the Pacific Northwest, but turned out to be a challenging transaction.



Ralls Corporation, a Delaware-incorporated company owned by Chinese nationals who are also senior executives in Sany Group, a Chinese wind turbine maker, purchased interests in four wind farm projects in Oregon in spring 2012. The plan was to build Sany wind turbine generators on the sites in order to demonstrate their reliability.

However, the sites overlapped restricted airspace used by the US Naval Air Station at Whidbey Island and neither Ralls nor the seller, a unit of Terna Energy, which is a division of a Greece-based group, had sought CFIUS clearance prior to the deal. An application for CFIUS approval was filed only after it was requested.

As John Villasenor wrote in *Forbes* magazine, companies that have obtained CFIUS clearance before a transaction are usually safe from future actions because of a "safe harbor" provision, but "when foreign buyers decline to seek pre-transaction approval, things can get far more complicated."

Ralls had all of the legal documentation and permits in place to build turbines and connect them to the power grid, and proceeded to do so after the purchase was completed. However, the Navy had previously written to the Oregon Public Utility Commission about potential "negative security implications" of the sites' locations, and having been requested after the fact to file notice of the transaction, Ralls was then ordered by CFIUS to halt production. Attempts to sell the wind farms were blocked, and in September 2012 Ralls was ordered to divest the assets within 90 days.

Ralls then took the unprecedented step of challenging the Presidential Order in court, which decided to hear the case on the grounds of Ralls' claim that it was denied property without due process. It proved futile, as the court found that the law allows the President to exercise wide powers without explanation because of the classified nature of national security decisions.

The risk associated with foreign investment in the US is often linked with China. However, transactions covered by CFIUS have been overwhelmingly European. The UK, traditionally the largest foreign investor in the US, accounted for 26 percent of transactions covered in the 2009-11 period, according to CFIUS (see chart).

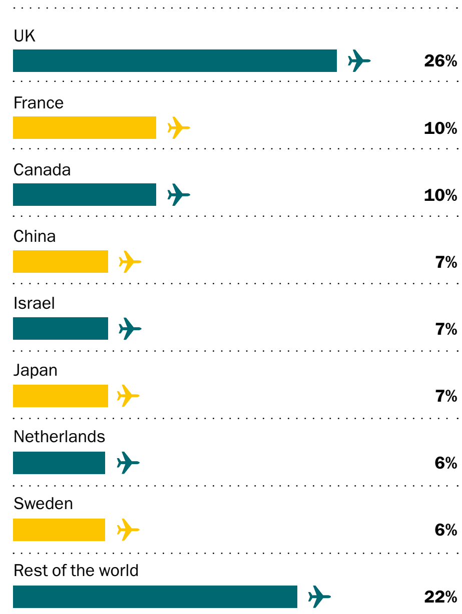
In 2011, the French defense company Safran won approval for its purchase of US company L-1 only after agreeing to establish a three-person proxy board to manage sensitive US contracts, which make up roughly 80 percent of L-1's business.

Clearly, the national security implications of a deal are essential considerations in a broader public affairs strategy, and too often a foreign acquirer without a pre-deal public affairs plan is caught off guard, having expected to stay out of the public eye and avoid questions until a deal is done.

A disrupter of a deal can often get Members of Congress to repeat and amplify their concerns, which then spawns more media coverage, and escalates into a

Headwinds

Deals covered by CFIUS, 2009-11 by country



Source: CFIUS Annual Report, December 2012
Percentages do not total 100 because of rounding

negative media cycle, potentially undermining the deal.

This can be avoided. A good illustration of best practice, for example, was the recent approval of the purchase by BGI-Senzhen, a Chinese genomics firm, of California-based Complete Genomics. Before announcing the transaction – believed to be the first successful acquisition of a publicly-traded US company by a Chinese company – BGI had established strong partnerships in the US and a reputation for doing work that advanced medical knowledge, including with the Children's Hospital of Philadelphia to research pediatric brain tumors, and with advocacy organization Autism Speaks to create a sequenced genome library.

Still, BGI was not widely known in the US and a competitor, Illumina – like Complete, based in California – stepped forward to try to purchase Complete itself, and attempted to raise national security concerns about BGI in an appeal to shareholders.

BGI tackled the national security issue head on. The company's Chief Operating Officer, Ye Yin, wrote to Complete CEO Clifford Reid (a letter filed with the Securities and Exchange Commission), stating, "Illumina knows quite well from its business relationship with BGI that there are no national security issues implicated … Illumina has been a strong supporter of BGI's business and has repeatedly praised BGI as a business partner." He went on to detail the business relationship and the benefits of BGI's acquisition of Complete.

BGI was transparent and responsive, and the accusations did not gain traction. Almost no one in Washington took the bait and no Member of Congress ever publicly voiced concern.

"In a first-of-its-kind international transaction, we knew we needed to complement our legal strategy with a forward-leaning strategy of telling the company's story to the media and to other stakeholders," said Arthur B. Culvahouse Jr of O'Melveny & Myers, BGI's legal counsel on the deal, and a former White House counsel.

So what is the best plan for success? A robust public affairs plan will not overcome true national security risks. But where there is a gray area that could be easily politicized, an acquirer needs a proactive strategy to inform all stakeholders of the benefits of the transaction and to address potential political arguments. A full analysis of (and preparation for) any risks must anticipate and head off critics – and this includes any left-field attempts to portray a well-intentioned deal as a threat to the nation's security.

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Su-Lin Cheng Nichols is a Director in Brunswick's Washington, DC office and has advised on a number of cross-border transactions. She specializes in public affairs, media relations and corporate reputation.

Five questions to ask your deal team

1. What broader political and policy dynamics could this deal potentially stir up?
2. Which stakeholders, if they mount opposition, pose the greatest threat to the deal?
3. Which third parties can be enlisted to help?
4. What are the reputational assets and liabilities of the parties to the deal?
5. How will you shape your messages to be more effective, given the political environment?

THE ART OF POLITICAL PERSUASION

Leadership in tough times is about keeping focused on the big picture and not getting lost in day-to-day difficulties, Pedro Passos Coelho, Portugal's Prime Minister tells Brunswick's Rurik Ingram

Ronald Reagan, in answering a reporter's question about his political legacy, once remarked, "I wasn't a great communicator, but I communicated great things." The art of political communication has changed radically in the age of mass media, but its central objective for national leaders is to maintain focus on the "great things" that Reagan referred to, the big ideas, the overriding goals for society, and not to get distracted by the inevitable political squalls that come and go. That, of course, is not easy to achieve and is particularly challenging during times of great crisis – and, really, when are governments *not* dealing with some kind of crisis?

Leaders of the European Union have a further challenge – not only to address traditional national interests but also the greater "European Project," which in historical terms is still a fresh and, in many ways, untested concept. For Portugal's Prime Minister, Pedro Passos Coelho, the need to support both national and European goals is as acute as for any of his fellow EU leaders. His center-right Social Democratic Party (Partido Social Democrata, PSD) was founded in the 1970s in the wake of Portugal's transition from dictatorship to democracy and, like post-Franco Spain, the country's accession to the EU in the 1980s (part of the "Mediterranean enlargement") played a significant role in cementing the country's democratic development and the modernization of Portugal's economy.

Since the 2008 global financial meltdown triggered a European sovereign debt crisis, putting severe strains on the euro currency system of which Portugal is a founding member, it has become a huge challenge for European Prime Ministers such as Passos Coelho to resist the temptation to play to their domestic political audiences at the expense of broader European cohesion.

Passos Coelho says that his most important communications objective is to keep the electorate focused on long-term goals as it deals with current economic strains. "One needs to look at the big picture that we have ahead of us," he says. "The biggest challenge is to mobilize people so they can carry out these transformations and not get lost in day-to-day difficulties. Unless we remain focused on the final goals and accept the difficulties along the way, we will not be able to maintain our momentum and see reforms through."

Those "day-to-day difficulties" refer to the consequences of a program of painful reforms tied to a €78bn ($101bn) debt bailout. Some of the measures – domestic spending cuts, including public sector wage cuts – have led to opposition from many constituents, including some of those usually supportive of the PSD. However, Passos Coelho's government has so far weathered the storm. According to the Economist Intelligence Unit, the analysis arm of *The Economist* newspaper, "Midway through the program, which provides fiscal financing through to mid-2014, the coalition has received broadly positive appraisals from the troika of international creditors (the European Commission, the IMF and the European Central Bank). However, the government's domestic standing has fallen, as the rise in unemployment has far outstripped official forecasts. With both coalition parties backing plans for spending cuts of €4bn during 2014-15, the risk of a political crisis in the near term appears low."

Portugal's favorable reviews include a *Financial Times* assessment that the pain is paying off; reports show that exports for 2012 were up by 5.8 percent, while imports fell by 5.4 percent, thus cutting the trade deficit by €5.6bn to €10.7bn. The *FT* noted, "Portugal's third consecutive year of export growth above 5 percent is likely to be seen by eurozone policymakers as evidence that the austerity measures they advocate for the region's debt-ridden periphery are working by forcing down wage and other production costs to make exports more competitive. A recent report by Standard & Poor's, the credit rating agency, said Portugal was

Pedro Passos Coelho

Pedro Passos Coelho was born in Coimbra northern Portugal in 1964, lived in Angola until the age of nine, then spent his teens in Vila Real, also in the north. He holds a degree in Economics from the Lusíada University, Lisbon.

Passos Coelho was involved in politics from an early age and was a member of the National Council of Social Democratic Youth. He rose through the ranks of the Social Democratic Party to become Deputy Leader and Spokesman in 1991, Leader in 2010, and Prime Minister in June 2011.

He has held senior management positions in several private sector energy and environment companies.

one of several peripheral European economies that was 'adjusting externally with speed,' with exports leading the way. This could help Portugal, Ireland and Spain to return to economic growth earlier than anticipated, the report added. Portugal's goods and services exports were at an all-time high, S&P said, with sales to non-EU countries, especially China, Brazil, Angola, Mozambique and the US, continuing to grow rapidly."

Positive reinforcement like that is necessary when navigating a financial crisis like the present one, but it tends to help more with "external audiences" than with the electorate whom you serve, says Passos Coelho. "Major imbalances that have accumulated over the years have created an image of Portugal that is now being rapidly corrected, and this is very impressive to foreign observers. However, internally this is not as obvious. We use the same language and the same terms with both foreign and domestic audiences, but we often receive a more positive response from those looking at the country from the outside."

But the Prime Minister emphasizes the importance of a consistent message to both external and internal audiences, even though there may be a cost in terms of domestic politics. "Certain politicians feel the need to give different speeches depending on whether they are speaking to audiences that are overseas or at home," he says, with many tempted to blame the country's situation on external forces in order to gain sympathy from the electorate. That's a fool's game in the world of modern communications, he says, when "whatever is said today in Parliament, or during a company visit, is immediately heard in all corners of the world, be it through diplomatic channels or global communications. So, maintaining a consistent message on both fronts [internally and externally] is essential. My goal has therefore always been to use the same language, the same explanations and the same communications focus inside and outside the country."

"WE USE THE SAME LANGUAGE AND THE SAME TERMS WITH BOTH FOREIGN AND DOMESTIC AUDIENCES"

EXTERNAL PERCEPTIONS

Recent studies confirm the importance of consistent communications from politicians across the EU. An analysis in November 2012 by Christian Conrad and Klaus Ulrich Zumbach of Heidelberg University, for example, found that statements by European politicians in relation to the sovereign debt crisis had a significant and immediate effect on European financial markets, with statements about measures being taken by the so-called periphery countries having the strongest effect on markets. It follows that inconsistent or conflicting messages from a country negotiating a debt package and the central agencies with whom they are negotiating will have a negative effect on bond yields; thus a country's cost of borrowing will rise. And that ultimately conflicts with the interests of the domestic audience.

External perceptions of the country can still be problematic. "In Portugal, the strikes that sometimes happen are often seen abroad as a sign that there is strong resistance to reform," says Passos Coelho. "But democratic countries have strikes. The system works. The democratic mechanisms that exist in any country should not create excessive levels of uncertainty or jeopardize reputations. This has been a big challenge for us in terms of communications."

There is another big challenge for Passos Coelho. In April, Portugal's Constitutional Court declared that a number of measures contained in the State Budget for 2013 were unconstitutional. But the Prime Minister might take comfort from some media reaction. *The Economist* wrote, "… since its rescue, Portugal has been most devout in repentance … without Greece's histrionics, Italy's foot-dragging, France's carping about austerity or Spain's shrill demands for help … One may wonder if judges are best placed to make economic policy or to rule dispassionately on public sector salary cuts." Even though Passos Coelho admitted that this development raised some uncertainties as to the ability to deliver successfully what had been agreed with international partners, the Prime Minister made a televised address two days after the Constitutional Court's ruling, reaffirming his strategy and vowing to close the new gap with fresh cuts without raising taxes.

STRATEGIC DIRECTION

Though active in politics from an early age, Passos Coelho also has considerable private sector experience, having held senior management positions in several companies in the energy and environment fields over the past decade, while also lecturing and serving as Chairman of the Vila Real Municipal Assembly. Has that experience helped him in his role as Prime Minister?

"A great deal," he says, "because in a way what is most important in a company also turns out to be decisive on a country level: that is, to maintain a strategic approach. As the leader of a company you will always have to answer to your shareholders, consider who you are up against in the market and prepare for any threats you might face – even if you are doing well. Likewise, when leading a country, you must have a clear strategic direction. Only then, for example, is it possible to cope with the task of approving very difficult budget cuts that include sharp spending reductions – especially in the social area – while at the same time raising taxes. People will only understand these measures if they understand the strategic direction you're taking. What we are doing in Portugal, thanks to the new European rules and also the experience that many of the people in government bring from the private sector, is not simply to present a budget for the next year, but to lay out the medium- and long-term prospects for the Portuguese economy."

This cross-fertilization of ideas between business and politics is not new. Since industrialization, there have been businessmen in politics and politicians in business – but the nature of communications for both business and politics has changed radically in recent decades. Just as the senior reaches of private sector management have become more and more "professionalized," so have the senior political ranks. Furthermore, the growth of new digital platforms and devices in the past decade, including mobile and social media, has changed the nature – and speed – of political communications.

The Passos Coelho administration has followed this trend. But for all that politics has adopted of the private sector's approach to communicating, the nature of politics remains fundamentally different, Passos Coelho recognizes. "There is a great difference: companies can be more agile than public structures, especially in Portugal where, in a way, we still have a very rigid state. When an economy is dependent on public regulation and this regulation is slower than the markets and economic agents, it becomes a burden and our state is still heavy and slow. This is one of the big tasks we have ahead of us: to reform the state into a more agile and flexible instrument so it can do what it has to do. A CEO is able, after drawing up an action plan, to have tasks implemented and see the results relatively quickly. With a country, the results take longer to surface." Amid the reality of rapid political life cycles and the sclerotic pace of bureaucratic change, Passos Coelho remains positive. "This is the transformation I hope to see materialize in Portugal, to make the results of our actions more visible."

Just as the Obama administration found the transition from running a vibrant and successful election campaign to the business of running a government exceptionally challenging, so Passos Coelho's government has found this transition tough. "There are clear differences between the intense scrutiny of a Prime Minister and that which a candidate from the opposition would receive. When we are part of the opposition, we want to present the people with an idea of change. When we are in the government, we must not lose sight of the dream of change, but also remember that we have to deliver these changes. People don't want to see a big difference between what was promised and what is executed. In my case, I have tried to close this gap and meet expectations."

REPUTATION

Though Portugal has gained respect from international financial markets, the country's sovereign debt rating, along with its reputation, was dented together with several other European countries when rating agencies downgraded their debt because of the ongoing eurozone crisis. How has Passos Coelho responded?

"A good reputation can be destroyed in a very short time," he says. "And a good reputation takes a long time to build. The imbalances are being corrected at a faster pace than we had expected. Commitment to our partners is sacred in implementing our obligations. This is something that the country acknowledges and recognizes, and those who we deal with, such as the troika, know we respect our agreements. I believe our reputation – of transparency in addressing problems and carrying out our agreements – is now being entrenched.

Portugal has always, in boxing terms, punched above its weight in certain areas of the world, particularly in what are now described as developing countries. Is that still the case? "Portugal has a very privileged relationship of openness to the world – much of its history is about relationships, rather than isolation. This gave us a great ability to relate to the outside world and to trade cultural values with countries on the other side of the Atlantic, Pacific and Indian oceans. This rich heritage of globalization is so relevant today. We have an effective and direct relationship with many nations that are in the community of Portuguese language countries [see map below]. We have access to markets that goes beyond these individual countries, so when we look at Brazil we are looking at all of Latin America; when we look at Angola and Mozambique, we are looking at not only Southern Africa but also an important part of sub-Saharan Africa; when we look at Timor-Leste, we are looking at Singapore and Indonesia."

Portugal also has an interesting relationship with China, rooted in its historical links with Macao, the Chinese region which formerly served as a Portuguese trading post. "Today we have the opportunity to develop, possibly more than other European countries, a relationship with China that will be crucial for global trade in the next few years. As such, I see Portugal as an actor in the globalization process in the sense that we can be in several markets with confidence and act as an anchor for future relationships."

When Passos Coelho considers Portugal's place in the world, he returns to one of his biggest challenges at home. "Most of all, we need to continue reforming public policy in order to allow the Portuguese economy to grow and to liberate the creative forces of the Portuguese people."

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Lusophone map of the world

One of Portugal's most successful exports is its language. Prime Minister Pedro Passos Coelho explains, "We have an effective and direct relationship with many countries that are in the community of Portuguese language countries … and we have access to markets that goes beyond these individual countries. So when we look at Brazil, we are looking at all of Latin America, when we look at Angola and Mozambique, we are looking at not only Southern Africa but also an important part of Sub-Saharan Africa, and when we look at East Timor, we are looking at Singapore and Indonesia."

Brazil	201m
Mozambique	24.1m
Angola	18.5m
Portugal	10.8m
Guinea-Bissau	1.6m
Timor-Leste	1.1m
Cape Verde	531,046
São Tomé and Príncipe	186,817

Source: CIA World Factbook

BY GRAEME TRAYNER, BRUNSWICK, LONDON
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Starting in the early 1990s, something odd started happening to governments and companies: politicians began to talk about performance indicators and targets, and businesses began using the language of citizenship and manifestos. The adoption of political terminology has accelerated rapidly since then. In 1990, only a handful of companies produced stand-alone corporate social responsibility or sustainability reports globally; last year, 3,350 were produced, according to Global Reporting Initiative data.

This trend needs to be located within the wider "politicization" of business, which has meant that many companies are now assessed in the same unforgiving way as political parties. Brands are now very much seen as public property, with assertive consumers feeling a strong sense of sovereignty over what they can and can't do. As recent flaps over executive pay and corporate tax rates have shown, it is not sufficient for something to be simply legal or commercially correct: it must also be judged to be moral and fair.

Underpinning this shift is a greater awareness of the power of business. In developed economies, businesses have encroached further into the traditional domains of government, from running utilities and transport to involvement in healthcare and education. As public sector budget constraints continue, the private sector will be expected to do more. In developing markets, companies can often provide the apparatus and capacity which the state cannot. Gillian Tett, a columnist for the *Financial Times*, has argued that companies are increasingly expected to have a broader view on issues impacting society, in part due to awareness of their scale, as well as declining confidence in the power of governmental institutions to bring about change.

More complex demands on business mean that corporate communicators have much to learn from how political leaders build and mobilize support in the face of the same challenging media dynamics, such as a partisan and confrontational style of coverage, the ever-changing horse race of who is ahead and behind, and constant scrutiny and default skepticism towards motives. Politicians have also learned to deal with a media that not only reports the news, but aggressively lobbies on issues.

The premise of "permanent campaigning" in politics – where a campaign is no longer a few weeks or months every few years, but rather a continual effort to maintain support and momentum behind a leader's agenda – is a concept that can serve businesses well as they look to secure everyday legitimacy and advance their corporate strategy. The newly-formed advocacy group Organizing for Action, created to help push President Barack Obama's second-term agenda, exemplifies the power behind "permanent campaigning" and mobilization.

Previously, corporate communicators often borrowed heavily from the campaign tactics of center-left parties in the 1990s. From Bill Clinton's campaign in 1992 to those in the late 1990s by Tony Blair in the UK and Germany's Gerhard Schroeder, politicians emphasized the following when confronted by a legacy of perceived media stereotyping and historical antipathy from voters:

- Message discipline.
- Intensive use of opinion research to understand how to overcome voter concerns.
- Rapid rebuttal of opposition claims and perceived media distortions.
- Setting the media agenda and "winning the news cycle."
- Centralization of different functions within a single "war room."

Though many of these principles remain true, particularly the concept of a war room, we need to remember that they were first developed more than 20 years ago, when print media and network evening news still dominated, rolling news wasn't yet mainstream and the internet barely existed, let alone Twitter and Facebook. Times have changed. Over the past decade in particular, political campaigns have evolved to adapt to the new media landscape and respond to greater voter skepticism about spin.

We are seeing a shift towards a looser, more participatory style of campaigning, and away from the command-and-control model. This centers on empowering voters and is partly a response to the opportunities created by social media, but also the desire for greater involvement. Building on the pioneering work of 2004 presidential hopeful Howard Dean's campaign, the 2008 and 2012 Obama presidential campaigns used social networks extensively to gain feedback and to encourage conversations between supporters. That strategy was replicated in France by François Hollande in 2012.

As well as creating an operating framework, this strategy is also about tone, where politicians can find an effective way to open themselves up to criticism. Tony Blair's "masochism strategy" in the 2005 election, for example, was designed to show a politician who was not afraid to listen, even to a painfully embarrassing extent when an angry voter exposed her rotten gums to the Prime Minister on national television to make a point about the quality of healthcare.

The theme of empowerment can be most acutely seen in the emergence of online campaigning communities, such as Avaaz and Change.org, which allow for the rapid mobilization of their members behind causes. This trend in campaigning finds a broader echo in governing, where there has been a greater use in various countries of referendums, ballot initiatives, deliberative methods such as "citizens' juries" and online petitions.

What are the implications for corporate communicators? This more dynamic style of politics – which also affects business – underlines the importance of an *outside-in* approach to communications. That is to say, as our colleagues Lucy Parker and Jon Miller argued in the previous issue of the *Brunswick Review*, the challenge for companies is to identify which of society's "conversations" to join, rather than simply pushing messages down in traditional fashion. Business needs to help facilitate a "community of interest" around issues, and see how best to contribute to debates.

Political campaigners have also realized the futility of trying to win every "news cycle" – indeed, the very notion of a news cycle is a quaint concept in an environment of rolling news and digital media. In any case, David Plouffe, a top campaign adviser to President Obama, recently stated that he believes there are now at least six cycles a day.

This requires a change of focus. Peter Hyman, a former senior adviser to Blair, argues that in the 21st century media environment, it is more important to concentrate on winning "the big arguments," that is, the issues where you wish to bring about enduring change. This means focusing on an end point rather than each day's headlines. Similarly, Plouffe has emphasized the importance of focusing on the legacy and finding the "pivot points" where you can shift the narrative when confronted by the "stray voltage" generated by partisan rolling news and social media buzz. In business, the challenge – particularly during critical situations – is to craft those "pivot points" when the media torrent can be redirected.

Recent political campaigns have also developed a more sophisticated understanding of voter behavior and how to tailor communications to speak directly to individual voters. A lot of post-election analysis of Obama's win, for example, has focused on that campaign's "big data" approach, guided by campaign chief Jim Messina's pledge to "measure everything." Perhaps a lesser-known development in sophisticated message-crafting is the application of thinking from social psychology and behavioral economics. In response to sniping about Obama's religion, for example, the campaign took advice from academics that a direct denial would just feed the myth, whereas a positive affirmation of his Christian faith would be better received. Academic thinking about how people process and act upon communications is becoming a key part of a more evidence-based approach to decision-making.

> *In the era of rolling news and atomized media, it is more important to win "the big arguments" over time*

While much of the experience gained from political campaigning can be useful for businesses, we also need to be conscious of its limitations. Financial communications must meet a much higher level of veracity and credibility than politics, and the long-term nature of managing a corporate reputation across audiences and markets is quite different from the needs of mobilizing target voters on election day. However, as businesses deal with rising expectations and assertive audiences, the political war room provides a robust model for action.

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BANKING'S NEW RULES

Having been at the heart of the storm as chief UK regulator during the financial meltdown, **Sir Hector Sants** tells Brunswick's Andrew Garfield about his new role at Barclays and the changed expectations for banks

Unlike most bankers, Hector Sants has been on both sides of the regulatory fence. After years working as an investment banker at UBS and Credit Suisse First Boston, he became head of the Financial Services Authority (FSA), the UK's banking regulator, at the height of the financial crisis in summer 2007. Sants has been credited for his role in helping to avert a banking system collapse, earning praise from George Osborne, even as Britain's Chancellor of the Exchequer bitingly criticized the FSA itself and moved to replace it from April 2013.

This year, Sants moved to British bank Barclays – ranked seventh in the world by assets in *Global Finance* magazine's 2012 survey. Although it avoided a bailout, it has had a rough ride since the financial crisis, most recently when it admitted attempted manipulation of the LIBOR benchmark. By hiring Sants and putting him at the head of a new function within the bank, Barclays is signaling its intention to focus on restoring trust by rebuilding its compliance apparatus and strengthening the bank's relationship with regulators. Here, Sants explains his vision for the role and discusses how he will build bridges between his former employer and his new one.

Your job at Barclays – Head of Compliance and Government and Regulatory Relations – is a newly created role. How would you define it?

First of all, it makes sense to bring together the regulatory-relationship component and public affairs in order to have an integrated input into policy determination. Second, it makes sense to combine that with compliance, the function that ensures we adhere to those policies.

The other point which I would emphasize is that the role of the new group is more than just to ensure people adhere to compliance policies. What I would like to see is a re-orientation of compliance away from the traditional, rather narrow view of advising how to comply with the policies, to a broader one which makes sure that those values are given substance.

So, it is about ensuring alignment with the values rather than just alignment with the rule books.

A BIGGER SLICE FOR SHAREHOLDERS

One key constituency riled by the banking crisis is shareholders. As Barclays shifts its priorities, they are very much on Hector Sants' mind. "Before I joined Barclays, I said I thought one of the key elements of the new world is that shareholders need to feel they have the bigger share of the cake," he says.

A study last year by the *Financial Times* showed that banks' shareholders had been, in the words of one fund manager, a "residual consideration" by comparison with the resources devoted to bank staff. Looking at 13 big international banks, the *FT* found that from 2006 to 2011 staff costs had risen from 58 percent to 81 percent of a total pot comprised of net profit and staff costs, whereas dividends had dropped to 4.5 percent from 15 percent.

Sants says, "I was supportive of the view articulated in [Barclays'] recent set of results of its intentions to rebalance the share of return between shareholders and employees.

"You can look at some relatively easy-to-articulate financial objectives and say the shareholders should have a better share of that cake. It is more difficult to say you are rebuilding trust with the community. That clearly is a more difficult long-term challenge."

And it is not for compliance to decide *what* Barclays' values are – they are set by the board, by the executive committee, and by the wider management. Compliance's role is to articulate how those values are applicable to individual judgments, and then to make sure decisions are made within those frameworks.

We are not trying to turn compliance into an organization that second-guesses business. But compliance should articulate the boundaries within which the decisions can be made and explain how those boundaries are created and what they mean; and if someone steps outside the framework it is compliance's job to make sure the appropriate sanctions are applied.

The outside world, no doubt, will see the need for a culture change at Barclays and that hiring you is a strong signal. But in concrete terms how do you engineer this shift?

As the chief executive [Antony Jenkins] has already indicated in a number of speeches and interviews, this will be a major cultural change for Barclays, to emphasize much more clearly and forcibly the obligation of the bank to contribute to the wider goals of society, to be aligned with what society would expect from a bank, rather than prosecute a strategy that is more aligned with employees' needs. We need to recognize that there has been a shift in the whole climate in terms of what society expects from banks as a result of the financial crisis.

It seems the public mood is for something more prescriptive – more rules-based than principles-based, if you like – given recent decisions by European lawmakers and Swiss regulators to cap executive pay. Would you agree?

The view had been that you cannot write rules for every eventuality, so the best way to get effective behavior was through articulating the general principles. That sat alongside the view that markets were self-correcting and could be self-policing. The catastrophic consequences of the financial crisis on the prudential side and, as we've seen recently, on the conduct side have caused people to re-evaluate that framework and to push the dial more toward rules. I think that is right for the regulatory system, but for an individual institution the goal is to focus on delivering a set of clearly defined goals that employees can understand. So what you do in individual institutions is not necessarily what you do in the regulatory system.

One of the consequences of the crisis is that society, in my view quite rightly, is asking, 'Where are the people being held to account? Where are the sanctions?' In order to have regulators who can effectively sanction and hold to account wrongdoers, you do need a strong rules-based component, otherwise the legal process becomes bogged down. But the balance of principles-versus-rules in a regulator is different for prudential, different for conduct, and different from what you need in a firm. So I think they must be seen as two different issues.

How has your perspective changed since you moved to Barclays from your old job?

I don't think my views on what is good oversight and a good risk management system have changed since coming to Barclays – they have evolved over the past eight years, partly through the learning experience of being involved in the largest financial crisis in modern times. I think I have described that in the public forum before now as a 'searing' experience, and that's entirely right.

Having been in such a public role, how do you see the role of communications in your new job?

Successful communication will be a key component. We need to effectively communicate to employees not just what is expected of them but how to deliver against what is expected of them. The central challenge is to get employees to live the high-level vision and to see the benefits to them as individuals, to the institution, and to society. Compliance has a central role to play in that, but so does everyone else. Change starts at the top, as the phrase goes. It has to start with the chairman, the board, the chief executive, the executive committee.

There is an external challenge, too. There has been a significant loss of confidence in the global financial system and global financial institutions. Barclays certainly has been one of those institutions where confidence has been significantly eroded. Rebuilding confidence – with customers, clients, regulators, the political system, the media – is necessary for Barclays to prosper and to make the contribution it would like to make to society. I am not the only person involved, but clearly I am looking forward to and expecting to play a meaningful role in that external communication agenda.

You make it sound fairly straightforward, but surely after the experience of the last few years you have a difficult task ahead of you?

We are starting from a very poor position where confidence has clearly been lost in financial institutions as a whole, and Barclays is no exception. We are starting from a position where a number of fundamental misjudgments have been made by the regulators about the rules they applied to the banking system. The consequence of that is that there has been a major financial crash which has reduced the well-being of many citizens around the world and they feel, understandably, that the banks should be held to account for what has happened. Nearly everyone in the community feels aggrieved and uncomfortable about events.

So, the starting point is a difficult one, but do I think the goal – where we would like to get to – is absolutely an achievable destination? Definitely. I think that goal reflects many elements of where the banking system was 30 or 50 years ago. I am not saying it was all perfect, of course, but there clearly was a perception – among the vast majority of employees, from management to government and politicians – that the banks were primarily there for the benefit of the community and the economy they served. Somewhere along the line that sense of purpose was lost. I think trying to get back to that place is a perfectly realistic and sensible objective, but it is going to be a lengthy and difficult journey.

What about the role of risk in the banking crisis? What changes do you expect on that front?

The system was significantly over-leveraged. So there has been this '50-year intellectual mistake' [to borrow a phrase from Lord Turner, the FSA's last chairman], in relation to capital and liquidity restraints, which is being corrected through the new regulatory rules. But reducing the leverage that the banks have available will make it more challenging to obtain the returns that shareholders are looking for. When leverage was the main source of growth it was relatively easy to focus on revenues rather than costs. But the next period for banking will have a far greater focus on

HECTOR SANTS

Hector Sants joined Barclays in January 2013 as Head of Compliance and Government and Regulatory Relations.

Prior to that he was the Chief Executive of the Financial Services Authority from July 2007 until July 2012. He was also Deputy Governor Designate of the Bank of England and CEO Designate of the Prudential Regulation Authority between June 2010 and July 2012.

During this period he served as a member of the interim Financial Policy Committee of the Bank of England. He joined the FSA in May 2004 as a Managing Director, prior to which he was Chief Executive Officer of Europe, Middle East and Africa at Credit Suisse First Boston.

Sants is Chair of the Said Business School at Oxford University, and was knighted in 2012.

"Ethical commandments writ very large indeed," is how Harriet Dennys, The Daily Telegraph's City Diary Editor, described the signs in the lobby of Barclays' HQ in London's Canary Wharf

costs and I have no doubt that there is a lot of scope to take costs out of the banking system. Barclays' cost reduction agenda will be one of the key challenges, to recalibrate to a world where revenue growth is very modest and to get back to an acceptable level of return for shareholders, which is primarily achieved by taking costs out of the system, both through greater efficiencies – operational efficiencies, technology – and by employees taking a smaller share of the cake.

You've said you expect closer regulation of banking in the future. Will that help to restore confidence?

I always say this very carefully: you need to distinguish between prudential regulation and conduct regulation, they are two very different issues. One really interesting element of the financial crisis is that it started off being seen as a prudential crisis, but events exposed behavioral and conduct issues subsequently which became the defining issues that people reacted to. But the conduct and prudential issues are different. I think moving to the 'twin peaks' approach in the UK is the right approach; they are different types of risk. [From April 2013, the FSA ceased to exist and two new organizations were created: the Prudential Regulation Authority, which is part of the Bank of England, and the Financial Conduct Authority, in charge of monitoring, investigating, and prosecuting financial miscreants].

Will the new approach work?

Well, I think there is no question that the tougher and more demanding capital and liquidity framework will reduce the likelihood of failures of the magnitude we have seen. Will they eliminate them? Absolutely not. History tells us that when financial crises do come around again, the regulator's role is to reduce the impact on society. Individual banks definitely will fail and, in fact, probably will fail with a greater frequency as a result of resolution mechanisms being put in place.

On the conduct side, I think that is much more debatable. The tougher deterrent framework in the UK, in Europe and potentially the US, together with the new consumer framework, will have the effect of deterring some but not all bad behavior. It is not going to eliminate the possibility of consumers getting the wrong product and, to some degree, you will always have an obligation for the consumer to make a judgment – they may not always turn out be the best judgments.

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CITY OF INDUSTRY

Singapore is a development success story. Choo Chiau Beng, CEO of Keppel, a key company in that story, says critics of the Singapore model have got it wrong

INTERVIEW BY CHRISTINA PANTIN, BRUNSWICK, HONG KONG

The "Singapore Miracle" has fascinated economists for decades. How is it that Singapore, a small, tropical city-state with few natural resources, has seemed able to get the balance between government involvement and private enterprise right when so many developing countries have struggled in this area?

At the heart of Singapore's unique model are government-linked companies, or GLCs. These include the national carrier, Singapore Airlines, whose branding is so closely identified with the country's image of polite efficiency. Loosely defined as companies that are at least 20 percent owned by Temasek Holdings, the government's main investment vehicle, GLCs occupy leading roles in banking, telecoms, property, media, shipping, and utilities.

However, Singapore's "state capitalism" approach has long had its opponents. The criticism of GLCs has two sides to it: that they are both too cosseted and too powerful. To critics – growing in recent years as Singaporeans have become more exposed to globalization – GLCs crowd out competition among small- and medium-sized businesses, are risk-averse, benefit from an explicit or implicit tie with the state, and use the caché of being "Singapore Inc." to expand overseas more easily than peers without powerful connections.

At Keppel Corporation – oil rig builder, property developer, power producer, and one of the original GLCs in the 1960s – CEO Choo Chiau Beng firmly denies such special treatment. "We don't have any iron rice bowl," he says, using the Chinese idiom that conjures up an image of secure jobs for life. GLC employees are not civil servants, he says, "We can fire people."

Singapore's brand of paternalistic capitalism, directed since full independence in 1965 by Lee Kuan Yew and his successors, has always had its detractors, though its economic and social success has

Keppel Corporation is one of Singapore's original government-linked companies (GLCs), with offshore and marine, infrastructure, property, and investment interests served to deflect the criticism. However, economic growth has slowed in recent years and Singapore has lost some of its competitiveness, leading critics to argue that the hand of government is too heavy in the business world. Singapore's unique state capitalism, borne out of necessity in a newly independent country with an uncertain political future, has outlived its usefulness, they say.

The case for the defense of GLCs is based on the argument that they have evolved over the years to suit the prevailing conditions in Singapore as the country developed.

At Keppel, the share ownership of Temasek is down from the original 100 percent to 21 percent, which is lower than Temasek's stakes in other GLCs, such as Singapore Airlines, Singapore Telecom, and shipper Neptune Orient Lines.

Choo says the GLC-government relationship is to be distinguished from other models of ownership in the region, for example the state-owned enterprises (SOEs) in China. "SOEs are the instruments of the government," Choo says. "Singapore has no such tradition."

There are strategic benefits to having the government as a long-term shareholder, but Choo says this neither gives market advantages nor puts constraints on companies like Keppel.

"It's good to have an anchor shareholder with long-term views. But they [the government] never ask us to set prices. We have to invest in our own R&D. We get the same treatment as MNCs [multinational corporations]. In fact, I would say that MNCs pay less rent than we pay, and they pay less tax than we pay, because we have no tax holidays." Furthermore, GLCs are as accountable to stakeholders as private companies because "they operate fully as for-profit commercial firms and are expected to provide returns that are commensurate with risks taken," he says.

A paper by the International Monetary Fund a few years ago – *Singapore, Inc. Versus the Private Sector: Are Government-Linked Companies Different?* – supports Choo's contention. There is "no basis for the lingering public suspicion that GLCs have easier access to credit," the report's authors concluded. "This suggests that GLCs are competing on a level playing field as far as access to financing is concerned. However, we do find that being a GLC is rewarded in the financial markets with a premium of about 20 percent," the paper went on. "This GLC premium has to reflect the market's perception of the benefits – whether real or illusory – of being linked to the government." The IMF cautioned against creating more GLCs or expanding existing ones as that would dilute the benefits.

Nonetheless, the critical voices continue to be raised.

Singapore business professor Mak Yuen Teen, who specializes in corporate governance at the National University of Singapore, has raised questions about the need for the GLC model through letters and comments in local newspapers, as well as in his research papers.

"I am among what I believe is a growing number of Singaporeans who are skeptical of the relevance of the GLC model today," he says. "When they were first formed, the whole idea was to industrialize and create local champions in certain industries."

But Mak questions if the GLC concept has gone too far, pointing to the fact that many of Singapore's public housing estates are being served by an estate management services company owned by a government statutory board and a GLC. He says, "GLCs today are not only involved in strategically important industries. As a result, they make it difficult for private entrepreneurship to flourish."

Indeed, the state link is far from always being a blessing for GLCs. SingTel, for example, faced opposition when it bid for Australia's Optus in 2001 over concerns about its GLC status. DBS Bank, another of the government's strategic holdings, was thwarted in its attempt to buy a stake in Korea Exchange Bank in 2006, also because of the GLC tag.

While the government may be a hindrance in terms of overseas expansion, it isn't much help for companies that run into trouble either. Choo points out that far from being too big or too well-connected to fail, Singapore's history of GLCs is dotted with companies that have gone under. "The key point is the government doesn't believe in subsidizing any business and if you fail they let you go bust," he says.

Critics aside, Singapore is unlikely to relinquish significant ownership of strategically important sectors, such as defense, utilities, aviation, and media, even though it has been scaling down its shareholding – and in a few cases, completely exiting – a number of GLCs over the decades.

The US State Department noted in its 2012 investment climate report on Singapore that the top six listed GLCs accounted for about 17 percent of the Singapore Stock Exchange's total capitalization.

CHOO CHIAU BENG

Choo Chiau Beng has been CEO of Keppel Corporation, one of Singapore's original government-linked companies and a major marine infrastructure builder, since the beginning of 2009. He first joined the company as a trainee in 1971, with Bachelor's and Master's degrees in naval architecture from the University of Newcastle in the UK.

KEPPEL CORPORATION

Keppel, named for British Captain Henry Keppel who in 1848 discovered the sheltered deep-water harbor that would later make Singapore such a strategic trading port, started its modern life 45 years ago, with a small shipyard.

Last year, Keppel posted revenue of S$14bn (US$11.3bn), it has operations in 30 countries, more than 40,000 employees, and a market capitalization of around US$16bn.

Keppel operates as an investment holding and management company, which provides offshore and marine engineering and construction services. It has four business segments: offshore and marine, infrastructure, property, and investments.

“Keppel enjoys a symbiotic relationship with the Singapore government,” says CEO Choo Chiau Beng. “When venturing overseas, we benefit from the Singapore brand name, as well as helping to strengthen it”

For those companies, the requirement for transparency is more or less the same as for others in the private sector.

“GLCs are private sector enterprises and many are publicly-listed with their own set of shareholders, apart from Temasek,” Choo explains. In other words, they have to abide by the same rules as other private sector-listed companies. This is something his company has dealt with for decades. “Keppel has been listed on the Singapore Exchange since 1980 and we ensure that we comply with all its rules and regulations,” Choo says. “We are governed by a board with a majority of independent directors who are professionals, appointed on merit. In fact, I believe, contrary to perception, being a GLC puts us under more scrutiny as our shareholders would expect stricter adherence to best practice.”

As investments, GLCs have generally been rewarding. Many, including Keppel, have captured commanding market shares – Keppel has 70 percent of the world jack-up oil rig design-and-build market.

Singapore’s GLCs are run by professional managers from the public sphere and are held accountable for financial targets. This runs counter to perceptions that had been driving some criticism. As the IMF report put it, one of the broad criticisms of GLCs was that they do worse than private sector companies because “their managers are mainly civil servants who lack business acumen.” But the IMF found the opposite: “GLCs bear quite a close resemblance to private enterprises. The government clearly subscribes to what has been termed the ‘managerial’ view in the ongoing debate on public versus private ownership, which argues that competition rather than ownership *per se* is the key to efficiency.”

Choo himself is an example of the professional management class that prevails at GLCs. Having trained in naval architecture at the University of Newcastle in the UK, he joined Keppel as a ship repair management trainee in 1971, when Keppel Corporation was just five years old. Choo recalls those entrepreneurial early days, selling barges in the Philippines and taking payment for them in pesos bundled in brown paper bags.

Choo points out that Keppel has been promoting Singapore as much as the city-state has been a booster for the company down the years. “Keppel enjoys a symbiotic relationship with the Singapore government,” he says. “When venturing overseas, we benefit from the Singapore brand name, as well as helping to strengthen it.”

The government-business relationship is symbolized by the fact that Choo had been appointed “non-resident ambassador” to Brazil, where Keppel does significant business with the national oil company, Petrobras. Choo says it is a logical combination: “What is the purpose of an embassy? Economic relations.”

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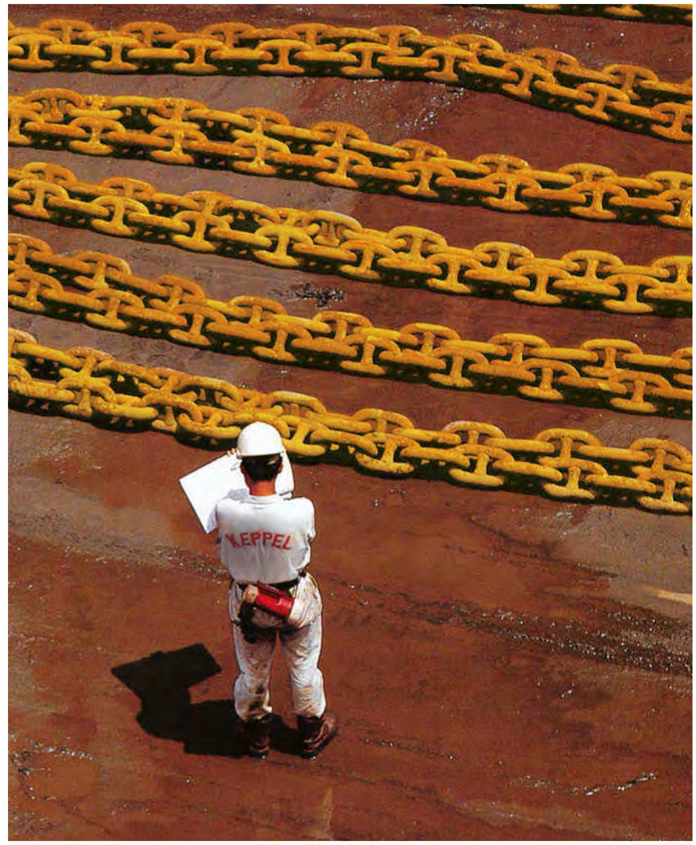
Photographs: Keppel Corporation



THE ABC OF GLCs

Government-linked companies (GLCs) are commercial entities in which the government is the largest shareholder and often has a controlling vote.

Singapore’s GLCs came about as part of the government’s post-independence plan for industrialization. After its precarious independence in 1965, the government of the resource-poor city-state sought to invest in critical industries in its early days of nation-building.

GLCs in Singapore bear a very close resemblance to private enterprises, differentiating them from state-run enterprises in China and other Asian countries.

Lee Kuan Yew, the country’s iconic modern founder and first Prime Minister, said GLCs originated out of necessity, not through any state desire to control business. “We did not have enough entrepreneurs, and those we had lacked the capital or interest,” he said. “So government ministers undertook the task of starting new ventures.”

Temasek, which means “sea town” in old Javanese and was the name of an early settlement on the site of modern Singapore, was formed in 1974 to hold and manage assets and investments made by the Singapore government. GLCs were defined as companies in which the government held at least a 20 percent stake. Temasek is a commercial entity, not a government agency, and it is tasked with managing the investments in GLCs as well as other holdings.

Temasek’s starting portfolio of S$354m (US$280m) included a bird park, a hotel, a shoemaker, a detergent producer, naval yards converted into a ship repair business, a start-up airline, and an iron and steel mill.

While Temasek has divested some of its holdings in GLCs in the ensuing decades, the influence of these entities is still very strong.

Singapore’s unique form of state capitalism has produced notable business success stories, such as Singapore Airlines, DBS Bank, and Keppel Corporation, which have been run on a commercial and competitive basis despite the government ties, and have succeeded not just domestically but regionally and globally.

REFLECTIONS ON THE REVOLUTION

Can social media improve government-business dialogue in the Middle East?

BY WAJIH HALAWA AND ZEIN BUSHNAQ, BRUNSWICK, UAE

In the spring of 2011, a few months after the onset of unrest that sparked the regional political revolutions now dubbed the Arab Spring, technology commentator Don Tapscott posed a question about the region that had been on many people's minds: "Can social media help to build new governments?"

To take the question one step further: given social media's role in tearing down the old regimes, could those same platforms now play an equally important part in building new systems for governing? Could Arab governments use social media to organize, for example, virtual town halls that would allow their citizens and businesses to question policymakers and create outlets to report on vital community issues?

The growing importance of social media in the region is supported by a slew of evidence, including a 2012 Pew Research Center report which found, among other things, that the populaces in Lebanon, Tunisia, Egypt, and Jordan used social media to discuss politics nearly twice as frequently as their equivalents in the West, and to converse about religion and community issues nearly six times more than in western Europe.

Arabic is the fastest-growing language on Twitter, although it still accounts for just a little over 1 percent of total worldwide message traffic, according to Paris-based researcher Semiocast. The Arab Social Media Report, published by the Dubai School of Government, found that between one-third and half of Middle East users of social networks believed their participation helped to change community behavior, while around half believed that they had become more tolerant of other people's views as a result of engaging via social media.

The revolutionary mood naturally has governments in the region on edge. But behind the ubiquitous grainy YouTube footage of protests, there is a less dramatic but equally revolutionizing story: social media's role in how governments and public figures are communicating with their constituencies.

In March 2013, for example, the federal government of the United Arab Emirates (UAE) announced its first reshuffle in five years. In a regional first, Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Ruler of Dubai, broke the news via Twitter (@HHShkMohd). As an active Twitter and Facebook user (he's second only to Queen Rania of Jordan among Arab public figures, and she has the 4th most "followed" Twitter account among world leaders), Sheikh Mohammed's news underlined the importance of social networks to a growing cadre of Arab leaders. Sheikh Abdullah bin Zayed Al Nahyan, Foreign Minister of the UAE, recently conducted a Twitter interview with prominent

Dubai-based TV personality Mahira Abdelaziz; former Lebanon Prime Minister Najib Mikati regularly conducts Twitter chats with his followers, and Lebanon President Michel Sleiman stands out as one of the very few regional heads of state who tweets personally.

After the Egyptian revolution, the Supreme Council of the Armed Forces (SCAF) in Egypt was quick to set up a Facebook page where it posted its announcements, and the Egyptian prime minister's Facebook page has now survived two governments: one under the SCAF and another under the rule of the Muslim Brotherhood.

It is becoming abundantly clear that there is an opportunity to build some form of participative government, even in countries that have historically shunned this approach. But it is early days.

"Leaders and officials taking to social media and engaging directly with people should be an incentive to other government institutions," says veteran journalist Randa Habib, Director, Middle East and North Africa at Agence France Presse (AFP). "However, in most of the Arab countries, institutions are not empowered enough to take bold steps, which is why we mainly see those using social media expressing the official government line and taking no risks. While we are witnessing a slight improvement in the discourse, the road ahead is very long."

At the same time, social networkers have sprung up to point out where government departments are slow or inefficient (or even corrupt), and there are government ministers, in countries such as Jordan and Saudi Arabia, who are engaging directly with bloggers in order to better understand the concerns of business.

Jordanian entrepreneur Samih Toukan, founder and CEO of Jabbar Internet Group and one of the founders of Maktoob.com (which became an Arab world online success story when it was sold to Yahoo! in 2010), frames the imperative for governments to communicate in terms of solving the serious economic challenges the region faces.

"The Arab world needs to create more than 22,000 jobs per day to battle unemployment, especially among its youth, which represents the majority of its population," Toukan explains. "It is no longer feasible for governments in the region to try to solve the problem by employing people in oversized ministries, agencies, and police or defense forces. The traditional private sector will also not be able to absorb such huge numbers [of workers]. We need to look at non-traditional solutions and this is what entrepreneurship and small- and medium-sized enterprises can offer."

Toukan sees this happening by fostering an environment that facilitates business formation. Governments that recognize the risks of attempting to suppress freedom of expression online will find that their energies are better spent on making their services more efficient and giving citizens (and expatriate residents) avenues to voice their concerns and suggest solutions to problems. Entrepreneurs and multinational corporations alike would then find it attractive to set up businesses, train more employees, and allow young people to innovate and excel.

But this is not just about governments or leaders tweeting or posting on Facebook. There appears to be a formal push by some governments to engage more actively with citizens online, and not simply use social media to monitor activists and dissidents. Bahrain, for example, uses social media such as Facebook to raise awareness about its smartphone-based applications through which citizens can access online services. A health service app provided free by eGovernment Authority Bahrain now offers an interactive map for hospitals, health centers, and pharmacies.

This points out the real difficulty for both governments and business at this historical juncture for the region: the pace of change has to be very finely judged. For countries that have long been governed by a delicate mix of tribal consensus and institutional bodies, it could be easy for incumbent governments to get it wrong.

Businesses, meantime, want to survive the Arab Spring while shying away from politics. But they would do well to pay attention as more governments see value in genuine digital engagement. This is particularly true, for example, with policies to attract foreign investment, where small businesses and locally-owned corporations have a great deal of influence and have been spurring governments to move more quickly and enact reforms.

For those businesses looking for opportunities in this changing political landscape, the key is to have the right monitoring systems to track the impact on their markets, and respond effectively to evolving government positions.

Critically, businesses will feel more secure and able to plan long-term when they believe that governments are listening to the population's concerns and taking appropriate action. This will encourage people to focus less on protesting and more on building their economies. Companies will also be able to use these new channels to engage with governments on the topics that matter most to them – and make their own contributions to building stronger economies.

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SOFT POWER AND THE TRANSATLANTIC DIALOGUE

The relationship between two of the world's most important trading powers is a complicated one and requires an equally sophisticated diplomatic approach, **William Kennard, US Ambassador to the EU,** tells Brunswick's Philippe Blanchard

A little over a year into his tenure as US President Barack Obama's Ambassador to the European Union, William Kennard gave a talk at TEDx Brussels in which he addressed the idea of, as he put it, "how to recapture some of the magic of the tech revolution," in terms of making it work for the US and European economies. He recounted that he'd recently been reminiscing about his time as head of the Federal Communications Commission (FCC), the US telecoms regulator, in the late 1990s, the internet's formative years: "It occurred to me that for innovation to happen in an economy it is not just about ideas but it is also about creating a government environment for ideas to flourish."

This means that government should make certain R&D investments – as the US did in the Defense Advanced Research Projects Agency (DARPA), which helped to give birth to the internet.

"But that wasn't all that happened. There was a wonderful cauldron of people and ideas and government policies that came together in the Silicon Valley in the 1990s." This fostered a culture of risk-taking by venture capitalists, favorable regimes for taxation and immigration, and an attitude of "regulatory restraint," which allowed the internet to develop in an unregulated environment. "Innovation doesn't come top-down, it comes bottom-up," Kennard told the audience, emphasizing that "fully 50 percent" of those who started enterprises in the Silicon Valley of the 1990s were immigrants.

It was a manifesto for openness. It was also a pro-business message, and one that perhaps summed up the US experience in fostering important growth industries. Furthermore, it highlighted potential points of difference with the EU over areas that are key to trade, such as the balance between protection of privacy and fostering innovative new digital businesses.

Has living in Brussels these past few years changed your personal perspective on Europe?

Yes it has. I lived in France briefly as a student, but I never lived in Europe as an adult. President Obama asked me to take this job because I have both a business and a regulatory background. Brussels is a very intensive regulatory environment. So I arrived with an understanding of how to deal with complex regulatory issues and bureaucracies.

But I quickly learned that Brussels is more complex than Washington. This is primarily because the EU is a power-sharing arrangement among 27 sovereign nations, governed by treaty and ruled by consensus. This makes decision making more cumbersome and complicated in many ways.

"I FIND THAT SO MANY TIMES IN MY JOBS, WHETHER I AM IN GOVERNMENT OR BUSINESS, I FEEL LIKE THE SALESMAN"

Having worked in both business and public service – a combination that is still more common in the US than in Europe – what is the difference between the two in terms of the communications constraints?

I feel very fortunate that I have been able to work in both the private and public sectors. I've spent most of my career in the private sector, but have had the privilege of serving at high levels in the Clinton and Obama administrations. Over the course of my career, I've learned that many of the same leadership skills apply in both contexts.

It really comes down to being able to do three things. First, you have to be able to articulate a vision of what you want to accomplish and where you want to take the organization. Second, you have to be able to execute – to chart a course to implement that vision. And third, you have to inspire people to share your passion for the vision. You can't do it alone. You need 'buy-in,' you need to win people over. I find that so many times in my jobs, whether in government or business, I feel like the salesman. I am always trying to persuade people to do what I think we need to do. I guess that is a key component of getting things done. You have to get people behind you.

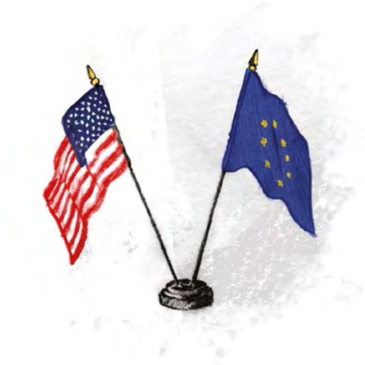
Do you find that our vision is becoming increasingly short-termist due to the length of mandates in both politics and business? And can we change this?

Good leaders are able to articulate a long-term vision and then persuade people how the short-term goals are essential to realizing that vision. Sometimes, of course, setting long-term goals requires us to acknowledge that in the final analysis, we can't predict the future. As a regulator, I learned that government needs to have the humility to acknowledge that it can't predict where the market is going.

The pace of business always will – and always should – move faster than the pace of government decision making. For example, the product cycles of today's wireless devices – smartphones and tablets – are 18 months. The product cycles for applications on those devices are even shorter. Entrepreneurs are coming up with new business models all the time. Government decision makers should resist the temptation to make decisions based on their predictions of where the market is going, because markets are fast-moving and inherently unpredictable.

What's the best way for the business sector to deal with its public image, to react or to be more proactive?

'Business' isn't monolithic – some do it better than others. I do think the businesses that relate best to government are those that spend a lot of time with government officials explaining how their businesses work and their vision for the future. Both in the US and in Europe, I've seen regulators kill proposed deals because government and business had a fundamentally different view of where the market is going. Executives should spend time with government officials articulating their view of the market and how it is evolving. This is particularly important for technology businesses. Business leaders should not assume that government officials share their view of the future.



Do you see a major difference between the US and Europe on this?

The Washington lobbying culture is very different from that in Brussels. Companies in Washington are much more aggressive about advocating for their point of view – they use tools of persuasion more aggressively. So, for example, if there is a major merger pending before government agencies in Washington, companies advocating that merger will buy advertising on radio and television and in newspapers. They will mount major advocacy campaigns in Congress and with the public.

One of the key differences I have noticed is the role of legislative oversight. In Washington, Congress has a much stronger oversight role, particularly over the regulatory agencies. Having been a regulator in Washington, I know life is very different there because you are accountable to Congress which has real oversight power – especially the power to subpoena testimony and oversee your budget. This provides businesses in Washington with a very powerful outlet to influence outcomes. In Brussels, the role of the European Parliament has been strengthened after the Treaty of Lisbon, but it has far less oversight authority.

Do you think that the complexities of the EU are understood in DC's political community – and in the US generally?

No. I don't think there is a deep understanding of the EU, in part because the EU is ever-evolving. I think there is a general perception that the EU is very important and is increasing in importance. This is reflected in the headlines. In every major newspaper in the US, people have seen headlines about the eurozone crisis for almost four years now. Many Americans now understand that the values of their stock portfolios are being impacted by EU institutions. This is a recent phenomenon. Now our challenge is to harness that awareness in more positive ways. If we launch negotiations on a US-EU trade agreement, which I hope will happen this summer, we have an opportunity to show Americans that growth in the European economy can be hugely beneficial to the US economy – that there is a real upside to this relationship for all Americans.

There is something of an EU inferiority complex and people seem to be more excited about China and other Asian economies. Do you recognize that?

I have noticed that too and I have told people here that they need to just get over it. The EU represents more than 500m people. Collectively, it is the largest economy on the planet. If people here would focus on that potential I think it would improve the sense of inferiority that you mentioned, and maybe it would create more motivation to maximize the potential of the EU as an economic bloc, to deepen the single market, to speak more often with one voice. You do not hear people in the EU say very often, 'We are the world's largest economy.' I think that is because the EU has not yet realized that potential.

The common identity at the European level is still nascent and, of course, Europe is currently suffering a bout of euroskepticism. But ultimately, that's a mindset, right? Again, it comes down to articulating a vision and getting people to embrace that vision – to see the enormous untapped potential of

WILLIAM KENNARD

A graduate of Stanford University and Yale Law School, William Kennard served as Chairman of the US Federal Communications Commission (FCC) from 1997 to 2001. His tenure saw the explosion of mobile phone technology and billions of dollars of investment in new broadband technologies. Kennard promoted the benefits of competition and deregulation worldwide and signed agreements to share US regulatory experience with emerging regulatory authorities in other countries.

He left the FCC in 2001 to join private equity firm The Carlyle Group, where he led deals in the telecommunications and media sectors. Kennard was appointed US Ambassador to the EU in 2009.

an integrated, decisive European Union. Now, this whole notion that our pivot to Asia means that the US doesn't care about Europe is simply false. We're pivoting to Asia because Asia is emerging as the most important region in the world. But we are not shifting away from Europe to do that – we want to shift *with* Europe towards Asia. A centerpiece of our foreign policy is to convince the EU and European governments to think more about Asia in geopolitical terms. And I truly believe that Europe could better realize its own potential if it had a greater appreciation of Asia's potential.

How have you been involved with decision makers here on the eurozone crisis? The US Treasury leads on that, right?

It is a delicate role for the US government because the eurozone problems that have played out here over the last four years profoundly affect the global economy, but the US government cannot decide the outcome of those issues. It affects us but we don't have a vote. We usually have a point of view about which course the EU and the member states should take, but because we are not the decisive voice, sometimes our advice can be perceived as interference. That being said, I think that we have played a useful and important role in providing advice based on our recent experience in recovering from the financial crisis. These issues are highly technical and quite market sensitive, so most of our communication is done very discreetly by the Department of the Treasury.

The eurozone crisis has triggered a whole wave of regulation on the financial sector. This regulation was meant to be coordinated by developed economies, the G20, but with mixed results. Will the Transatlantic Trade and Investment Partnership [TTIP] and a free trade agreement [FTA] improve the process?

I'm very optimistic on these questions. First, the global response to the crisis by the world's major economies at the G20 and elsewhere has been generally consistent. World leaders, particularly those in the US and Europe, agreed on a broad course of action: shoring up capital requirements for banks, tightening regulation of derivatives markets, and increasing oversight authority of the financial services industry. So in broad terms we agreed. Differences at the margin can have important distorting impacts, but we are working hard to resolve them.

There is a very robust dialogue that has been going on for some time now between our financial regulatory authorities and their counterparts in the EU, and those discussions will continue alongside the TTIP negotiations. The TTIP will deal more directly with market access issues that arise in the financial services context, which is a standard component of free trade agreements. But the current thinking is that there is already a robust channel for dealing with the regulatory convergence issues in this area. Remember, we have a vast and complex relationship with the EU and you don't want to fold every issue into the TTIP, otherwise it becomes a Christmas tree with too many ornaments.

Is there support at home, in the US, for an expanded trading partnership with the EU?

Virtually all of the key stakeholders in the US have been supportive, including bipartisan support in the US Congress and support from organized labor. Everyone has their own ideas of what they would like to see, but no major constituency group in the US is saying, 'Don't do this.' That is important. So we have a significant window of opportunity. If we seize it, we can accomplish something truly historic not only for the US and the EU but for the entire global trading system.

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For more on the forthcoming TTIP negotiations, see following pages

A MORE SPECIAL RELATIONSHIP

A new US-EU trade agreement will have profound implications for companies across the globe, say Brunswick's Neil McMillan and David Sutphen

"A good idea that business should rush to support," is how *The Economist* described President Barack Obama's plan for a new Transatlantic Trade and Investment Partnership (TTIP), which he set out in his State of the Union address in February.

Beginning in the summer of 2013, the TTIP talks have the goal of putting a free trade agreement (FTA) in place within two years. A deal would create the largest internal market in the world, with 830m consumers, and would liberalize one-third of global trade. The size of this single market would give it a huge advantage, allowing it to call the tune on standards for the rest of the world. It has wide support. Karan Bhatia, a former Deputy US Trade Representative, said the FTA would not cost taxpayers money and would be a "great, untapped stimulus." Peter Westmacott, Britain's Ambassador to the US, described it as the "Holy Grail" for resuscitating transatlantic economies.

The proposed US-EU FTA is not new. In 1995, the EU and the US launched the Transatlantic Business Dialogue, which aimed to speed up application of trade rules. Three years later, the Transatlantic Economic Partnership was initiated to knock down technical and regulatory trade barriers. Then in 2007, the Transatlantic Economic Council was set up as an overseer of bilateral business relations. All were ambitious but none has, so far, yielded much. But the lingering effects of the financial crisis and its drag on economic growth – and the challenge of emerging economies – have created a new incentive to talk.

However, *The Economist* warned in April that the talks so far were "beset by small-mindedness and mutual suspicion," which included protections for French *cinéastes,* Flemish hip-hop artists and Delaware chicken farmers. But there is much to gain. *The Economist* also estimates that ditching even half of the current non-tariff barriers under an FTA could boost GDP on both sides of the Atlantic by 3 percent.

But getting that done in two years? A tall order.

CARDS ON THE TABLE

A new FTA would be without doubt a boon for the global economy. In a March 2013 report commissioned by the EU, the Center for Economic Policy Research (CEPR), a London-based think tank, found that, "The increased level of economic activity and productivity gains created by the agreement will benefit the EU and US labor markets, both in terms of overall wages and new job opportunities for high- and low-skilled workers". The CEPR estimates that a comprehensive trade deal would bring economic gains of €119bn ($153bn) a year for the EU, and $122bn a year for the US. This translates to an extra €545 in disposable income each year for a family of four in the EU, on average, and $840 per family in the US. The rest of the world would also benefit from liberalizing trade between the EU and the US – the CEPR estimates that it would increase global income outside the US-EU by almost $128bn.

The political impetus is there – President Obama clearly wants a deal before he leaves office after 2016, and the current European Commission wants to have laid the foundations for such a deal before it is replaced at the end of 2014. But the benefits of a comprehensive deal would not be evenly spread – there would be winners and losers, both within and across industries. The politics of the FTA negotiations, therefore, will revolve around vested interests on both sides, some of which have become accustomed to the protection afforded by the remaining barriers, 80 percent of which are not tariffs but a result of domestic regulations.

In this environment, both the Office of the US Trade Representative (USTR) in Washington and the Directorate-General for Trade (DG Trade) in Brussels – at the front line of the talks – will be looking for input from business about remaining barriers they consider a priority. This is an opportunity for companies to shape the outcome of the talks.

What should companies be doing? First, they should make sure they know what is happening in the negotiations. They should engage with the relevant parties – including the European Commission, USTR, US Department of Commerce, EU member state officials, and regulators of various industries – to keep up the momentum of the talks. They should also develop messages aimed at political decision makers and the media.

Below are some industry-specific considerations to bear in mind:

AUTOMOTIVE

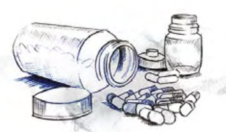
Would an FTA bring us closer to a "world car," one designed to global standards? A successful outcome in automotive safety standards could save companies billions of dollars in compliance costs and accelerate the achievement of a real world car. According to the CEPR, the automotive sector is likely to be the industry most affected by a comprehensive new US-EU trade deal. The Transatlantic Economic Council so far only managed to agree on a standard plug for electric vehicles – useful but hardly dramatic. But fully harmonizing safety standards offers major competitive advantages for EU and US manufacturers, and will therefore continue to be a focus of a new FTA. US and EU automakers have already expressed strong support for the TTIP, provided it does not increase the overall regulatory burden or costs. Nonetheless, some manufacturers might rely on safety regulations to maintain protective barriers. In Europe, trade discussions with Korea and Japan, for example, were dogged by concerns that free access to the EU from these countries would hit EU manufacturing hard.

CHEMICALS

There are a number of remaining tariffs, some of which create significant barriers, for example in biofuels. Both the US and EU are subject to extensive and often divergent rules relating to safety and approval: in the EU, the REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances) directive has involved considerable burdens on industry. US chemicals companies may seek some relaxation of these in an FTA. Meanwhile, the EU has said it will push for mutual recognition of the control of chemicals, and will look for common principles for information sharing.

FINANCIAL SERVICES

Financial services firms already enjoy relatively unrestricted market access in the EU and US, but entirely on terms laid down by regulators in each market. Legislation since the financial crisis – such as Dodd-Frank or the mass of EU regulation already adopted or in the pipeline – has made this situation more complicated, pushing the prospect of mutual recognition or harmonization of (in some cases contradictory) rules back further. This is exacerbated by recent scandals, such as LIBOR manipulation and money laundering, which will make EU and US regulators nervous about relying on each others' rules to police financial institutions operating in their respective jurisdictions.



PHARMACEUTICALS

Pharma is subject to a number of trade barriers, including tariffs and differences in intellectual property rights protection (for example, different timeframes for market exclusivity – one year in the EU; three in the US). Among the issues of most concern to pharmaceutical producers will be a desire to achieve mutual recognition agreements covering fields such as good manufacturing practices (GMP).

INFORMATION & COMMUNICATIONS TECHNOLOGY (ICT)

The European ICT industry is seeking a deal on regulations covering areas such as product and protocol standardization, e-labeling, and intellectual property. They also want access to the US market for all ICT equipment meeting International Electrotechnical Commission (IEC) standards. And they want better cross-border data exchange rules, particularly covering data protection, as well as aligning regulations that affect "cloud" computing. Stakeholders in the EU and US also want both sets of authorities to reaffirm their joint commitment to maintain the status quo on internet governance, and to ensure that the internet ecosystem remains open to innovation and development of new commercial applications.

AGRICULTURE

Agriculture, which has seen several previous trade disputes, will be one of the most contentious areas under negotiation. The US will push for market access for genetically modified organisms (GMOs) and other foodstuffs which the EU restricts. But even if public attitudes to GMOs change, the EU may find it politically difficult to make substantial concessions. US producers are also concerned about the EU's use of quotas and food health and safety requirements, including diverging lists between the two markets of permitted animal and crop treatments. The negotiators will also be discussing the use of pesticides and the setting of maximum residue tolerances (MRLs) in agricultural products. There are a number of other disputed areas, including protected regional production for products, such as Champagne or Parma ham, and dairy standards.

YOU SNOOZE, YOU LOSE

For companies affected, the stakes involved in the FTA talks – both positive and negative – will be considerable. Any common industry standards set for what would be the world's largest single market would *de facto* become the standard to which products and services from any other country would have to conform.

It is therefore imperative that companies keep abreast of developments and do what they can to ensure the right outcomes. Many larger companies will undoubtedly be following the negotiations through direct interaction with USTR and DG Trade. They and others may also be represented by trade organizations, though these have their limitations, having to reflect often conflicting views. Many companies will want to ensure their specific priorities are represented and can best do so by direct contact with policymakers. Smaller companies may have fewer lobbying and influencing resources at their disposal, which makes it all the more important that they consider effective ways to get their messages across to the right people.

Companies from outside the EU and the US – especially from China, Brazil, and Japan – will have little direct influence on negotiators, even though they will be affected by an agreement. Both Japan's and Brazil's governments have already woken up to this point, and are seeking bilateral negotiations to allow them to have access to a transatlantic single market. China is watching the process very closely.

What are the TTIP's prospects for success? Few believe that a comprehensive deal will be in place in two years, but both sides have already agreed to seek an early agreement on as many items as possible, including removing tariffs, with the more complicated elements of the regulatory dialogue being pursued on a longer timescale. There is too much to be gained to let a deal slip away. And this can only be achieved by industry keeping up the pressure to make it happen.

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MASTER OF ITS FATE

South Africa emerged from apartheid almost 20 years ago, but lately has been straining under the weight of expectations. **Thero Setiloane, CEO of Business Leadership South Africa,** explains how business leaders are working with government to get the country's development goals back on track

South Africa was dragged back into the global media spotlight last year when industrial unrest in the country's mining heartland left 44 people dead, making 2012 the most protest-filled year since the end of apartheid. At the same time, the government launched perhaps the most comprehensive and ambitious development plan in its history, with widespread public consultation.

Here, Thero Setiloane, CEO of Business Leadership South Africa, an advocacy group for the country's largest businesses, sets out the challenges facing business and government in South Africa, and considers the way both sides are communicating their renewed push for "inclusive growth."

We need to stop thinking about public affairs as being about gaining "access" to a government minister, or something dark and mysterious going on behind closed doors. Having an honest, constructive, public relationship with government and labor is vital in any country, especially one with significant developmental challenges.

Public affairs is about defining the most productive and important contribution that business can make. It is about helping those creating and implementing policies. Trust is an essential, often elusive, ingredient; and as recent events have underlined, its absence can hold back a country's progress.

The bludgeonings of chance

The tragic events in the mining industry last year raised serious questions about the kind of country South Africa has become and the way that we communicate with each other. As a nation that has experienced the most dehumanizing of systems, the images that we saw on our televisions reminded us of our darkest days and affected us deeply.

During the transition from apartheid, there was a widespread appreciation by government, business, and labor of the need to jointly communicate a collective desire to put the country first. That desire to build ties across previously compartmentalized populations and sectors was strong, and there was a sense that social capital – what the World Bank calls the "glue that holds [society] together" – was growing. Those ties, bolstered by regular interactions between groups, create trust, lower the costs of business, and reduce the chances of failed agreements. It was about communicating across previously solid dividing lines.

There was also a sense that a neo-corporatist model of economic organization – where the national representatives of business, labor, and government voluntarily cooperated to create a competitive economy – was possible. Combined, these strong, trusted relationships, operating within a robust bargaining framework, were meant to provide a platform for growth and development.

Somewhere along the line, things started to fall apart. All three sides seemed to lose track of the scale of the problem, and too many people were left behind by the solutions that were attempted by all parties.

Social realities, such as the fact that social grants make up 70 percent of the income of the poorest 20 percent of South Africans, or that fewer than 60 percent of children finish primary school, had started to become just statistics in our collective imagination. Business bemoaned affirmative action and government corruption; government cited examples of cartels and complained of "lazy capitalists" who would rather "collude than compete." All sides seemed, publicly at least, to retreat to their own corner as if they could just get on with things in isolation from one another.

The social challenges in South Africa have, correspondingly, become more acute and the established mechanisms to resolve those challenges have not been working. The mining strikes last year were not just about wages; they also reflected a problem with the existing neo-corporatist framework. The rise of new unions meant that some companies, which had effectively outsourced employee relations to one union, now found that they had difficulty speaking directly to their workers. Given the imbalance of information between employee and employer in any negotiation, the lack of a trusted worker representative – in the form of a single, mutually respected union – meant that demands were made that would have made the entire sector unprofitable.

Bloody, but unbowed

I believe that the positive outcome from all this tumult, however, is that we have started to see a real change in the way that business and government engage with one another. A key sign of this was the exhaustive consultative process that the South African government followed in the preparation and adoption of the National Development Plan (NDP), which preceded the mining strikes.

> *"The positive outcome from all this tumult is that we have started to see a real change in the way that business and government engage"*

The NDP is the master plan for growth and development and it addressed the country's failings and constraints. It recognized that "long-term growth and investment requires trust and cooperation between business, labor, and government," and acknowledged that levels of trust in South Africa are low.

The government's forthrightness has opened up a new space for an honest national debate which we in the business community have embraced wholeheartedly. On our side, we are committed to working with government to leverage our respective comparative advantages to create an environment for growth, and we recognize that if we are asking government to get its house in order then we must do the same.

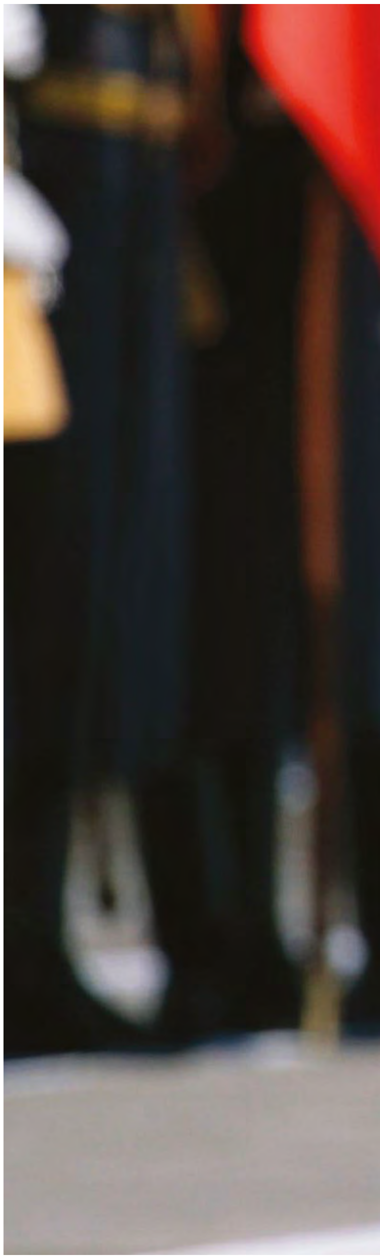
I think we are starting to see a more constructive, positive style of debate, accompanied by a new frankness, openness, and willingness to engage on both sides. We need to continue to broaden that relationship to ensure that all social partners are included.

THERO SETILOANE

Thero Setiloane is CEO of Business Leadership South Africa, an independent association representing the country's largest businesses, as well as major multinational investors. Before joining BLSA, Setiloane was at mining group AngloGold Ashanti, overseeing the company's environmental and ethical standards, and has also worked in the telecoms, agricultural and private equity sectors.

BUSINESS LEADERSHIP SOUTH AFRICA

BLSA defines its mission in unusually broad terms for a business organization: it is "fundamentally, about business being truly committed to make change happen for the better with government." Its goals are to see a doubling of South African business in 30 years, but its "broader social vision is to promote inclusive growth" through higher per capita incomes.



CHINA'S CHARM OFFENSIVE

China is taking steps to exert more cultural influence on the international stage. How should this be interpreted by those doing business with the emerging superpower?

BY ST. JOHN MOORE, BRUNSWICK, BEIJING AND ILSE SCHACHE, BRUNSWICK, SHANGHAI

The press coverage of China's first lady, Peng Liyuan, when she accompanied her husband, President Xi Jinping, on his first trip abroad as China's leader in March, was almost universally fawning. In London, *The Telegraph* talked of "the 'Kate Middleton effect' of China's new first lady;" Spain's *El País,* in a nod to her good looks, dubbed her "La Mejor Modelo para China" (The Best Model for China); and *Time* magazine put her on its "100 Most Influential People in the World" list, in the "icons" category, along with Aung San Suu Kyi, Beyoncé, and Michelle Obama. In China, some of the panegyrics about her public appearances were off the charts.

The coverage was due in part to the fact that Peng is a genuine star who has been wildly popular as a professional singer in her native land for decades. But internationally it was also about the rarity of seeing such a glamorous image projected by a leading figure of the emerging superpower. For many, there was a question lurking behind that new image: as the *Los Angeles Times* put it, "How the Communist Party handles her may be a clue to its willingness to modernize."

Since the transfer from the fourth to fifth generation of communist leaders in November, much analysis has focused on the style, approach, and priorities of Xi.

Even before the emergence of the first lady there were signs that China was undergoing a significant change in the way it wanted to be perceived on the international stage. "The effort began in earnest in 2004 when Hanban, an organization that falls under the Ministry of Education, began establishing Confucius Institutes at universities around the world," Dustin Roasa, a former US diplomat in Asia, wrote in *Foreign Policy* magazine last November. "There are now 353 of them in 104 countries, part of what [then President] Hu Jintao described in a 2007 speech as China's effort to 'enhance culture as part of the soft power of our country.'" Hanban, Roasa reported, plans to open 1,000 Confucius Institutes by 2020 to spread Chinese culture, much in the way that the British Council and Alliance Française have done for Britain and France over the years.

In another move on this front, China inaugurated its first China Public Diplomacy Association (CPDA) in January, "promoting China's soft power by mobilizing and coordinating social resources and civilian efforts for Chinese public diplomacy," Li Zhaoxing, chairman of the Foreign Affairs Committee of China's National People's Congress, and president of the association, said in a speech at the time.

These missions will also have a somewhat harder-edged diplomatic aim. China has favorable conditions for public diplomacy but also faces serious challenges, Ma Zhengang, Deputy President of the CPDA and former Chinese Ambassador to the UK, said at the inauguration. "A solid job of public diplomacy requires tangible effects and fruits, rather than insubstantial things. Public diplomacy should serve to guard China's lawful rights and interests overseas and stabilize external circumstances," Ma said, according to *China Daily*, an English-language newspaper with the official stamp of approval.

Stepping off the plane in Moscow on her debut diplomatic trip and wearing Chinese designer clothes, China's first lady Peng Liyuan wowed the world

Photograph: © AP Photo / Ivan Sekretarev

What people, especially those doing business with China, want to know is what such subtle changes signify about the country's evolving method of engagement with both external and domestic constituents.

China's pace of change means that it is still often misunderstood. There are perhaps as many urban myths about China today as there are skyscrapers dotting its massive cityscapes. For example, just as in reality the Great Wall of China cannot be seen from space, the idea that doing business in the Chinese market revolves solely around *guanxi* (commonly translated as "relationships" or "connections") is not true.

Certainly, Chinese officials want to ensure not just that more people learn to speak Chinese and appreciate Chinese culture, but that Chinese culture positively supports the country's expanded global engagement. Yet, when it comes to doing business in China, many foreign investors wrongly believe that guanxi is the master key that opens all doors, secures long-term business access, and solves all problems. However, as China continues to develop, there is a growing maturity to how its government engages both with the outside world and its domestic constituents.

In today's China, foreign companies must adopt a more sophisticated, substantive, and multifaceted approach to public affairs. That means building strong institutional relationships with those government stakeholders that matter to their business – presenting a persuasive, local value proposition is a cornerstone of this approach. This is not to suggest relationships are not important – they are. But they are simply important in the same way that relationships are important in Brussels or Washington.

A NEW MODEL

Knowledge of how China's recent developments have altered its priorities is also key to understanding shifts in the country's external engagement. For the past two decades, China's economic model has been overwhelmingly investment-led. Provinces and cities vied to attract foreign companies and a well-placed personal connection could indeed open many doors.

Today, the authorities in Beijing see it as a top priority to move China away from its investment-driven, export-focused model. Failure to do so, they feel, will undermine the country's future growth and stability, and potentially undermine the Party's credibility and authority to rule. The incentive for action is clear.

As a result, it is no longer the size of investment that is important but the quality. For investors, this marks a distinct change. It is critical, therefore, that companies clearly articulate how they can help China achieve its wider objectives – not just their own business objectives.

The emphasis on quality means that investment is no longer enough to maintain one's license to operate. Government stakeholders demand that companies employ best practice in their businesses in China and are responsible corporate citizens. Those that fall short are now more at risk of being called out by the authorities – and the public.

TECHNOCRATS RISING

Another important change is the professionalization of government itself.

During the recent National People's Congress (NPC) in March, this was illustrated by a number of key appointments. The finance portfolio is a case in point, where Zhou Xiaochuan was retained as the head of the People's Bank of China; Lou Jiwei, former head of China Investment Corporation – China's powerful sovereign wealth fund – was appointed Minister of Finance; and Gao Hucheng, in charge of China's global trade negotiations since 2010, was elevated to lead the Ministry of Commerce. These appointments of proven technocrats underlined the growing diversification of China's top leadership, moving away from a purely political to a more managerial mindset.

"NOW THAT CHINA HAS BECOME MORE ASSERTIVE AND ECONOMICALLY POWERFUL, FOREIGN COMPANIES MAY HAVE TO ADJUST THEIR APPROACH"

It is widely accepted now that the challenges China faces can no longer be addressed with blunt instruments, such as sheer scale of investment. If China is to overcome its increasingly nuanced and complicated challenges, it needs a new kind of senior official in the top roles – one who brings experience, knowledge, and expertise. These new Party leaders – from more diverse educational backgrounds, often with international experience – are better equipped to judge the real value of what foreign investors offer, which is good news for companies looking to win business on merit.

Also good news for international companies is the continuing streamlining of the bureaucracy. A new round of administrative restructurings were confirmed at March's NPC, further reducing the number of ministry-level organizations, which have already been cut through three decades of reform from 48 to 25.

Nonetheless, there is still a fairly labyrinthine bureaucracy in place with fewer ministers, meaning that government officials who are already stretched for resources in many departments will be increasingly required to do more with less. In future, officials will have even less time to engage with companies on matters not directly relevant to their priorities. Companies that can offer practical help to address the issues that keep officials awake at night – improving environmental protection, attracting value-added manufacturing, managing the urbanization process, and so on – will win advocates.

THINKING LOCAL

As part of the reform process, an important internal trend is the changing power relationship between central government and the provinces, with more authority being devolved locally. Of China's 33 provincial level regions, 24 are currently led by officials who simultaneously hold powerful local and federal political positions. This is in order to ensure that national policies are carried out at the local level.

All too often, foreign companies prioritize Beijing at the expense of local government. But companies now need an engagement program that reaches both central and local levels. These efforts are likely to be rewarded as approvals targeted directly at local needs are granted more quickly.

Indeed, the recognition at all levels that companies have a central role to play in China's "new economy" is positive for foreign businesses. China's private sector currently contributes around 60 percent of China's GDP and 40 percent of its jobs. But the policies of the past two decades have favored state-owned enterprises. With the investment-led model being diversified, the government's task now is to open more sections of the economy to competition, creating a more level playing field for companies that didn't start out in the state sector.

But the opportunities for foreign companies will be on China's terms, as senior officials have emphasized. In remarks that illustrate the new thinking, Wang Dongbin, member of the International Committee for the Promotion of Chinese Industrial Cooperatives, remarked at a recent Tsinghua University forum: "Now that China has become more assertive and economically powerful, foreign companies may have to adjust their approach when dealing with Chinese stakeholders. Instead of insisting that China compromises on their rules and principles, foreign companies may have to start considering what they can do to accommodate Chinese principles and interest."

These comments were echoed by Zhang Xiang, a former editorial writer for the *21st Century Business Herald,* a business newspaper: "Foreign companies should start thinking of changing their mentality. Instead of bringing international brands into

China, foreign companies may have to consider ways to develop brands jointly with their local partners and bring them into the international market.”

A renewed fight against corruption has accompanied recent government reforms. China’s senior leadership has been increasingly outspoken about the threat corruption poses to the Party’s hold on power, with trust in the Party and the government severely undermined in recent years.

In his first months in office, Xi began a new crackdown that included restrictions on use of public money for banqueting and the purchase of luxury goods. This was in order to assuage growing public disapproval of cadres flaunting luxury possessions they could not possibly afford on their official salaries. Also, for the first time, the workings of the Party’s discipline watchdog have been made public.

The end result is that banqueting and gift-giving (which used to go hand-in-glove with the development of guanxi) has become an embarrassing topic. While the campaign may fade over time, it is helping change the nature of guanxi.

DIGITAL FUTURE

The role of media in China has long been a thorny issue. At the March NPC, a major industry reform merged broadcast and print watchdogs into one “super content authority” with a remit spanning print, radio, and visual media, as well as oversight of copyright issues. While the restructuring follows the general trend of reform and streamlining, it is not a signal of liberalization. On the contrary, the government is likely to tighten control over content to inhibit interference or distraction as it seeks to orchestrate the realization of its policy goals.

The rise of social media and the government’s growing sensitivity to online backlashes creates a complex dynamic. In many recent situations, online reaction has hampered the policy options on diverse issues, from building a new chemical factory to changes in traffic rules. Foreign companies must also consider the influence that different stakeholder groups can have through digital media. The pressure can be both direct on the company and indirect through its effect on government policy.

In fact, the media is a good place to look for clues about the direction and limitations of reform. The authorities were happy to see the praise heaped on first lady Peng, for example, but didn’t want to see it go overboard. As *The New Yorker* magazine reported after Peng’s Moscow trip, “She has become the national conversation piece – to the point where even the most mundane of her cyber fan clubs have begun to suffer censorship.”

A Chinese teacher from the Confucius Institute at a school near Pretoria, South Africa. The first Institute in Africa opened at the University of Nairobi in 2005

Photograph: © Li Qihua / Xinhua Press / Corbis

A single beam cannot support a great house

China’s cultural outreach should not be seen simply as a “soft” effort for international exchange but part of a sophisticated, interlinked strategy to exert its growing power.

In his new book, *China Goes Global*, Professor David Shambaugh of George Washington University, puts it in context. “The Chinese have wisely learned one key lesson from studying the experiences of other previous powers: genuine global powers possess multidimensional strength. Chinese strategists have observed the failings of other powers that possessed strength in only a single dimension or a few, and they have thus concluded that it is important to build and cultivate power comprehensively across a variety of spheres: the economy, science, technology, education, culture, values, military, governance, diplomacy, and other sectors.”

The proliferating Confucius Institutes are a key tool for winning “hearts and minds” by offering people a window into Chinese culture, the chance to learn the language and help open up business opportunities. As former US diplomat Dustin Roasa wrote in *Foreign Policy* magazine last November, “After investing tens of billions of dollars in Southeast Asia, China has now decided that its vaunted economic power, which has bought it significant influence with regional governments, is not enough. Beijing now wants to be loved, too. In this brave new world of Chinese diplomacy, language and culture – and, yes, pop songs – are playing a major role in Beijing’s quest to be understood and, if all goes well, win the affection of Southeast Asia’s 600m people.”

The effort extends across the globe, with new Confucius Institutes opened this year in Professor Shambaugh’s George Washington University, the University of Namibia, and many more.

This article draws from Brunswick’s review of China’s recent leadership transition. The full report can be found at *www.brunswickgroup.com*

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PRESSURE MANAGEMENT

Luis Alberto Moreno, President of the Inter-American Development Bank is a keen advocate of public-private infrastructure partnerships. Here he explains how building social consensus early can avoid later resistance

When the Porce III hydroelectric complex was inaugurated in Colombia in 2011, the media was notable for its absence. Located in a deep gorge some 90km from the city of Medellín, Porce III is the largest hydroelectric project built in Colombia in the past two decades. Construction of the $1.3bn, 660-megawatt facility required the relocation of 2,700 people, along with complex works to mitigate its environmental impact.

And yet Porce III did not provoke the organized protests and extensive press coverage that have become standard for large energy projects with significant social and environmental impacts. In fact, the process of compensating and resettling the affected families was carried out virtually without incident. The few press reports on the project were positive in tone, and some even profiled families that expressed their satisfaction with its impact on their future.

This outcome is remarkable at a time when large infrastructure projects almost inevitably attract scrutiny by the media, local activists and international advocacy groups. In Latin America and the Caribbean, this scrutiny is evidence of a thriving democratic culture where open debate and press freedom are increasingly the norm.

But the growing sophistication of project-focused protest campaigns also poses a challenge to governments under pressure to generate jobs, improve infrastructure, and expand access to basic services. Indeed, in recent years numerous energy, transportation and mining projects in Latin America have either been delayed or canceled outright because of negative publicity and conflicts with indigenous groups or non-governmental organizations.

This is a critical issue for the region's development. The Inter-American Development Bank (IDB) estimates that in order to meet anticipated demand for services and become competitive with Asian economies,

LUIS ALBERTO MORENO

Luis Alberto Moreno has been President of the IDB since 2005. Before that, he was Colombia's Ambassador to the US for seven years. In the early 1990s, he served in the Colombian government, including as Minister of Economic Development, and led a successful privatization program. Moreno has also worked in the private sector, focusing on investment in Latin America, and as a journalist he received a Nieman Fellowship from Harvard. In 2012, he won a Clinton Global Citizen Award for Leadership in Public Service.

THE INTER-AMERICAN DEVELOPMENT BANK

Established in 1959, the IDB is the leading source of development finance for Latin America and the Caribbean. With average annual lending of $10bn, the bank is a key regional provider of loans for infrastructure, energy, water, education and health.

Latin America will need to double its current infrastructure spending from roughly 3 percent to 6 percent of GDP. Most of these investments will involve partnerships with the private sector, which would need to commit more than $100bn a year to infrastructure projects in the region under this scenario.

Today, fiscal and macroeconomic conditions in the majority of the countries served by the IDB enable them to better meet investment needs with public resources than in the past. Lingering social issues are more than public sector responsibilities; they are private sector opportunities. At the bank, we have learned that the best partnerships are not short-term or standalone projects. They are long-term commitments to share knowledge and create platforms for collaboration.

We are building on our experience to strengthen all our infrastructure work, especially the financing and implementation of these partnership projects. First, we are deepening our activities in the pre-investment stage. To increase the supply of works eligible for financing, we created a special fund at the bank to finance infrastructure project preparation. Second, we continue to finance these projects proactively through direct lending, co-financing, and guarantees. These partnerships enable us to support more complex and ambitious projects and to share the risk. Third, we are exploring the mechanisms necessary to make infrastructure project financing viable through private pension funds. Last, we are helping our partners to develop their regulatory frameworks and to evaluate and structure projects.

An effective engagement strategy cannot be formed without knowledge of the region, market, and community that a project will impact. So, with the Economist Intelligence Unit, we have created the Infrascope index which provides an objective analysis tool for assessing risk and evaluating the environment for private infrastructure investment in the region.

BUILDING CONSENSUS

How can these public-private partnerships secure the necessary public support, and what does the success of Porce III tell us about how to build social consensus around a complex project? First, Porce III shows that governments and companies must make larger pre-emptive investments in the traditional best practice of community relations. Empresas Públicas de Medellín (EPM), the public utility that built Porce III, has a history of effective engagement with stakeholders. For Porce III the company put together an experienced team of sociologists, technicians, lawyers, and communicators with extensive knowledge of the communities that would be affected by the dam construction.

Starting in 2005, the team held hundreds of hours of meetings with affected families and established a negotiation mechanism that stakeholders considered fair, transparent, and equitable. EPM also ensured that resettlement plans included measures to create economic opportunities in the project area and steps to minimize the impact of migration pressure created by the project.

On the environmental side, EPM hired an independent environmental audit partner and invested $7m in projects to improve urban and rural sanitation in the four municipalities in the project's area of influence. The company also carried out monitoring throughout the construction period to ensure the effectiveness of ecological restoration around the affected zone.

Throughout the project, EPM also reaped the benefits of a history of effective engagement with its customers. With its reputation as a provider of potable water, sanitation, electricity, and telecommunications, EPM is known for the quality of its customer relations and its flexibility that enables low-income customers to manage their utility bills. The company also has a reputation for world-class communications campaigns that continually reinforce its image as a service provider that is completely focused on improving the quality of life of its customers.

To be sure, the success of Porce III owes a great deal to other factors that are critical to public-private partnerships. Colombia has built a regulatory and institutional framework that helps to mitigate uncertainty and prevent corruption. And EPM has a long track record of designing and executing ambitious infrastructure projects.

Private sector involvement will be indispensable in taking on future infrastructure challenges. We are working to improve the division of risk between public and private sectors, and on ways of structuring public-private partnerships so that they create value for taxpayers while generating good earnings for contractors.

The Porce III hydroelectric dam (left), a public-private project near Medellín in Colombia, encountered little public resistance, despite the relocation of 2,700 people. Luis Alberto Moreno of the IDB says social consensus played a large part in its success. Above: the project during construction. *Photographs: EPM*

But sound regulations, technical expertise, and financing are not enough. Latin America is full of well-designed public-private partnerships that have the necessary financing but are paralyzed by political, environmental, or civil society disputes.

Without investing in communications campaigns and engaging the community, there is little hope of persuading them of a project's benefits. Public perceptions shift in a matter of minutes, often fueled by media scrutiny, so effective communications must be a constant.

The challenge, as Porce III has quietly proved, is to lay the groundwork of social consensus so expertly that any potential controversy is nipped in the bud.

RULES OF ATTRACTION

Governments that have set clear rules for the private sector have benefited from infrastructure investment. Francis Yeoh, Managing Director of YTL – one of Malaysia's largest companies – argues that others would do well to follow suit

Francis Yeoh has grown Malaysia's YTL Corporation from a family-owned construction company founded by his father in the 1950s into one of the world's leading utilities companies. Here he argues that companies operate best in an environment where governments provide a clear, stable, and predictable regulatory framework. In other words, it is not so much a light touch as the right touch where regulation is concerned.

As a pragmatic business owner, rather than an economist, my experience has convinced me that there is an alternative to traditional tax-and-spend policies of governments in order to meet the pressing need for new infrastructure, both in the developed and fast-growing economies. In many places in the world, an investment shortfall has been restraining growth. The solution, I believe, is to fully embrace the private sector in order to build, operate, and maintain infrastructure. And for this to work most effectively, it is essential for companies to have a reliable regulatory framework under which they can make rational investment choices.

The core business of our company, YTL, is utilities. Our businesses include ElectraNet in Australia (power distribution), Wessex Water in the UK, Jawa Power in Indonesia and PowerSeraya in Singapore. We also have large mobile internet and public transport projects.

Why did we choose these markets for our most significant investments? They were all tremendous business opportunities, of course, but just as important was that these countries offered *a transparent and coherent regulatory framework*. Such a framework gives both local and foreign companies an equal chance at owning and operating key businesses transparently, and it fosters long-term and sustainable transformation for industry and community, especially in Asia where supply of these strategic utilities and other infrastructure is low compared to developed economies.

In the UK, Wessex Water is a good example of such a system at work. We bought the company from Enron in May 2002 and made the investments needed to make it the country's top water and sewerage treatment operator – and that's not just us saying it: Wessex has consistently topped the performance rankings from The Water Services Regulation Authority (known as Ofwat).

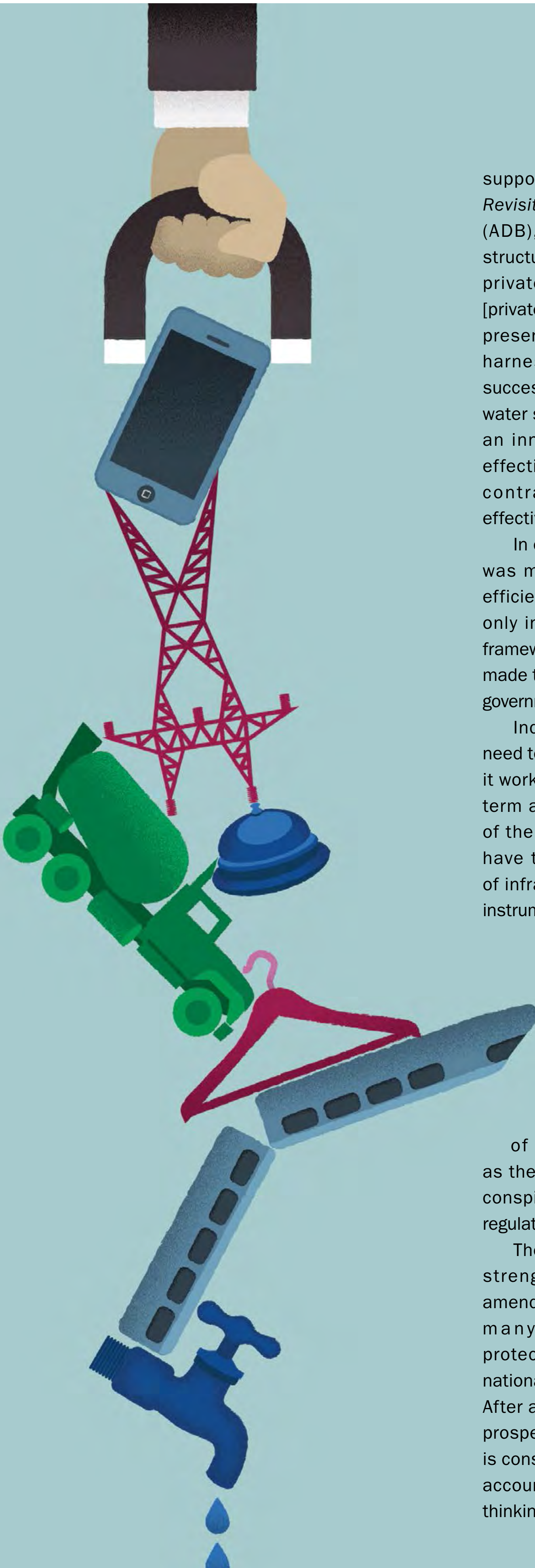
This was made possible by Ofwat's clear structure, which mandates it to set price limits, protect customer interests, encourage competition and investment, and administer and enforce the licensing regime for water and sewerage. Companies must provide an "efficient and economical system of water supply" or face penalties. Ofwat's five-yearly reviews aim not only to keep prices for customers down, but also to permit water companies to make an adequate return on capital (thus, encouraging investment in infrastructure) by including in its evaluation each company's business plan.

The water industry in any country is an issue of national security and it is natural that it should be regulated. Thus, a company must take a long view when drawing up plans to run such utilities. When YTL first bid for Wessex Water, we planned on the basis of having stewardship over the asset in perpetuity and considered its role in the community as well as profitability. What ultimately convinced us to invest was the UK's transparent regulatory framework, assuring investors that there will be a stable regime under future governments.

YTL's UK experience mirrors our other investments. In Singapore, for example, the government divested its power industry in 2007 to three foreign operators – Tuas Power to SinoSing Power (a unit of China Huaneng Group), Senoko Power to Lion Power (a Japanese consortium), and PowerSeraya to YTL. The government said that divestment was part of a plan for a "competitive yet stable power generation market" that would also encourage private sector investment.

Should other governments, especially in developing countries, follow suit and be willing to introduce transparent coherent regulatory frameworks for a privatized market? If more did, I believe economies would change for the better and the evidence

"A transparent, and coherent regulatory framework ... fosters long-term and sustainable transformation for industry and community"

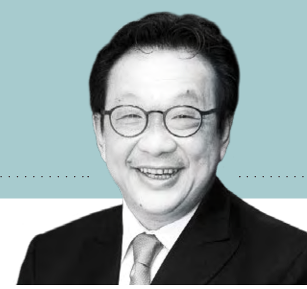


supports this. A 2008 study (*Privatization Revisited*) by the Asian Development Bank (ADB), concluded that "a change in the structure of ownership (from government- to private-owned) is not sufficient to make [private sector participation] work; rather the presence of an enabling environment that harnesses competition is necessary for success. Conditions under which the private water supplier can be more efficient include an innovative approach to competition, effective regulation, good governance and contract enforcement, and sufficient effective demand."

In other words, the case for privatization was mixed – it brought improvements in efficiency and environmental sustainability only in situations where the institutional framework was in place to ensure companies made the necessary investment (also, where governments supported the broader economy).

Indeed, it's not just governments that need to think about what is required to make it work: businesses also need to plan long-term and resist the short-term pressures of the market. Capital markets, also, will have to cater for the longer-term nature of infrastructure investment, perhaps with instruments such as 50-year bonds. Investors seem keen for options other than merely short-term equity markets that have proved to be capricious and unstable. There is no shortage of liquidity in Asian economies, where entrenched saving habits provide ample ammunition for long-term funding of key strategic infrastructure. But as the ADB report noted, the region has a conspicuous lack of transparent, coherent regulatory frameworks.

Therefore, governments should seek to strengthen their legal instruments and amend their existing economic regulations, many of them subject to hidden protectionism – or what I call "regulatory nationalism" – either by design or by default. After all, what could be better for business prospects than a regulatory framework that is consistent with the rule of law, steeped in accountability, and which honors long-term thinking and responsible stewardship?



FRANCIS YEOH

Francis Yeoh is Managing Director of YTL, one of Malaysia's largest companies. A civil engineer, he took charge of the group in 1988. He is a founder member of the Malaysian Business Council and Capital Markets Advisory Council, and Member of The Nature Conservancy's Asia Pacific Council. Yeoh also sits on the advisory council of London Business School, Wharton School and INSEAD. Ranked as one of "Asia's 25 Most Powerful and Influential Business Personalities" by *Fortune* magazine and *Business Week*, Yeoh was awarded Commander of the British Empire, for philanthropy, in 2006.

YTL GROUP

YTL Group has a market capitalization of about 31bn Malaysian ringgit ($10bn) and assets of 52bn ringgit (March 2013). The group's core business is ownership and management of regulated utilities and infrastructure assets, serving 12m customers on three continents.

THE BANK JOB

One of the most lobbied men in Brussels, European Internal Market Commissioner Michel Barnier, has a continent of constituents to consider

INTERVIEW BY PHILIPPE BLANCHARD, BRUNSWICK, BRUSSELS

Photograph: European Union

With 27 sovereign member states and still expanding, the European Union is a complicated political entity. So the process to repair the damage done by the financial crisis was bound to be a tortuous one. It is no surprise, therefore, to learn that Michel Barnier, the EU Commissioner for Internal Market and Services – which includes responsibility for financial services – keeps a color-coded spreadsheet to track the progress of the dozens of new financial sector reforms on his plate: green for proposed, orange for negotiating, and purple for passed.

On top of this complexity is the fact that, unlike the US, the EU is working to reform its financial services sector while also dealing with a full-blown sovereign debt crisis. It can seem, at times, like trying to change the wheels on a bus while it is still in motion. The job of steering this process and trying to keep all the disparate interested parties on board requires a deft political hand, including an ability to communicate complex and difficult issues to people with sometimes conflicting agendas.

In this interview, Barnier explains to Brunswick's Philippe Blanchard how he deals with the challenge of communicating with the public, industry lobbyists, and politicians as he navigates the labyrinth of Brussels.

Your role is central to dealing with the European debt crisis and putting in place regulations to both ensure a level playing field for banks and others to compete, and make sure that there is not a repeat of the 2008 financial crisis. With such a large program of reform, has it been difficult to keep the support of key players and the general public?

Communicating the need for such changes is a challenge because on the one hand, for companies, the new laws often mean fundamentally changing the way they work. This is never easy, even when it is in their own interest in the long run.

For European citizens, it is not easy to get across the fact that many countries have been living above their means. The fact is that many of the reforms are painful, with very real consequences on people's lives. However, I hope that we have managed to explain that these reforms are essential to create a sound financial system which can be a platform for growth.

We have worked constructively together with all institutions and stakeholders to strike a balance between strengthening prudential requirements – to ensure financial stability – and allowing the financial sector to ensure a sustainable flow of credit to the economy, so as to support growth and investment. Everybody will benefit in the end if we are successful in implementing these reforms.

The aftermath of the crisis has seen regular "banker bashing" in the media, and the image of the financial services sector is severely damaged. What do you think can be done to restore trust in the industry?

The reputation of the banking sector has suffered since the beginning of the crisis. It became clear that the sector had not been guided by the highest standards regarding transparency. It had not been living up to the highest moral standards in some respects, and overall it had not been sufficiently contributing to the benefit of society as a whole.

The fact is that taxpayers had to bail out the financial sector and they have, understandably, resented this. Of course, one should not generalize, but the behavior of certain individuals or groups within a sector can clearly contaminate an entire sector. Debates over bonuses, remuneration, and manipulation of indices have dominated the headlines and put the sector in a bad light.

I think that the industry needs to make all possible efforts to regain trust by communicating openly that mistakes have been made. Representatives of the industry also need to show that they are receptive to the policy initiatives underway to restore confidence in financial markets … and act on those, not just talk about change.

You are one of the most lobbied Commissioners in Brussels. Do lobbyists help in the process?

The regulation of the financial sector at the EU level attracts a lot of attention inside and outside the EU institutions. This is why we have numerous contacts with all stakeholders, including Members of the European Parliament and representatives of member states, NGOs, consumers, and the industry.

There is not always a single answer to a question, and people tend to defend what is in their own interest; that is a normal part of the process. My job is to listen to everyone and then make my own mind up with all the various interests in mind.

We are sometimes confronted with the criticism that we are listening too much to sectors affected by new regulation. The concern seems to be that new proposals are in the end too industry-friendly or not sufficiently strict.

On the other hand, others argue that the new rules are far too strict and detrimental to growth. The reality is that we have to strike a balance, ensuring intelligent and appropriate regulation and at the same time make sure that the financial sector can continue to lend to companies and support the real economy. All regulation has a cost, but when it comes to financial regulation, I am convinced – and our impact analyses support this – that the benefits brought by enhanced financial stability far outweigh the initial compliance costs of the new rules. To get this balance right, we are in continuous dialogue with all stakeholders and use the results of public consultations and green papers [discussion documents], as well as cost-benefit analysis to get the complete picture before tabling new proposals.

It seems that the regulatory regimes that are now in place in the US and Europe are actually diverging (for instance on issues such as remuneration or clearing). Is this going to create a competitive gap between the EU and the US? ➔

MICHEL BARNIER
EU Internal Market and Services Commissioner

Michel Barnier's appointment in 2010 put him in the middle of the Anglo-French "*psychodrame*" over financial services reform, as *Le Monde* described it at the time. He has handled the role with the diplomatic aplomb that might be expected of a former French Foreign Minister, winning praise for his ability to balance the push for reform with the need to protect an important European industry.

This is the second time at the EU for Barnier, having been Commissioner for Regional Policy and Reform from 1999 to 2004. He was elected to the French National Assembly at 27 and has served as Minister of European Affairs (1995-97) and of Foreign Affairs (2004-05).

I do not think that we are in the process of creating a competitive gap between the EU and the US. On the contrary, we have an open and constructive dialogue where we try to deal with the relevant matters as rapidly as possible.

Financial markets are global. That is why regulatory reforms need to be implemented and coordinated internationally. The G20 has taken the lead to ensure that there is regulatory convergence. International forums like the Basel Committee on Banking Supervision [which sets global standards], or the Financial Stability Board [which coordinates at a global level] provide for international membership and discussion of solutions. Otherwise, new room for regulatory arbitrage – [taking advantage of lighter regulatory regimes] – will be created.

All members of the G20, including the US and the EU, are committed to putting in place the measures that have been agreed. We in Europe are well on track to meet all our commitments. Others need to do the same. In many cases, new regimes are developed by international bodies, for example the Basel Committee. This is helpful since it ensures that all the jurisdictions concerned are part of the process from the beginning. We realize that in certain areas, jurisdictions outside the EU are not always moving in the same direction or at the same pace. I am in constant dialogue with my international counterparts in order to ensure that we move in parallel.

How is the EU's relationship with the US? Do you think the EU-US free trade agreement negotiations will be a good forum to address these regulatory divergences?

It is not always easy but we have a very close working relationship and both sides are committed to avoiding new areas for regulatory arbitrage. Furthermore, the upcoming EU-US free trade agreement negotiations will provide an important opportunity to discuss certain financial regulation issues and to make sure that the room for regulatory arbitrage is further minimized.

The "European idea" is not as vibrant as it used to be. Recent elections in France, Italy, and in northern Europe demonstrate disenchantment with the European idea (which is now perceived as synonymous with austerity and external control) and the renewal of nationalistic agendas. What do you think can be done to communicate the European agenda to voters?

First of all, let's not forget that the story of Europe is a success story. Despite the current difficulties, we have achieved a lot over recent decades and EU citizens are living in much better conditions today compared to 50 years ago.

However, the common achievements are under threat due to the economic difficulties that certain member states are facing. The financial crisis and the austerity measures put in place so far have triggered debates and concerns about the 'European idea' and I understand why. It can also be observed that in times of crisis, national interests are more prominent. It is our responsibility to build trust and confidence in the European idea among European citizens, in particular the younger generation, which is facing serious difficulties in terms of unemployment. We need to communicate better, and emphasize that Europe and its single market are part of the solution, not the problem.

How do you see the next few years in terms of institutional changes?

In order to be convincing, a number of structural changes are needed: the democratic legitimacy of EU institutions needs to be improved, the benefits of EU harmonization in certain areas needs to be better explained to the voters, and we need to accept that we can only operate in a single market with a single currency if we all play according to the same rules and respect them.

What does the European Union stand for in 2013?

The EU has a lot to do in terms of communication. EU citizens have the feeling that Brussels is too remote from their day-to-day lives and does not resolve but rather creates burdens. EU institutions must improve their acceptability by getting closer again to the needs of EU citizens. Europe is and will remain the largest area in the world where people can live together in freedom and democracy, surrounded by high standards of tolerance and security and, last but not least, in peace.

All the reforms we are working on will contribute to the reestablishment of confidence in the European financial markets and will help to get Europe back on track for sustainable growth.

Philippe Blanchard is Senior Partner in Brunswick's Brussels office. He provides strategic counsel in developing and implementing pan-European public affairs and corporate communications programs.

A NEW RULEBOOK

Commissioner Barnier has outlined three streams of reform

- Building new rules for the global financial system
  "The main initiatives are a new single rulebook of prudential requirements for banks; enhanced frameworks for securities markets; market abuse prevention; management and resolution of bank crises; deposit guarantee schemes; rules on hedge funds, private equity and derivatives trading."
- Establishing a safe, responsible and growth-enhancing financial sector
  "The major initiatives are the establishment of European Supervisory Authorities; the development of risk-based prudential and solvency rules for insurers (including a new European supervisory framework for insurers); improved investor information for complex financial products to protect consumers, together with safer rules for retail investment funds."
- Creating a banking union to strengthen the euro
  "This is the area where the most fundamental changes in the supervisory system for European banks have to be implemented. The responsibility for banking supervision will move from the national to the European level through a Single Supervisory Mechanism, under the European Central Bank. The structure will ensure strict and objective supervision of cross-border banking activities. The single supervisor is key for breaking the link between sovereign and banking risks. We have to develop a single resolution mechanism to address the need for a more centralized and stronger crisis management capacity to tackle the failure of banks within participating member states."

TRUTH, JUSTICE, AND THE AMERICAN CONVERSATION

"Facts are stubborn things," John Adams, one of America's Founding Fathers, once famously remarked. For **Alan Murray,** life after *The Wall Street Journal* means a pursuit of pure facts, as he takes up his new role as **President of the Pew Research Center.** His mission there, he says, will be to harness Pew's powerful research capabilities and deep insights to drive a more pragmatic discourse, especially in Washington, DC, where he has spent most of his career.

Here he talks to Brunswick's Darren McDermott about the erosion of the nation's political dialogue and Pew's role in helping to restore it

What drew you to the Pew Research Center after a career in journalism?

I spent most of my career in Washington and over 25 years I watched the steady decline in the ability of well-intentioned people from both parties to come together and have conversations about getting things done in the public interest. I had often thought that if I was ever going to go into the nonprofit world to do something, what was it that I cared about enough? It is attempting to address that serious rift in our civic culture.

The Pew Research Center is one of the very few places that has maintained the ability to speak to people on both sides of the aisle. It has done that by focusing on facts. As the folks here like to say: 'It's not a think tank, it's a fact tank.' We don't do advocacy. We don't make policy recommendations. We don't take sides. We don't get in fights. We don't do punditry of the sort you see on MSNBC or Fox News. We just provide facts because we believe that at the core of democracy is trusted information.

How can better facts improve the democratic process?

An educated citizenry requires a steady diet of trusted facts. One of the things that has happened in our society is that – and I'm sure you've had these experiences – it is sometimes hard even to have a dinner table conversation about politics or public policy without people violently disagreeing about things that should be matters of fact. Part of it is because they get their information from such disparate places, which has made it more difficult to create a factual base. Having an organization like Pew means that at least we can say, 'Folks, here are some facts. Here are some things that we ought to be able to agree on. You can have your debate but let's start from here.'

How have changes in the media landscape affected this dynamic?

We did a study of the election last year and compared it with four years earlier. It showed that a much larger percentage of the narratives in the press were driven directly by the campaigns, as opposed to being developed by in-depth reporting. So, clearly, the news media are becoming more spoon-fed, in part because they just don't have boots on the ground. If you're the person wielding the spoon you may think that is a good thing, but I think it is reasonable to ask whether it is the best thing for democracy.

There's a discussion about partial attention – a theory about "peak attention" – where people just can't focus because they have so much information, they need screening criteria. How does Pew help Washington with its "attention deficit disorder" when it comes to information?

That is a really interesting question. I think a lot of it is just about getting the right information to the right people at the right moment. I think part of the trick is about becoming much more aggressive about injecting information into the dialogue at the right moment and that is where social media tools become incredibly valuable.

You know, the evolution of Twitter to me is just one of the most fascinating stories of our times because it started as this totally frivolous – 'What are you doing?' 'I'm making a ham sandwich' – kind of meaningless chat tool. And it's evolved into a pretty high-end tool for communities of interest to share information. A lot of people who don't use it in that way don't understand this ... It's a *discovery* tool. We get a lot of traffic to our deepest reports through Twitter.

Given your background, do you want to change what Pew does, or how it does it?

I have launched a six-month strategic review, but some things are pretty clear. This organization has no peer in its relationship with traditional media and its ability to get its research placed, [but] clearly digital dissemination is a big part ... We're in the process of creating a new blog that will help us disseminate this vast set of data we have. Also, our major tool has been telephone survey research [but] people are doing a lot

ALAN MURRAY

Alan Murray became President of the Pew Research Center in January 2013, after a distinguished career in journalism of more than 30 years.

Before joining Pew, he was Deputy Managing Editor and Executive Editor, Online, for *The Wall Street Journal*.

Murray spent a decade as the *Journal*'s Washington, DC Bureau Chief and then served as Washington Bureau Chief for CNBC where he co-hosted "Capital Report with Alan Murray and Gloria Borger" and also wrote *The Wall Street Journal*'s weekly Political Capital column.

Murray has a bachelor's degree in English literature from the University of North Carolina and a master's in economics from the London School of Economics and Political Science.

"NOT A THINK TANK, A FACT TANK"

The Pew Research Center has, over more than two decades, built a reputation as a nonpartisan, "just the facts" research organization on a mission to educate Americans on a range of topics.

The Pew Research Center started life as the Times Mirror Center for the People & the Press, the polling arm for the Times Mirror group, and was eventually taken over in 1996 by Pew Charitable Trusts, which remains its financial backer.

In 2004, Pew consolidated its work under seven "project" headings, each of which has a significant communications component: 1) People & the Press 2) Excellence in Journalism 3) Internet & American Life 4) Religion & Public Life 5) Hispanic Center 6) Global Attitudes, and 7) Social & Demographic Trends.

Pew Research Center's parent company, Pew Charitable Trusts, is backed by the Sun Oil Company fortune. Pew partners have included the Bill & Melinda Gates Foundation and news organizations, including *The New York Times* and *The Economist*.

with online polling. So, with online tools becoming more and more powerful, we are launching a major effort to figure out what our next generation of polling will be like.

Do you foresee a future in which your colleagues at Pew are live-tweeting about political events such as Congressional hearings, State of the Union addresses, and so on?

We're not staffed to do it tomorrow, but I don't see why not. Another really important piece of this is the graphical presentation of data. A good infographic will get 10 to 100 times the engagement of a straight news story. I'll give you one example. We published our 'polarization' study last summer, showing how the polarization of the public along partisan lines had gotten much greater over the past 20 years. We had timelines and published all the questions that it was based on – you can see how each question breaks along party lines.

I want to take that one step further and say, 'Okay, let's create a widget where you can answer the questions yourself.' A group of students could then answer the questions, for example, or you could ask your Rotary Club, then compare your results and see how you line up with the rest of the country. Things like that can be incredibly educational.

The next step – a leap of faith – assumes that a better educated electorate will actually lead to better government.

The research seems to show that new technologies, such as tablets and other mobile devices, have really helped with engagement?

Book readership is up and so is news consumption. In terms of news consumption, mobile devices have made a huge positive difference. The problem is on the news production side, because no one has figured out how to monetize that in order to pay for journalists in the field.

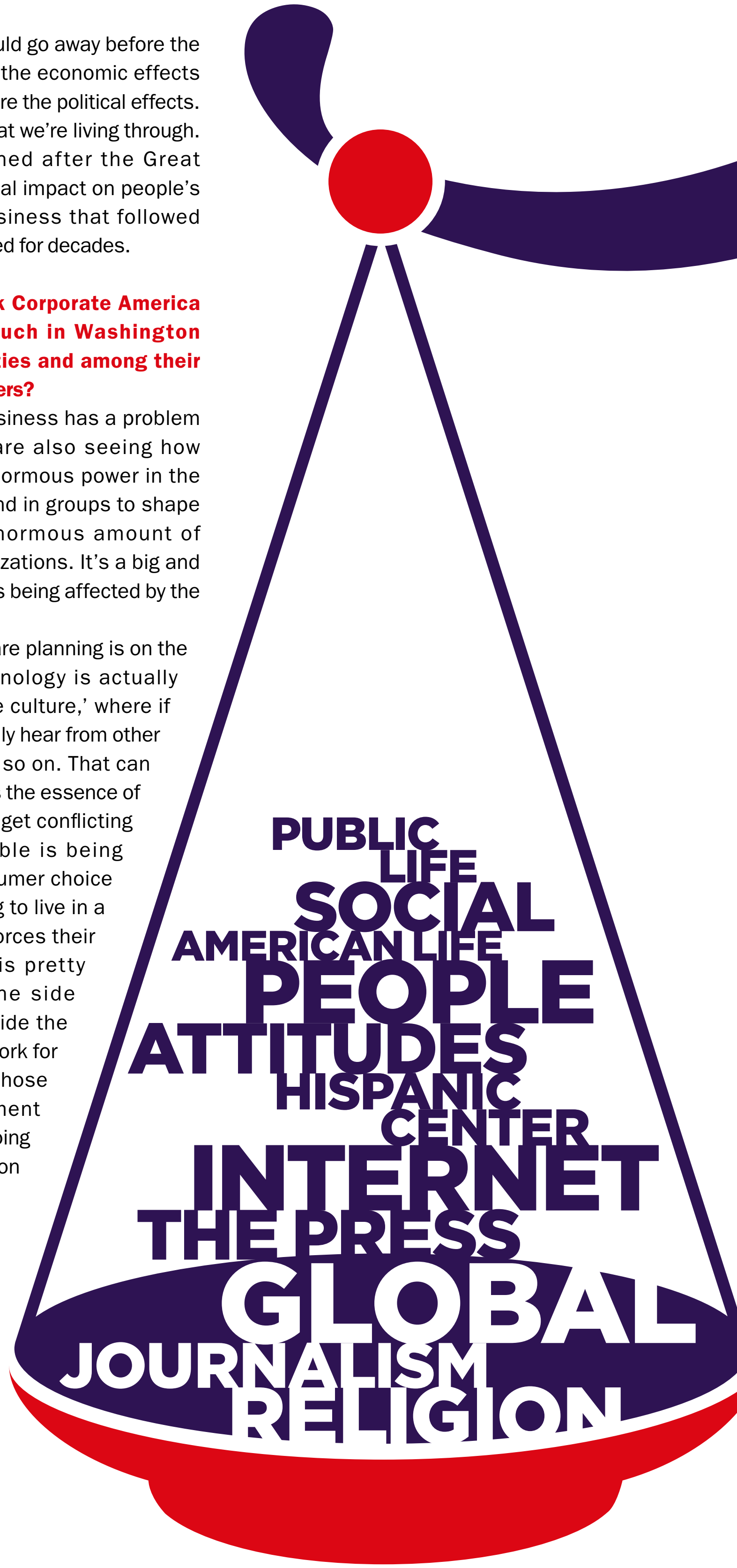
Turning to Corporate America, can its image with the citizenry be repaired after the damage done in recent years?

Look, 2008 was a pretty serious event and I think it's created a real problem for companies. I said at the time, and I think events have borne me out, that the financial effects of the crisis would go away before the economic effects; and the economic effects would go away long before the political effects. I think that's exactly what we're living through. Look at what happened after the Great Depression. The political impact on people's attitudes towards business that followed the events of 1929 lasted for decades.

Do you think the work Corporate America must do is not so much in Washington but in their communities and among their employees and customers?

Our data show that business has a problem with the public. We are also seeing how technology has put enormous power in the hands of individuals and in groups to shape things, forcing an enormous amount of transparency on organizations. It's a big and complex question and is being affected by the digital revolution.

One study that we are planning is on the degree to which technology is actually increasing this 'bubble culture,' where if you're on the left you only hear from other people on the left and so on. That can undercut democracy, as the essence of the public square is to get conflicting viewpoints. The bubble is being created partly by consumer choice as people are choosing to live in a media world that reinforces their biases ... Business is pretty much lined up on one side of the roster. If we divide the country by those who work for private business and those who work for government and nonprofits, we're going to have a real problem on our hands.



"… business has a problem with the public. We are also seeing how technology is forcing an enormous amount of transparency on organizations"

Given what's happening to journalism, do you see Pew filling a gap that has opened up in terms of informing the public?
Journalism is shrinking. At the same time, in the think tank world you have increasing polarization. Most think tanks feel the need to ally with one side of the debate or the other. And then in the academic world the process of peer review tends to keep them doing things that are of much more interest to their peers than they are to the general public. So, there is – I think – a need for, a hunger for, solid, trusted, nonpartisan information. It's just getting bigger and bigger. That's the space we are operating in.

You have this fight between different media operating models, the "swarm" versus the traditional top-down "pyramid" approach. It will be interesting to see how they fight it out.
I believe that in the swarm great brands like *The Wall Street Journal* will matter. As long as there are people out there who want to know that the information they are getting is reliable, there will be demand for brands that provide them some guarantee of that reliability. But you have to engage differently; you have to be much more proactive. This means profound change in the media world, in the way journalists think about their job. We never thought marketing was part of what we did as journalists, but now in the swarm you have to make sure that you are getting the right information to the right person at the right time – that is a marketing job. Really, we always were marketing, but we didn't realize how much we were. Now it is clear.

I guess the same is true for everyone in the digital world: brands have to do the same, Pew has to do the same?
One of the big themes in our State of the News Media report is that the news media has lost its role as the intermediary. Companies, government officials and politicians are finding more and more ways to go directly to the audiences they want to reach, without going through any kind of journalistic filter.

And people differ on whether that is a good or a bad thing?
At Pew Research we don't take a position on that. We just think it's a fact.

Darren McDermott is a Director in Brunswick's New York office. He spent 18 years at *The Wall Street Journal* as a reporter and editor in New York, Hong Kong and Singapore. He was most recently Deputy Managing Editor of *WSJ.com*.

PEW ON COMMUNICATIONS AND…

POLITICS

- In the 2012 race for the White House, journalists played a decreasing role in what voters heard about the presidential candidates. Only about a quarter of the statements in the media about the character and record of Barack Obama and Mitt Romney came directly from journalists, while about half came from political partisans. In the 2000 election, half the statements came from journalists and only about one-third from partisans.
- Obama's team produced about 25 times more Twitter posts than the Romney campaign. But on blogs, Twitter and Facebook, users were consistently more negative than positive about both candidates – although Romney fared somewhat worse.

JOURNALISM

- Nearly a third of US adults (31 percent) have stopped turning to a news outlet because it no longer provides them with the news they were accustomed to getting.
- A majority of Americans seek out a full news story after hearing about an event or issue from friends and family. Among 18 to 29-year-olds, the percentage that primarily relies on social media for this kind of news already reaches nearly a quarter.

SOCIAL TRENDS

- Whether as a by-product of overly protective parents, the age of terrorism or a media culture that focuses on dangers, Millennials cast a wary eye on human nature. Two-thirds say "you can't be too careful" when dealing with people. Yet they are less skeptical than their elders of government.
- Millennials embrace multiple modes of self-expression. Three-quarters have created a profile on a social networking site, and one-in-five has posted a video of themselves online. But their look-at-me tendencies are not without limits. Most Millennials have placed privacy boundaries on their social media profiles.

“The single biggest problem with communication is the illusion that it has taken place”

George Bernard Shaw

GLOBAL M&A OUTLOOK: LET'S MAKE A DEAL

BY STEVEN LIPIN, BRUNSWICK, NEW YORK
AND DAVID ASHTON, BRUNSWICK, HONG KONG

Dealmakers predict a mergers and acquisitions surge this year, propelled by greater confidence among CEOs and board members, some signs of an improving economy, and cheaper, more abundant debt.

The results of the **6th Annual Brunswick Group M&A Survey** of bankers and their deal advisers show a significant rise in confidence that there will be more deals this year globally. M&A volume started off strong in the first quarter but softened in the second quarter, dragged down by a slowdown in the US and Europe. Still, respondents to the Brunswick survey expect that deal activity over the course of the year will be higher.

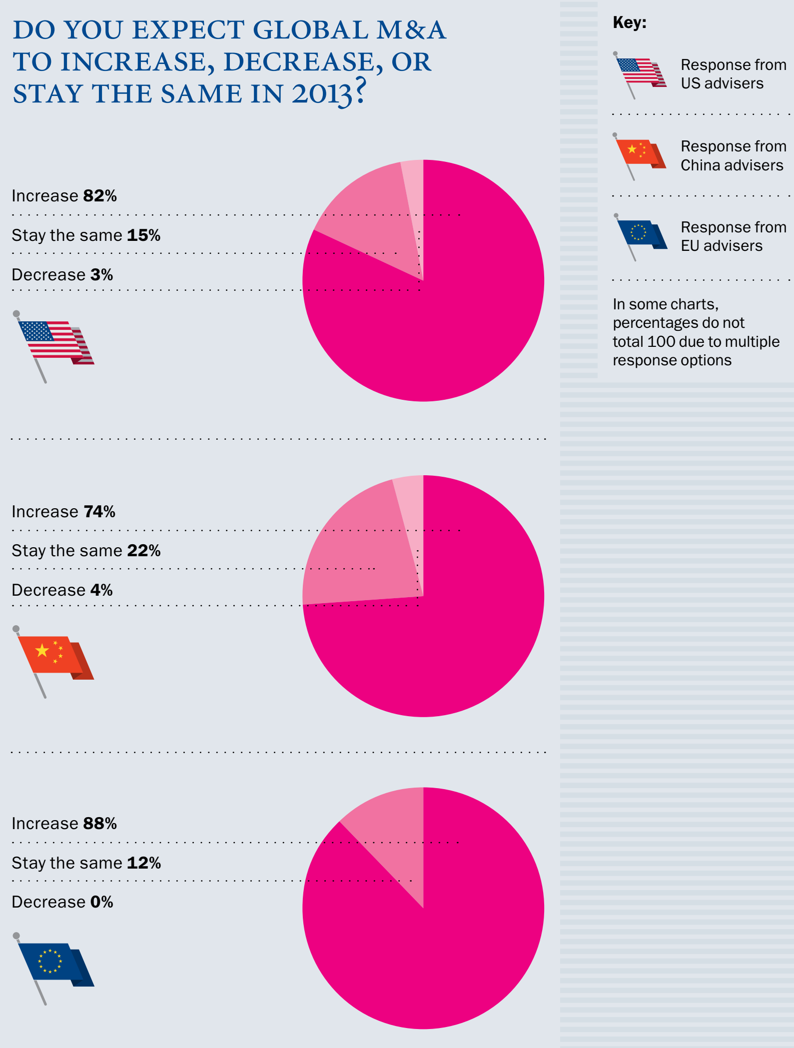
Dealmaking optimism is at its highest since Brunswick began its annual survey in 2007. There is near unanimity (97 percent) among North American advisers that the pace of dealmaking in North America will be brisker than last year. A large majority (82 percent) also expects higher volume globally.

Dealmakers in Europe and Greater China are almost as bullish, with 88 percent and 74 percent, respectively, expecting global M&A volume to rise.

Confidence among CEOs and their boards will be key to boosting M&A volume, according to most North America- and Europe-based advisers. In China, advisers see a growing appetite from Chinese State Owned Enterprises for foreign expansion.

Other key trends to watch this year include a comeback for leveraged buyouts, exemplified by the debt-fueled competition for IT company Dell (valued at about $25bn), more spinoffs and divestitures in North America, and more all-cash deals.

The Brunswick survey polled more than 100 top M&A bankers and lawyers from North America, Greater China, and – for the first time – Europe, on their views about the current deal landscape and trends.



North America

In the first quarter, North American deal volume was up almost 89 percent from last year, at just under $270bn. Cheap debt and a slow economic recovery continue to encourage companies to pursue growth through takeovers.

The consumer goods sector is especially ripe for consolidation. The year began with several "mega deals" in the consumer space, including the acquisition of H.J. Heinz by Berkshire Hathaway and 3G Capital. First-quarter deal activity in the consumer sector was $38bn, compared to just $8.4bn in Q1 2012. Corporate spinoffs and divestitures last year – such as Kraft's $26bn split (into snacks and groceries), and Pfizer's animal health unit spinoff – are expected to increase in 2013, the survey found. Most deals in the sector are expected to remain domestic affairs.

The 6th Annual Brunswick Group M&A Survey polled more than 100 top bankers and their deal advisers in the US, Greater China and Europe about their expectations for deal trends, opportunities, and challenges in 2013. Results for the cross-border survey were released just before the annual Tulane University Law School Corporate Law Institute, the leading M&A conference in the US.

BRUNSWICK | INSIGHT

North American advisers expect foreign acquirers to mostly come from Asia, although the overall expectation of foreign acquisitions – from Asia and elsewhere – has cooled from last year.

Greater China

M&A in Greater China last year was 4.7 percent higher by value than the previous year, at $145bn. Growth this year should be at an even faster pace, the survey found. A large majority of Greater China advisers polled (77 percent) expect foreign expansion to be key.

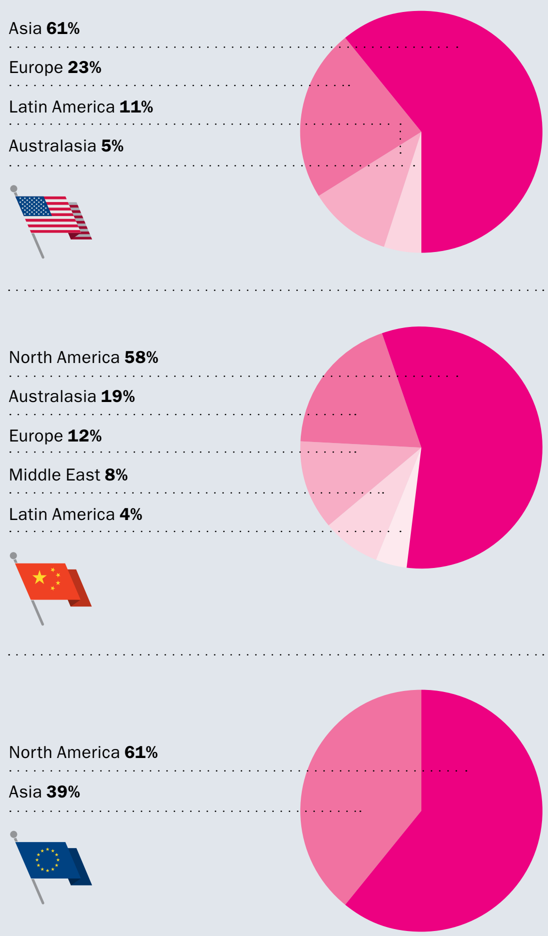
Chinese acquisitions of foreign companies fell last year by 2.4 percent after a record 2011. But after a change of government in 2012, deal advisers expect that greater certainty and stability will encourage State Owned Enterprises and private Chinese companies to do more deals. The Chinese administration's long-standing "Go Global" strategy, initiated in the late 1990s to encourage Chinese companies to make investments abroad, is expected to continue to gather momentum in the coming years.

Europe

This year, for the first time, the Brunswick survey polled M&A advisers in Europe. Though Europe-based advisers expect deal activity to pick up, they were less upbeat than their American and Chinese counterparts. Still, 61 percent predict an increase in M&A activity in their home region, compared with 97 percent and 67 percent in America and China, respectively.

A majority of Europe-based advisers expect this uptick in activity to be driven by foreign companies making acquisitions in Europe, predominantly from the US, followed by Asia. While the ongoing debt crisis in the eurozone countries may have suppressed dealmakers' appetites in 2012, there is now optimism among deal advisers that CEO and board member confidence, coupled with the availability of credit and low interest rates, could provide the right conditions for a rebound in 2013.

WHERE DO YOU ANTICIPATE FOREIGN ACQUIRERS TO COME FROM IN 2013?



Steven Lipin is Senior Partner for Brunswick's US practice.

David Ashton is an Associate Partner in Brunswick's Hong Kong office and runs its opinion research business in Asia.

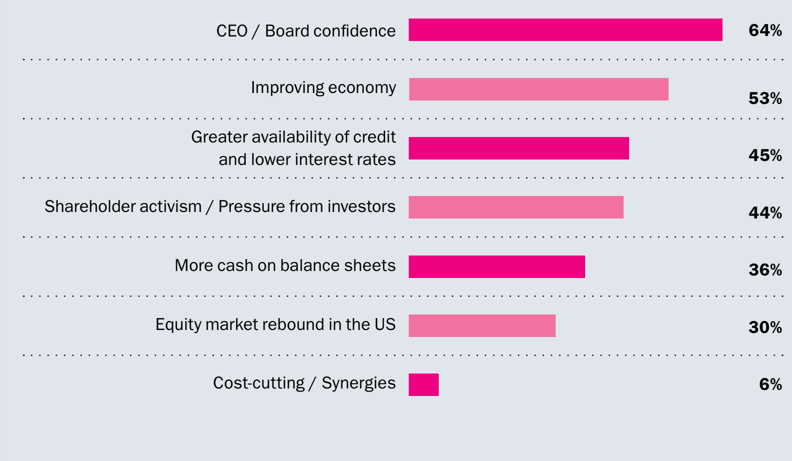
Beau Allen and **Christopher Beattie** in Brunswick's New York office contributed to this article.

FURTHER SURVEY DETAILS FOLLOW ON NEXT PAGES

WHAT ARE THE KEY FACTORS THAT WILL DRIVE M&A IN 2013?

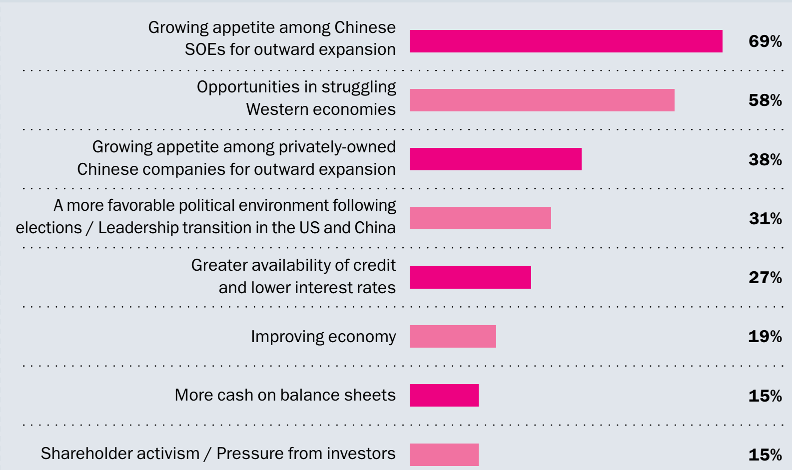
North America

- A large majority of North American advisers (89 percent) expect mega deals and leveraged private equity buyouts to increase in 2013.
- More than twice as many advisers expect deals to be all-cash as opposed to a mixture of cash and stock (69 percent versus 27 percent, respectively).
- There is cause for “cautious optimism” for higher M&A volume, according to Citigroup Global M&A Co-Head Mark Shafir, keynote speaker at the Tulane conference. But reasons for caution include political gridlock in the US and a risk that the strong bond market might collapse.



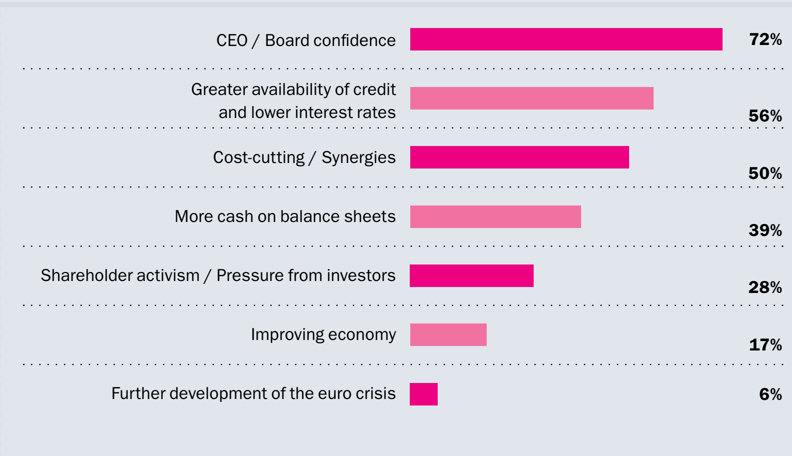
Greater China

- Advisers in China see State Owned Enterprises (SOEs) expanding internationally, with 69 percent identifying their growing appetite as a factor increasing M&A in 2013.
- Emerging markets will continue to be one of the major themes in M&A, with China topping the list of countries where a fast-developing economy is driving deals, according to Citigroup’s Shafir. The risk of a slowdown in China is one of Shafir’s caveats for a busier M&A market in 2013.
- While a majority of advisers in China still see opportunities in Western economies as a key driver of foreign expansion, this view has cooled considerably from the previous year – to 58 percent from 72 percent.



Europe

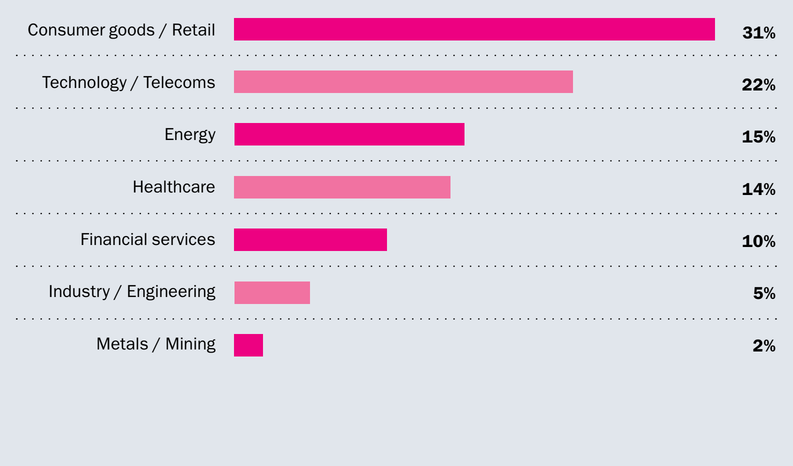
- Deal advisers in Europe – included in the survey for the first time – were optimistic about increased regional M&A activity in 2013, with 61 percent expecting more deals. But even more – 88 percent – expect more M&A deals globally.
- A majority (59 percent) of Europe-based advisers expect acquisitions by foreign companies to drive deals in the region, a sharp contrast with the US and China, where 18 percent and zero, respectively, of those surveyed expect foreign buyers to drive deals.
- The possibility that the eurozone doldrums will linger could hold back deal activity, says Citigroup’s Shafir.



WHAT SECTOR DO YOU THINK IS MOST RIPE FOR CONSOLIDATION IN 2013?

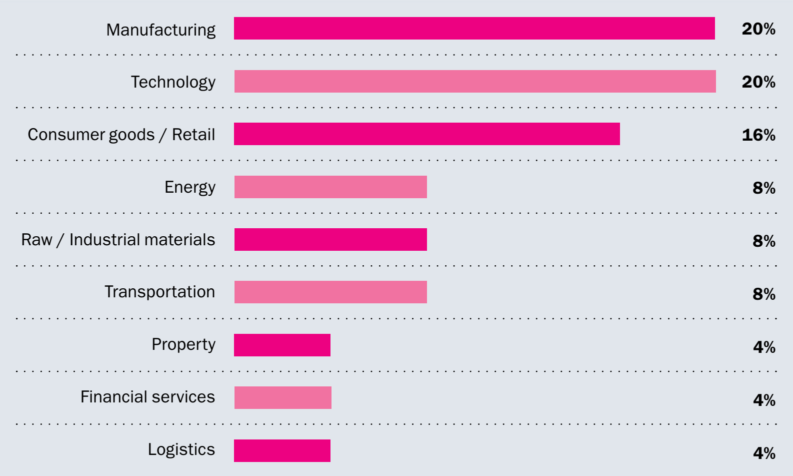
North America

- North American advisers see the consumer goods sector as likely to be most active in M&A – 31 percent in the latest survey, up from 10 percent in 2011.
- After several years near the top, healthcare dropped out of the top three, with only 14 percent of advisers seeing it as likely to be very busy in 2013, down from 21 percent in 2011.
- Domestic strategic deals are expected to dominate M&A generally, with 71 percent of respondents picking this category. For foreign acquisitions, 61 percent expect buyers to be Asian, down from 78 percent in 2012.



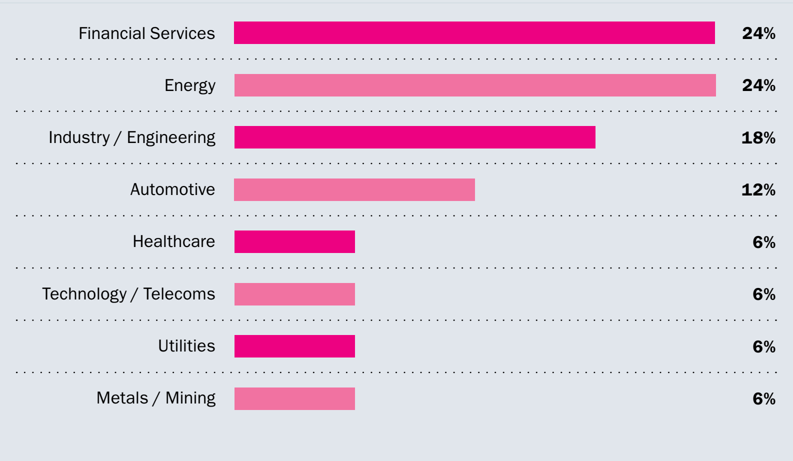
Greater China

- The largest percentage of Chinese advisers expect the manufacturing and technology sectors will be the busiest in 2013, though consumer goods/retail is not far behind.
- A large majority of deal advisers expect the most common type of deal to be Chinese companies pursuing foreign opportunities, with 77 percent opting for this category compared with just 12 percent expecting domestic strategic buyers to drive the market in 2013.
- Deal advisers see much less appetite from privately-owned Chinese companies for outward expansion, with 38 percent expecting this to be a deal driver compared with 84 percent in 2012.



Europe

- A combination of the aftereffects of the banking crisis and European Union rules for a single market are expected to make financial services one of the busiest sectors for M&A. For similar reasons, energy is seeing consolidation.
- Europe-based advisers expect most foreign acquirers to come from North America, though a significant minority see them coming from Asia: 61 percent versus 39 percent, respectively.
- A preponderance of advisers surveyed expect deals in Europe to be all-cash (78 percent), indicating the relatively cheap debt available compared to the valuations of company shares.



In some charts, percentages do not total 100 due to multiple response options

VERA BRANDIMARTE

Vera Brandimarte was part of the team that launched *Valor Econômico* in May 2000, becoming Diretora de Redação (Editor-in-Chief) three years later. Previously, Brandimarte worked for *Gazeta Mercantil*, Brazil's traditional business newspaper, which first printed in 1920 and shut in 2009; then *Jornal do Brasil* and *O Estado de S. Paulo*, before joining the *Valor Econômico* start-up project.

VALOR ECONÔMICO

Valor Econômico, Brazil's largest and most influential business newspaper, is a joint venture between media conglomerates Organizações Globo and Grupo Folha. It has content-sharing partnerships with *The Wall Street Journal* and the *Financial Times*, as well as an online English news service called Valor International, launched in January 2013.

BRAZIL AFTER THE HYPE

After riding high on the BRICs story, Brazil is slowly but surely working out its own development narrative, **Vera Brandimarte,** Editor-in-Chief of the country's most influential business newspaper tells Brunswick's Ana Paula Pessoa and Thomas Kamm

The oft-told joke about Brazil was, "It is the country of the future and always will be." After nearly two decades of relative economic stability, and with the country set to host both the 2014 soccer World Cup and the 2016 Olympic Games, it seemed there were good reasons to expect South America's largest economy to bounce back strongly from the world financial crisis and economic downturn. After all, unemployment has remained low and President Dilma Rousseff, who succeeded the wildly popular Luiz Inácio Lula da Silva three years ago, still rides high in the opinion polls.

The main stock market index, Bovespa, had recovered to about 55,000 by May 2013, up from a trough below 30,000 at the end of 2008; but that was still well below the peak of nearly 73,000 in spring 2008. For sure, some of Brazil's private sector companies were hit hard by the downturn, just as many others were around the world. But the real drag on the index was the listed government-controlled companies that are the largest components in the Bovespa index.

"Among the most significant factors that have led to market grumblings were investor losses in the most lucrative Brazilian companies: state-run companies such as oil and gas giant Petrobras and electric utilities," says Vera Brandimarte, Editor-in-Chief of Brazil's leading business daily, *Valor Econômico*, and a long-time chronicler of the country's economic ups and downs.

The reversal for these companies was rooted in a history of government involvement in the energy sector, whereby efforts to curb inflation and manage energy infrastructure have often resulted in erratic pricing policies, hampering the companies' ability to invest. These problems run counter to a more positive Brazil narrative, Brandimarte says.

In 2010, the country was still the darling of international investors, with the economy growing at a China-like pace of 7.5 percent a year, fueled by credit and a rising middle class, as 40m people were lifted out of poverty in the space of a decade. But after slowing to 2.7 percent in 2011, Brazil's economy last year sputtered along at a paltry 0.9 percent growth rate.

Yes, Brazil had been riding a commodity boom and slower growth was partly caused by the global economic slowdown, but behind the see-saw performance there also lurked some befuddling Brazilian idiosyncrasies that affected the country's image with investors.

"Today, the government's greatest challenge is communication," Brandimarte says, "and that fuels the negative image abroad."

Indeed, the Brazilian economic model mixes a vibrant private sector – epitomized by companies such as aircraft-maker Embraer, and the meatpacker JBS – with state intervention through behemoths such as Petróleo Brasileiro (commonly known as Petrobras), the mining giant Vale, and state development bank BNDES, which itself has stakes in many Brazilian companies.

This mixed and sometimes muddled approach extends to the broad economic policy choices in front of President Rousseff, who faces an election herself next year. Her government is torn between stepping on the accelerator to foster growth (with the risk of reigniting inflation, which is running at an annualized rate of about 6.6 percent) and applying the brakes by raising interest rates (which could lead to an inflow of capital that could cause the currency to rise, further harming Brazil's competitiveness).

Key to Brazil's future are its oil and gas reserves, located in a hard-to-reach "sub-salt" offshore region about the size of New York state, which could yield between 35bn and 100bn barrels, according to the latest estimates.

The government has created a sovereign wealth fund and has pledged to use the proceeds in a similar way to Norway, spreading the wealth by using the oil windfall for general development, such as on education and infrastructure building. But its management of the state oil company has often seemed clumsy.

This is illustrated by the recent history of Petrobras, which has drawn criticism in the international business press, as Brandimarte points out. Having peaked above $72 in May 2008, Petrobras' New York-listed shares had fallen to just below $15 by March 2013. The decline is due largely to government policies, which required Petrobras – the country's largest refiner and marketer of petroleum products – to sell fuel at below-market prices, even fuel it had to import. That and a weakening currency meant that Petrobras' 2012 profit was the lowest since 2004, at a time when it needed to spend more than Exxon on oil development projects.

No wonder, then, that Petrobras' debt stood at nearly 3.5 times earnings at the end of last year and it still has enormous capital spending ahead. As Charles Roth wrote in *The Wall Street Journal* in April: "Compounding the cost for Petrobras is the government's demand that the company buy much of its equipment from local suppliers. Like the fuel-price subsidies, this prioritizes economic policy over Petrobras's profits. That is par for the course with a national oil company. But investors buying the stock should realize that they aren't merely betting on Petrobras developing its huge resources on time and on budget. They are also implicitly wagering on Brazil's economic and industrial development concerns and political swings."

There was a similarly damaging development in the power sector. Last year, Rousseff's government enacted legislation to cut power rates by renegotiating the terms of electricity concessions. Companies that declined to accept sharply-lower government-mandated rates had the option of giving up their concessions in exchange for compensation. It was an unattractive dilemma that left some companies with languishing share prices.

"Everything was poorly explained. The [electricity concession] process was perceived as a breach of contract and that simply was not true," says Brandimarte. "Almost everything they do seems disorganized. For example, during the negotiations on the distribution of oil royalties among the states, there were political efforts in Congress that attempted to pass a law to cluster several state governments together. That plan was abandoned suddenly. The President then issued a veto that was defeated. This waste of political energy projected the image of a government that has no solid support."

For more than a decade, Brazil's story has been linked with that of Russia, India, and China, which together formed the "BRICs," a group of large, fast-growing economies that Goldman Sachs had identified as key for investors looking for growth this century. But after the 2008 crisis, that story has faded somewhat, especially for Brazil.

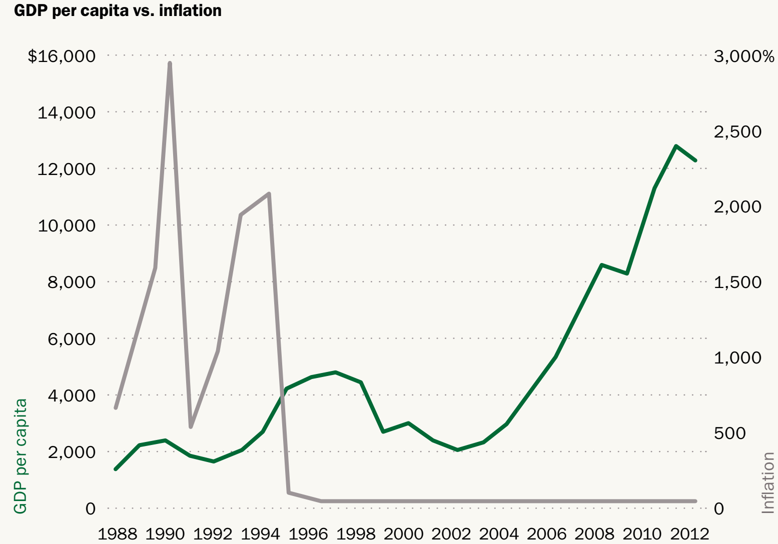
"THE GOVERNMENT'S GREATEST CHALLENGE IS COMMUNICATION ... ALMOST EVERYTHING THEY DO SEEMS DISORGANIZED"

Brandimarte argues that infrastructure projects are now required to get the economy going again, but she sees problems because of Brazil's history of debt and military control: "Brazil's situation is quite different from China's, [whose] growth was sustained by investment of national savings in infrastructure projects. In Brazil, the government has mostly used national savings to pay high interest rates to investors because of the debt, and little infrastructure investment has been carried out since the 1970s, when the [military-led] governments had their own companies to conduct these projects. Today, neither the private sector nor the government have the necessary infrastructure to create these projects."

But Brazil has a lot to be proud of in its transformation from hyperinflation basket case to dynamic growth story. "Brazil is a great democracy, and great democracies always take two steps

BRAZIL'S ECONOMIC GROWTH TAKES OFF ...

GDP per capita vs. inflation



Inflation averaged 6.5 percent from 1996 through 2012
Source: IMF

forward and one step back," Brandimarte says. One aspect of this is Brazil's vibrant business press, still fairly rare in emerging economies in Latin America and elsewhere.

Where does the business press fit into this next phase of development for Brazil? "Traditionally, the macroeconomic story was such a big part of Brazil's story – inflation hitting 40 percent a week, and so on – that the general press would cover the big economic stories as thoroughly as the business press," Brandimarte says. "But there are a lot of regional business stories, so that is a huge opportunity for the business press to offer additional content. Plus, with all this volume of information circulating on the internet and on social networks, the business press becomes the point of reference for people to determine what is true and what is rumor."

The Brazilian business press has also managed to keep its independence, she adds: "The government often criticizes the media, but there is no record of interference. It doesn't, for example, use its huge official advertising budget – very important to the Brazilian press – to manipulate the media."

What about the private sector's relationship with the press? "Some listed companies are still in the Stone Age in terms of communications," Brandimarte says. "If they don't like an article, they will stop advertising in that newspaper. But that doesn't really work any more. It is an old-fashioned way of behaving, and harks back to the early days of business journalism when some newspapers were struggling financially."

She adds, "Companies today have to be accountable to society, they are learning that. However, some still have double standards. They believe that the investor relations team should communicate in a transparent way with institutional investors, but not with smaller, retail investors. Similarly, a company might make significant revelations to its international investors, while at the same time saying the opposite here in Brazil. What is said abroad quickly arrives in Brazil through the international newswires, and contradictions appear immediately."

Brazil has its own quirks and rhythm: "Everything that happens here requires a grand bargain [between central and regional governments and business]. Nothing happens fast in this country," Brandimarte says.

But for all that, Brazil is among the countries that still holds the most promise for growth and that remains its strongest message, she says. "Where are the opportunities now? In Europe? No. Here? Yes. Brazil requires much to be done, and compared to other BRICs – despite its bureaucracy and everything – the rules are stable and there is a strong consumer market. So, I guess everything will be sorted out, in Brazil's way. Slowly."

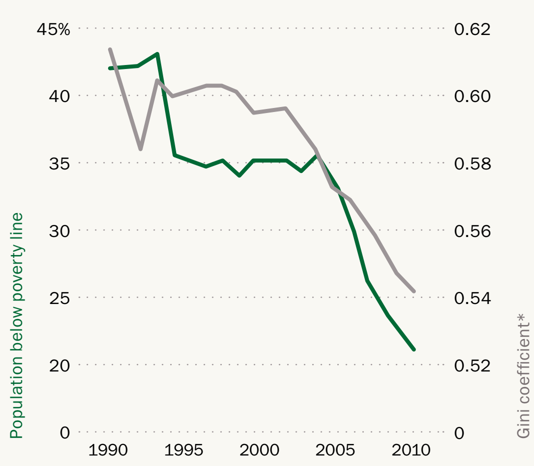
Ana Paula Pessoa is a Partner in Brunswick's São Paulo office. Previously she worked at Globo, the largest media group in Brazil, including 10 years as CFO for their newspapers.

Thomas Kamm is a Brunswick Partner in São Paulo and specializes in corporate positioning and financial communications. He was formerly a journalist with *The Wall Street Journal* and Vice-President for Communications and Corporate Affairs at PPR, the French luxury and retail group.

Adriana Prado, an Executive in Brunswick's São Paulo office, also contributed to this article.

… THE BENEFITS ARE SPREAD MORE EVENLY…

Poverty level vs. income inequality measure

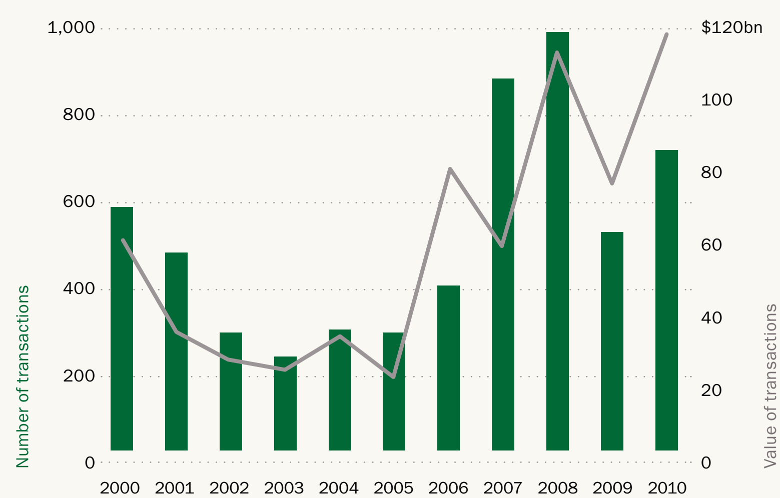


*The Gini coefficient measures equality/inequality of distribution, where zero is perfect equality and 1 is maximum inequality. Here, it measures distribution of Brazilian incomes

Source: The Economist

… AND DEALMAKING HAS INCREASED

Number and value of transactions



Sources: Thomson Financial, BM&F Bovespa

WHERE KNOWLEDGE IS FREE

Neil MacGregor, Director of the British Museum and creator of the widely acclaimed series, A History of the World in 100 Objects, *tells Brunswick's David Yelland about running the "lending library of the world"*

More than two centuries before the internet, the founders of the British Museum offered citizens free access to information from the entire world, in a forum free from political control. The museum has remained a catalyst for new thinking, rooted in the power of the object. Under Neil MacGregor, who has been director since 2002, the museum has now embraced another role: as the "lending library of the world," creating partnerships across the globe.

FREE ACCESS FOR ALL

"The point of the British Museum was to put the whole world in one place. It has never been about Britain, despite being the first public institution to be called *British*," says MacGregor. "From the beginning it aimed at universality, not only by representing the whole world in the collections but also by being freely available to 'all studious and curious persons native and foreign.'" MacGregor sees the museum as one of the surviving expressions of an 18th century optimism, which he describes as "a view that if humanity could look at itself, it would understand itself and peace and happiness would break out."

Global commerce was a key motivation in the creation of the first national museum in the world, says MacGregor. "Why does a parliament at that moment create a free museum and library? Naturally, this is connected with the fact that London was trading with the world. In order to trade effectively, we needed to understand the world. What concerned them was allowing the citizen free access to global information," he says. "Today, this is equivalent to saying that we need proper broadband access and an internet-competent public to compete in the world. The government believed it was in the national interest to have this kind of knowledge."

What was new and radical was that this was not a royal collection but a civic institution. "Elsewhere in Europe, there were princely collections or the Vatican Museums, which were more or less open to the public. In the British Museum you find for the first time a state buying a collection for its citizens rather than expropriating a royal

Photograph: Andrew Testa / The New York Times / Redux / eyevine

"WE DO NOT SEEK TO CREATE OUTPOSTS, RATHER TO BUILD PARTNERSHIPS"

one. The British Museum is an 'open university,' established when London did not have a university. We might say that this was the beginning of a knowledge economy."

The museum was founded in 1753 on the bequest of a vast collection of objects by Sir Hans Sloane, an Irish doctor and friend to Isaac Newton and George Frederic Handel. Sloane had used his considerable fortune to build an impressive library and collection from all around the world. "It was taking what was essentially a private collection and saying: 'this is the private collection of everybody.'" In acquiring Sloane's collection, the politicians showed that they understood the value of knowledge and information.

INDEPENDENCE OF MIND

The museum's founders made the far-sighted decision that government must not be able to control the organization that provides information. Instead of having the museum run by politicians, they created the trustee system. At the time, Members of Parliament had to belong to the Church of England, but the British Museum trustees very quickly included Catholics and non-conformist Christians.

"It is not just the first museum trust in the world, it is also the first parliamentary trust. That choice had one hugely important consequence: if it had been run as a department of state, only Anglicans would have been able to hold office," thus narrowing its intellectual scope, MacGregor says. "Sloane's collection included images of gods from different cultures, so comparative religion was built into collecting from the very beginning and that, of course, is a radical area." Meanwhile, the study of geology was transforming our understanding of time, and therefore challenging the notion of authority in scriptures.

"I think we have always believed in the exchange of ideas and the importance of presenting views without endorsement," says MacGregor. He reflects on the museum's illustrious history of accommodating radical voices: "We have Karl Marx, and later John Lennon, applying for their reader's tickets. London became the place where political dissidents came for asylum in the mid-19th century. And the library of the British Museum became the place where the politics of the 19th century were written. It is a necessary part of a political process."

THE POWER OF OBJECTS

In MacGregor's BBC Radio 4 series, *A History of the World in 100 Objects*, he took pieces from the British Museum and told their story in a larger context. The power of these objects comes from what MacGregor calls "uncomfortable truths."

One of his favorite examples is a group of 16th century artefacts known as the Benin Bronzes (in fact made from brass) from Nigeria. When the bronzes arrived at the museum and could be properly studied in the late 1920s, "there became no question that western Africa had civilizations and material culture that were at the same level as the highest of Renaissance Europe or ancient China at that time. And a whole set of prejudiced assumptions had to collapse because of that. Such objects overturn the very basis on which their acquisition was made," he says.

In today's digital era, when information can be so easily distorted, objects continue to tell truths that are often inconvenient. "And that of course is the point – that these objects can't be falsified and the more you know about them the more they challenge the neat categories we want to have," says MacGregor. "As the museum grows and as new things arrive, new hypotheses have to come." Few objects have challenged categorization as effectively as the Cyrus Cylinder which the museum has now lent to both Iran and the US. (See page 67.)

LENDING LIBRARY OF THE WORLD

Objects present a multi-faced narrative that carry with them ideas beyond the culture they represent. They therefore have a significant role to play in international cultural relations. "The British Museum lends far more than any other major museum. We are becoming the lending library of the world," says MacGregor. "We do not seek to create outposts, but rather to build partnerships. We have a long-running partnership with the Shanghai Museum, for example. If the public in China are to see artefacts from Egypt, Mesopotamia, Greece, these have to come from somewhere else. This is part of becoming citizens of the world, in the same way that Britain did in the 18th century. Our partnerships also involve training, the exchange of curators and exhibitions, and joint collecting so that this becomes, in a very real sense, a resource for the world."

This new approach comes with its own set of challenges. In 2004, MacGregor recounts, the museum put on an exhibition to celebrate

Neil MacGregor has been Director of the British Museum since 2002. He read languages at Oxford, philosophy at the École Normale Supérieure in Paris and law at the University of Edinburgh. He studied 17th- and 19th-century art at the Courtauld Institute of Art in London and later lectured there. He sits on the boards of the UK's National Theatre and the Hermitage Museum in St. Petersburg. In 1981 he became Editor of the arts periodical, *The Burlington Magazine*, and in 1987 became Director of London's National Gallery.

the centenary of the National Museum in Khartoum, Sudan. “It demonstrated that for thousands of years there has been a big divide between north and south Sudan and effectively you have a geopolitical fault line somewhere south of Khartoum,” he says.

With controversy raging over atrocities in Darfur, in western Sudan, a month before the exhibition, “We had to decide whether we were actually willing to put on an exhibition identified with the government,” MacGregor says. “But we decided that it was more important than ever for the public here to try to understand the country’s long history.” The special exhibition had no financial sponsor and the museum faced having to charge for admission. “But the trustees, I think very admirably, decided that we must take off the entrance charge and simply find the funds to do it, and instead ask visitors to make a contribution to Save The Children and Oxfam’s work in Darfur. That was the right decision.”

Decisions such as this are not uncommon, says MacGregor. “One of the great 18th century ideals was the notion of the republic of letters, the community of inquiry. This was nothing to do with politics or rulers, but simply people of good faith inquiring and working together. I think the museum has to fight very hard to preserve that community now, even if it means working with colleagues from regimes of which we disapprove, or which are behaving badly. To work with those colleagues on a scientific basis is not to condone that activity. There obviously is a point at which you have to stop. But I think you should put that boundary as far away as possible to keep the exchange going. Iran has been a very good case in point.”

It is important to encourage the exchange of ideas and opinions so we can understand, as MacGregor says, “The people with whom we most disagree,” and to “hear why the world looks to them the way it does. Our job is to promote an understanding. It is a constant and difficult balancing act that you are going to get wrong, but you have got to try.”

David Yelland is a Partner in Brunswick’s London office.
Additional reporting by **David Lasserson** of Brunswick Arts.

BRUNSWICK ARTS

For more than a decade, the British Museum has been a client of **Brunswick Arts**, an international communications consultancy dedicated to managing the reputation and interests of arts, cultural and charitable organizations around the world.

CHINA, 1960S

CHAIRMAN MAO PIN

An estimated 5bn pins were made during China’s Cultural Revolution (1966-1976). They were worn as an expression of loyalty to Chairman Mao and the Communist Party of China and almost every Chinese person wore one, from party leaders to children.

The striking imagery and powerful language of the Cultural Revolution permeated every aspect of life in China during this period and these button badges or pins celebrate that.

This pin shows Mao’s portrait on a red globe above a lighthouse shining out over a stormy sea. The inscription on the back reads “Mao Zedong: Thought is the lighthouse for world revolution.”

Neil MacGregor: “We wanted to look at Mao, the phenomenon and iconography, to see the changing attitudes towards Mao over time. We’ve got a wonderful collection of buttons. More contemporary ones even feature Mao urging you to buy shares on the stock market. They allow you to see how China has transformed while maintaining the language of its past.”

BABYLON, SOUTHERN IRAQ, ABOUT 539-530 BC
A DECLARATION OF GOOD KINGSHIP

CYRUS CYLINDER

The British Museum has in its collection the Cyrus Cylinder, one of the most famous objects to have survived from the ancient world. Often referred to as the first charter of human rights, it is valued as a symbol of tolerance and respect for different peoples and different faiths. In 2010, the cylinder was loaned to Iran, a country formerly ruled by Cyrus, where it was enthusiastically received.

This clay cylinder is inscribed in Babylonian cuneiform with an account by Cyrus, King of Persia (559-530 BC) of his conquest of Babylon and capture of Nabonidus, the last Babylonian king. Under Cyrus, the Persian empire became the largest kingdom the world had ever seen, stretching across the Middle East and unifying many tribes, languages and cultures. The king's declaration, placed at the base of a building in ancient Babylon in what is now modern Iraq, was found in 1878 during a British Museum excavation.

Neil MacGregor: "The cylinder shows how the Persians ran their empire. When they conquered Babylon they allowed the captive peoples to go back to their homes and, most importantly, allowed the restoration of all the different religions. Freedom of peoples and the freedom of religion is what this document is. In modern Iran, the cylinder has become especially important as the country seeks to present itself as having the greatest freedom of religious expression in the Middle East. It has synagogues and churches and this has become a subversive document in many different ways.

What I find fascinating about this object is that it undermines assumptions and raises controversy in all kinds of areas. For many people it comes as a surprise that the Persians, whom we know through the Greeks and whom many of us had been taught to regard as barbarians, actually had an extremely sophisticated notion of freedoms and differences.

When we lent the cylinder to Tehran it was seen by nearly 1m people and soon became the focus of an extraordinary debate about the true nature of the Iranian identity, causing people to question whether the essential character of Iran and its history was Islamic or pre-Islamic. After the exhibition, the Iranians returned it exactly as promised without any difficulty at all, but the country was still left with controversy, presumably because it left behind a very 18th century question about the relationship between faith and the state."

THE CYRUS CYLINDER IS TOURING THE US IN 2013

- The Metropolitan Museum of Art, New York
  — June 20-August 4
- Asian Art Museum, San Francisco
  — August 9-September 22
- J. Paul Getty Museum at the Getty Villa, Los Angeles
  — October 2-December 2

UNITED KINGDOM, 1903

SUFFRAGETTE-DEFACED PENNIES

The women's suffrage movement in Britain grew in the early 20th century with increasing civil disobedience, rallies and demonstrations. These coins – minted in 1903 – were used as part of this campaign. Stamped by supporters with the slogan "votes for women," they were put back into circulation to spread the message of the suffragettes.

At the time, defacing a coin was a serious criminal offence, and the perpetrators risked a prison sentence had they been caught. Defacing small change rather than a silver coin meant that it was less likely to be taken out of circulation by the banks and the message could have circulated for many years. The law giving women the same voting rights as men was passed in 1928.

GRAYSON PERRY, BRITISH ARTIST, 1960-
FROM THE EXHIBITION "THE TOMB OF THE UNKNOWN CRAFTSMAN"

THE ROSETTA VASE

Prize-winning contemporary artist Grayson Perry collaborated with the British Museum to create an exhibition where he chose 170 objects from its collection – made by unknown men and women throughout history – alongside 30 works of his own creation. Vases made by Perry, such as this, and covered in witty captions, were displayed alongside objects from the past 2m years of culture and civilization. Visitors were taken on a journey to his imaginary world, exploring themes connected with notions of craftsmanship and sacred journeys.

Grayson Perry: "The exhibition was a memorial to all the anonymous craftsmen that over the centuries have fashioned the man-made wonders of the world … The craftsman's anonymity I find especially resonant in an age of the celebrity artist."

The Rosetta Vase by Grayson Perry, courtesy the artist and Victoria Miro, London, © Grayson Perry, photograph © Stephen White.
All other photographs: © Trustees of the British Museum
www.britishmuseum.org

NIGERIA, EDO PEOPLES, 16TH CENTURY

BENIN BRONZES: ENCOUNTER WITH EUROPEANS

These brass plaques show aspects of Benin court rituals in the 16th century, shortly after Europe's first contact with West Africa. They also celebrate major historical events and convey representations associated with kingship.

The figure at the center of this plaque is the *Oba* – the king of Benin in Nigeria. Two attendants kneel beside him and in the background on either side are two tiny figures, identified as Portuguese traders, characterized by their long hair and European-style hats. The composition can be seen as depicting how the Oba and his officials manage and control European trade.

When these plaques were first seen in Europe in the late 1890s they astounded art critics who couldn't believe that such technically accomplished sculptures were created by African artists.

POLYNESIA, 18TH CENTURY

HAWAIIAN FEATHER HELMET

Explorer Captain James Cook went on a voyage to find the passage connecting the Atlantic and Pacific oceans but instead he and his crew explored the Pacific and landed in Hawaii. Upon arrival they were presented with gifts from the king, among them chieftains' helmets – *mahioles* – rare and precious objects made of red and yellow feathers, including this one.

This object now stands as a vivid emblem of the kind of fatal misunderstandings that have featured throughout European contact with people across the globe.

Upon arrival, Cook was given these sacred items and treated like a chieftain with godly status. He and his men spent a month repairing their ship and participating in a local festival devoted to the season of peace. Shortly after they left, a storm forced them back to the island where the seasons had changed; it was now the season of war. Violence broke out and Cook was killed at the hands of the same people who gave him the helmet.

Feathers were associated with divinity and were the Hawaiian's most valuable raw material. It is believed that nearly 200 people would have been dedicated to collecting and storing the materials and manufacturing these helmets, sometimes taking generations to produce the final product.

A CYBERSPACE ODYSSEY

From live-streaming in outer space to fugitive-hunting on American streets, social media now dominates the public conversation. **Mashable's Pete Cashmore and Lance Ulanoff** explore

INTERVIEW BY JESSE COMART, BRUNSWICK, NEW YORK

Mashable has a wide brief, describing itself as "the largest source of news, information, and resources for the Connected Generation." It has also built a large following since its inception in 2005 as a tech blog, with 25m unique visitors to the website each month and 10m social media followers. The success of Mashable and its role as an arbiter of all things "social media" has often put founder/CEO Pete Cashmore and Editor-in-Chief Lance Ulanoff at the center of the swirl of endless commentary about the nature of media in this fast-changing era, constantly in demand for their views on what such-and-such a development means.

This was amply demonstrated in the aftermath of the Boston Marathon bombings, when Ulanoff was called upon to help explain the role that social media played in the event, particularly in a long piece by CBS News program *48 Hours*.

The segment was at times hyperbolic about the role of social media in catching the bombers with, for example, Eugene O'Donnell, a professor at John Jay College of Criminal Justice and a former New York cop and prosecutor, saying, "This is a watershed event … validating the whole idea of social media. There were a million sets of eyes looking for these two guys. This represents a whole new way of thinking." But the "crowd-sleuthing" segment also noted that mistakes were made, including identifying perfectly innocent people as potential suspects.

It was up to Ulanoff to provide some perspective: "There is tremendous value in everybody becoming foot soldiers in the quest to find the truth," he told CBS correspondent Tracy Smith. But, he added, "At one point, I wrote, 'I just wished I had a *fact filter* for Twitter.'"

Ulanoff's comment contained an essential truth about the debate surrounding social media: yes, it is an important phenomenon and it is undoubtedly changing the way people get information and helping to shape major events, especially in politics. But there is also a tendency for people to make overly confident assumptions about social media's real value – whether optimistic or pessimistic. The true nature of its role is being played out in real time, which makes it all the more important to have intelligent voices that can add value to the debate.

In this conversation with the *Brunswick Review*, Cashmore and Ulanoff bounce around some thoughts about social media's emergence and how it is evolving as an agent of change.

Having started Mashable as a tech blog with a consumer perspective, what was it that drove you to segue into covering social media in a big way?

Pete Cashmore: In 2007, we sat down and said, 'You know, this social media thing is just huge, and it clearly reflects what we love about technology, which is this democratizing force. It's giving the tools to

everyone.' … I think the big tipping point for Twitter was 2011, when we had the 'Green Revolution,' [the aftermath of the mass post-election protests in Iran, now recognized as 'the first major world event broadcast worldwide almost entirely via social media,' as *The Atlantic* put it]. That was the pivot point for social media and it was a year when we started to broaden, to say, 'Okay, we get that Twitter and Facebook and all these things are vital tools.'

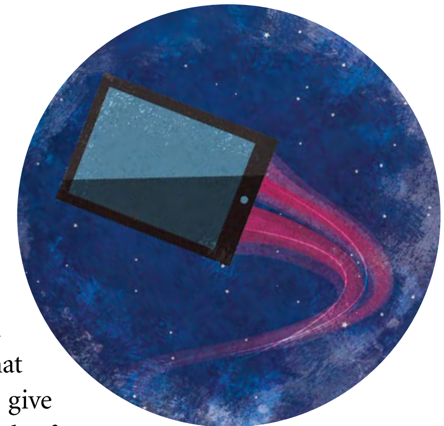
What did that pivot point mean for Mashable?

Lance Ulanoff: You know what's funny? We talked in the 1990s about 'it takes a village' [referencing the African proverb and Hillary Clinton's book]. And then, oh, it's a global village. But now every event is a gathering of people together, talking about the same thing. Sometimes it is something as light as the Super Bowl. And sometimes it is as important as gun control. We're just seeing the conversations happen at scale now. … Obviously, [political] campaigns have been transformed by technology, by social media. We've learned a lot about the power of data.

You have said social media is low risk. Can you expand on that?

Pete Cashmore: I meant in terms of dollars. You sit in your office, you find something funny to do, and people say, 'Hey, that brand is funny. I feel a connection.' You can put very small investment into hundreds of ideas and then see which idea takes off. It's also quite ephemeral. So, even if your first ' Vine' [a short-video application] is boring, your second or third might be better.

Lance Ulanoff: There is a low barrier to entry but the flipside is that there is some risk. You do have to be smart about what you put out there. We're always on the side of, 'This is common sense, get out there and try it.' The problem is there are some people who don't use their common sense. Then there are some companies that are so risk-averse, they don't give their employees the tools to be foot soldiers for their brands.



Entities in a position of authority – brands, governments, and so on – used to be able to say, "You have to listen to me." Now, it seems, everyone is being forced into a two-way communication.

Pete Cashmore: We've seen this affect the 'social good' space especially. Now, there's such a level of transparency that you have to genuinely have a good moral center as a business in order to flourish. All that talk around, 'Well, we're locally sourced,' or, 'We're environmental,' or, 'We're community orientated,' or, 'We do a lot for charity,' suddenly becomes a lot more transparent. There's no hiding.

Lance Ulanoff: Technology used to be seen as a part of commerce – you buy a gadget, you use it. But now it has expanded. We asked our audience if the internet should be a human right and people all said, 'Yes' – but that was a bit radical because, you know, broadband costs money to implement.

Pete Cashmore: It was one of those areas that people were very skeptical about, whether social media would ever be something that would make a difference. One of the biggest questions was, 'We can get people talking about stuff but how are they going

PETE CASHMORE
Founder & CEO

Pete Cashmore founded Mashable in 2005 at the age of 19 "in his bedroom" in Aberdeenshire, Scotland.

In 2012, he made *Time* magazine's "100 Most Influential People," list being described as a "social news guru." *Time* said of him, "Pete is fiercely intelligent and a tireless supporter of using social and digital platforms for good." In September 2012, Cashmore organized Mashable's Social Good Summit, partnering with the United Nations Development Program and the Bill & Melinda Gates Foundation.

The summit – "where big ideas meet new media to create innovative solutions" – was opened by Hillary Clinton and took place at 200 "meetups" across the world, from Beijing, China to Mogadishu, Somalia.

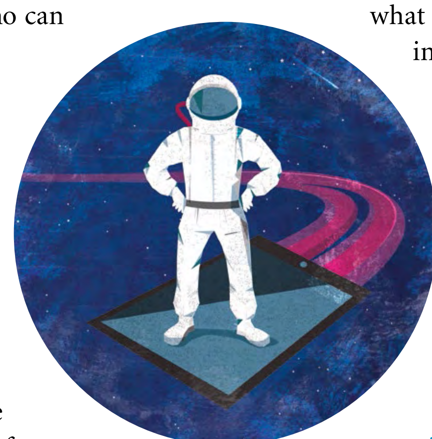
to open their wallets and send us money?' I think the point was missed about how important it *is* for us to get people talking and understanding issues, and feeling they could actually change stuff. The biggest problem for charity and giving efforts is, 'I'm just a person. What can I do?' It's this connectivity that suddenly makes people decide, 'Oh, well, if there's a million other people doing this, then clearly I can make an impact here.' But as Lance says, the big story is about connectivity, how cheap phones, cheap connectivity, have completely changed the developing world. So, for health, there was a lot of talk about health apps for self-diagnosis. If you're hundreds of miles from a doctor but you have the equivalent of a Wikipedia for health, you can see what's wrong with you, you can self-diagnose, or you can have someone at least in the town who can understand that stuff.

What about the "attention deficit," where we move from long articles to blogs to Twitter to snapshot, Vines, Pinterest. Are we moving along a continuum, or is it a pendulum?

Pete Cashmore: The volume of stuff is not going to fall, but you're going to get more and more tools for it. We've seen the first phase in social filtering: 'What has the biggest conversation around it, what is the most interesting to the entire community?'

A second phase is personalization. That's to say, 'I can't read everything on the web, but I've read the stuff that is most key to me that I need to read right now.' I think that's a broader trend of socially relevant filtering. And Twitter's 'Discover' tab, which they launched at the end of 2011, does that. The algorithms are getting more and more sophisticated. So, I think more data is a good thing. It's just that the data grew at a rate faster than the curation tools grew.

"SOME COMPANIES ARE SO RISK-AVERSE, THEY DON'T GIVE THEIR EMPLOYEES THE TOOLS TO BE FOOT SOLDIERS FOR THEIR BRANDS"



You said politicians and campaigns are doing particularly well using social channels and "big data." Do you think companies lag behind on this?

Pete Cashmore: We've actually been pretty impressed, but then a lot of people who read Mashable are the digital people at bigger organizations. I think brands understand that social media is huge now; that it is a very low-risk thing and can have huge returns down the line. When Twitter launched, people weren't sure what it was. 'Is it the new customer service phone line? Is it PR?' Turns out, it's kind of all of the above ... Brands have gotten better and better at telling great stories. We've seen more and more examples of brands doing really great social media. Just last year, Red Bull dropped a guy from space. It's not literally about drinking soda, but they knew that live-streaming this event would take off. Brands like that have started to understand that social media is really just what people are going to talk about, what they're going to relate to and be inspired by.

Lance Ulanoff: As people get better at doing this, what is really fun and fascinating for us to cover is the varying degrees of their success and their failures. Failures are big learning tools.

Is technology changing the way people engage with governments, or is it just a way of consuming news?

Pete Cashmore: It has become so powerful for politics because it is the ultimate democratic system of media. You have an opinion on something, you can immediately voice it and see if others share your opinion – and feel like your voice can make a difference. That's what's crazy about it – your voice actually *can* make a difference. We're always surprised by that: someone will tweet something, or be involved in a political event, or meet a candidate. The next day they're on national television.

Lance Ulanoff: There are all these tools online. A White House petition that can generate tens of thousands of signatures, sometimes in the space of days. They went from 25,000 to 100,000 with the 'Death Star' petition [See box, page 75]. The White House is very savvy about understanding that you can't simply say, 'That's stupid.'

Pete Cashmore: It shows a human face that says, 'Hey, this is funny, and we're going to respond in the same vein.'

Lance Ulanoff: Everybody loved it. And of course that became a big hit for us – we're interested in cultural icons.

Pete Cashmore: A lot of cultural phenomena come out of the web. So, it's become very powerful as a cultural starting point.

Lance Ulanoff: It's your primary source of daily entertainment. Everything, from the big to the littlest things.

On the democratizing power of technology and social media, are the White House petitions – though a very visible, interesting manifestation – an exception? It doesn't seem that US or European governments have changed all that much in response to technology.

Pete Cashmore: Are you separating campaigning from governance? Because, clearly, campaigning has come to be dominated by social media. But *WhiteHouse.gov* is incredibly powerful, too. For years they've had this Flickr feed where they show you almost behind the scenes what's happening in the White House. That level of transparency is new. It is still controlled transparency – they're still deciding what they're going to put out there on the official feeds. But it's a level of transparency that we haven't had before. The weekly address is now posted to YouTube and quite a lot of people take the initiative to go remix it and cut it up and put music on it. If you want to autotune it to make more people watch the President's address, then why not? You're taking something that would have been bland and making it entertaining and making politics something that's more accessible to more people.

Lance Ulanoff: You can see that some of the people in Congress get technology, and are fantastic and others not so much. I think the story is really interesting outside the US. With dictatorships, in particular, the way they control power, the way they maintain power, is through the control of information. These democratizing tools you talk about are allowing people on the ground to share important information. It's creating revolutions. It is changing things in Africa. It is changing things in China. That's the really fascinating and important story that we like to tell. They cannot use propaganda in the same way any more because there's an undercurrent of information breaking through that doesn't align with what people are being told by the government.

Do you think that "media curation" is limiting what people will read?

Pete Cashmore: That happened with TV before, right? If anything, TV has gone more that way. You have channels that are identifying explicitly with a certain viewpoint.

Radio, TV, newspapers and other media channels have been segmented in terms of politics. But you're now talking about a much broader trend?

Pete Cashmore: Yes. It is possible to just subscribe to stuff that you agree with, because otherwise you could have a very stressful life where you're just angry the whole time. By the same token, there have been studies that run counter to that. So, even very controversial, very 'out there' opinions have started to get more airtime. You go on YouTube, you can find a conspiracy about anything.

"NOW, PEOPLE GET NEWS NOT JUST FROM TV, NEWSPAPERS AND MAGAZINES, BUT RANDOM PLACES, SUCH AS FRIENDS, ACQUAINTANCES AND ORGANIZATIONS THAT ARE ALSO CURATING. EVERYBODY'S A CURATOR"

LANCE ULANOFF
Editor-in-Chief

Lance Ulanoff is a 25-year veteran of tech journalism, having "covered technology since PCs were the size of suitcases, 'on line' meant 'waiting' and CPU speeds were measured in single-digit megahertz."

He joined Mashable in September 2011. Previously, he was Editor-in-Chief of *PCMag.com* and Senior Vice-President of Content for digital publisher, Ziff Davis.

Ulanoff has a BA in journalism from Hofstra University in New York, where he serves on the university's Communication Advisory Board. He makes frequent appearances on TV, and in his spare time draws cartoons. He tweets "all day long" and has more than 50,000 followers.

THE WHITE HOUSE STRIKES BACK

In September 2011, the White House launched a website that promised to respond officially within 30 days to all petitions garnering at least 5,000 signatures. Only a month later, that threshold was raised to 25,000. In December 2012, a petition to "Secure resources and funding, and begin construction of a Death Star" reached that threshold.

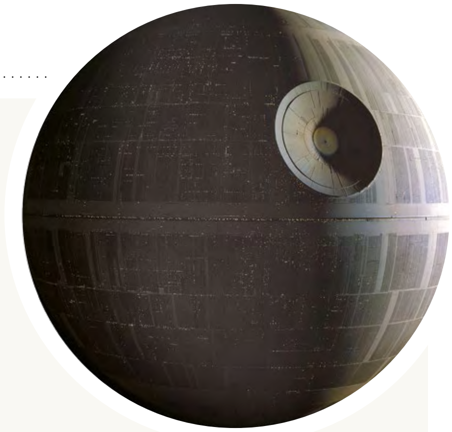
While some might have seen a reason to lament "open government" initiatives, the Obama administration saw an opportunity. Picking up on the *Star Wars* theme, the White House official response was titled, "This Isn't the Petition Response You're Looking For." It starts:

"The administration shares your desire for job creation and a strong national defense, but a Death Star isn't on the horizon. Here are a few reasons:

★ The construction of the Death Star has been estimated to cost more than $850,000,000,000,000,000. We're working hard to reduce the deficit, not expand it.
★ The Administration does not support blowing up planets.
★ Why would we spend countless taxpayer dollars on a Death Star with a fundamental flaw that can be exploited by a one-man starship?

However, look carefully ... and you'll notice something already floating in the sky – that's no Moon, it's a Space Station!"

Just in case anyone doubted that this response had official sign-off, it points out that President Barack Obama is handy with a light saber, linking to a photo on the White House Flickr page – where he parries with the US Olympic fencing team. Given that NASA's Space Shuttle program came to an end during Obama's tenure, the response makes sure to point out that "the President has held the first ever White House science fairs and an Astronomy Night on the South Lawn because he knows these domains are critical to our country's future, and to ensuring the United States continues leading the world in doing big things."



Finally, the White House urges the public to help "build the future" by pursuing a career in STEM: science, technology, engineering or math. "If you do pursue a career in a [STEM]-related field, the Force will be with us!" It finishes with a Darth Vader quote: "Remember, the Death Star's power to destroy a planet, or even a whole star system, is insignificant next to the power of the Force."

Two days later, the White House raised the petition threshold to 100,000 signatures.

Laura Dudley, Brunswick, New York

Lance Ulanoff: Now, people get news not just from TV, newspapers and magazines, but random places, such as friends, acquaintances and organizations that are also curating. Everybody's a curator. But you cannot assume that everybody you're engaged with on social media shares your views. If you buy the *New York Post* every day, you know it is going to cover things in a certain way. But now people aren't buying a lot of newspapers – maybe they are following the *Post* online, but they're also following 50, 100 other sources.

Pete Cashmore: Pursuing more niches grows expertise. *The New York Times* tech section, for example, is extremely good but is more about broad trends. But you can become an expert in virtually any topic just by following the output on those topics, whether it's on Twitter, an RSS, blogs. The access to specialized information is incredibly good. There's much more of an opportunity to pursue it without any guidance – a kind of self-guided learning. I think that will actually pay dividends for people like me. It's one reason I think these curation tools will need to stay good at the niche stuff. I think people will get much, much better at very, very niche things. In the early days, I would subscribe to all the tech news sources – I just wanted to know everything about tech. As Mashable and social media have evolved, you start to have an appreciation for politics, or fashion even. Culture is a big thing across all these social networks. It's an exposure to a broader number of things that you wouldn't necessarily have opted to learn about. But because your friends are talking about it, you become more engaged with more things.

Jesse Comart is an Associate in Brunswick's New York office. He specializes in corporate reputation, brand positioning, stakeholder engagement and public affairs.

DIFFERENT TAKE

A SECTION THAT FOCUSES ON CULTURE, HISTORY AND SOCIAL TRENDS

"I look at creativity as a download from God"

TROY CARTER

Troy Carter, who founded talent management company Atom Factory in 2010, describes his approach to the business as "disruptive." In 2011, he co-founded Backplane, a Silicon Valley startup that "redefines social media by allowing celebrities and brands to connect with fans, foster community, and cultivate brand loyalty." In 2012, he created A \ IDEA, a product development and branding agency, as well as AF Square, an angel fund and tech consultancy. As Lady Gaga's manager, Carter helped cement the pop star's formidable online presence by cultivating a "fans first" philosophy. He began his career in Philadelphia working for Will Smith and James Lassiter's Overbrook Entertainment, joining Bad Boy Entertainment in 1995 where he worked with groundbreaking artists such as Notorious B.I.G.

TROY CARTER: TAMING THE FAME MONSTER

Lady Gaga's manager tells Brunswick's **David Sutphen** about building social networks, the changing face of music and what brands can learn from Little Monsters

Photograph: © Kevin Mazur

"What I love about what I do is that it's a real meritocracy. In both music and tech, people judge you by what you bring to the table. It's not about your age, your sex, or the color of your skin"

"Technology isn't a threat to the music business. We're going to see this convergence of technology and media in a way that hasn't existed in the past"

"Social networks were not built for real fan/artist relationships or real consumer/brand relationships. Our bet is that the future of social is going to go in a direction of very specific niche networks"

"The world is in flux. So Pepsi, Coca-Cola or even Google could be the next big music label"

“We’re going from a conversation about privacy to one about transparency”

“I speak to a lot of brands trying to figure out their social media strategy. Brands with 20m, 30m, 50m ‘likes’ on Facebook. But they really don’t see how to turn that into customer satisfaction. How to turn it into a transaction. How to turn it into a long-lasting relationship”

“You’ve got to be completely transparent. If you offer people value in exchange for information and you’re transparent in your use of that information, you build a trusted relationship. A lot of people would then be willing to share that information, especially if they are under 25 years old”

“Now you can reach fans directly – and it’s free. You can give them a ton of free content so they can experience the music in a unique way. We make it a complete and immersive experience”

“Gaga wore a bra with guns on it and it was a big story. And then it was gone. It’s like a bee sting. It hurts in that moment and then it’s gone and you forget about it”

“We understand the audience. We understand the culture. We can add value in that space”

Photograph: © Adam Fedderly

“Gaga was at the Sony screening of The Social Network. She came out of the theater, calls me and says, ‘I want to make a social network for my fans’”

“Whether it’s Roe vs. Wade, or the Civil Rights Movement, or being against going to war, I want to be next to artists that are on the front line of that sort of change. It’s not just about having a pop song on the radio”

“I go to dinner with friends in Silicon Valley and they tell me how many billions of people they are reaching – billions of page views. Then you look at SoundScan on Wednesday morning and the top album sold maybe 125,000 – if it’s Christmas. Our metric of success has to change. Our ideas of scale have to change. The ways we reach consumers have to change”

“The first album that I bought as a kid with my own money was Eric B. is President, where they were wearing custom Gucci outfits. Imagine if the next day I went back to that album, the outfit was changed, or if I could buy the outfit right there. And it could be updated throughout the entire album cycle?”

“How do I learn from what has been built before? How do I learn from other artists’ mistakes? How do I build bigger? A lot of the decisions I make are based on thinking about the kids that are coming behind me. How do I pass lessons on to them the way things were passed on to me?”

“Companies that rest on their last idea, they’re dead. Companies that had a big hit this year and think they’re going to ride that hit, they’re dead”

Lady Gaga shot to fame in 2008 on the strength of her debut studio album, *The Fame*. She has gained worldwide recognition for her outré sense of style in music, fashion, and performance. Her third studio album, *Born This Way*, released in 2011, broke the iTunes record for fastest to reach No. 1 on release day. Gaga is one of most prolific pop stars online – at last count, 2.1bn combined views of her videos online, 57m “likes” on Facebook, and 37m “followers” on Twitter. She is also a global activist and philanthropist, having been an outspoken supporter of many important issues including LGBT rights, HIV/AIDS awareness, body image issues, and youth empowerment. In 2011, she launched the Born This Way Foundation, backed by Harvard University and the MacArthur Foundation, to promote acceptance and fight bullying. Last year, with Troy Carter, she launched her social network, *LittleMonsters.com*

LittleMonsters.com was the launch project of startup Backplane, which Troy Carter co-founded. The website allows users to chat about fan interests, as well as issues such as bullying and LGBT. It is also a vehicle to promote Gaga’s Artpop album, which is being launched as an app. When assessing the beta site last year, Mashable quoted Backplane CEO and co-founder Matt Michelsen saying the company’s core mission is, “To unite people around interests, affinities and movements.” Reviewing Gaga’s network after it was opened to the wider public last summer, *The Huffington Post* commented: “The look and feel of Gaga’s site are familiar, with a top nav bar similar to Google+, a Pinterest-like layout and Facebook-esque ‘like’ buttons peppered throughout the site for users to express their approval of posts and fellow Monsters.”

David Sutphen is a Partner and Head of Brunswick’s Washington, DC office, advising corporations and nonprofits on strategic communications, reputational and public affairs matters, with a focus on media, technology, telecommunications and diversity.

WINNING THE ARGUMENT, LOSING THE DEAL

At the Bretton Woods talks that shaped the post-Second World War financial world, British economist John Maynard Keynes was charged with securing terms that best suited his country. Economist and author **Benn Steil** argues in his recent book, *The Battle of Bretton Woods*, that while Keynes was the most brilliant economist of his era, he fell short when it came to negotiating. Steil writes that Keynes, "Had an effortless facility with words that might have made him a master diplomat, had he actually been more concerned with converting opponents than with cornering them logically and humiliating them." Harry Dexter White, a dogged American technocrat, ensured that the talks produced the result America wanted

At the end of June 1944, while Allied troops were advancing on all fronts in Europe, fevered preparations were being made back in the majestic White Mountains of New Hampshire for the most important international gathering since the Paris Peace Conference of 1919.

The talks there, at Bretton Woods, would look beyond the carnage of war to establish a new world order founded on commerce and cooperation.

Before it began on July 1, U.S. Treasury Secretary, Henry Morgenthau was elected president of the conference. Central to the Treasury's blueprint for winning over the more pliable skeptics in Congress was cultivating the press with a degree of access and openness unprecedented for a major international political event; the administration was determined not to repeat past mistakes with hostile media men.

The perception in the American press was that the U.S. delegation was intellectually outmatched by their British counterparts, led by the world-renowned revolutionary economist John Maynard Keynes, a facund, servant-reared scion of Cambridge academics. Keynes at Bretton Woods was the first-ever international celebrity economist. The American media could not get enough of the barbed, eloquent Englishman, who was both revered and reviled for his brash new ideas on government economic intervention. Keynes had assaulted the intellectual orthodoxy of the economics profession the way that Einstein had done with physics two decades earlier.

Leading the American side was senior Treasury official and economist Harry Dexter White, a brash, dogged technocrat raised in working-class Boston by Lithuanian Jewish immigrants.

The colorful and nationalist *Chicago Tribune* captioned Keynes's photo with the words, "The Englishman Who Rules America," and groaned that he "overshadow[ed] all other figures" at the conference. Harry White the paper mocked as being among Keynes's "ardent admirers and disciples." For his part, White bristled at the suggestion that he was a mere American echo chamber for Keynes's newfangled ideas, conceding to the press only that "[a]ny economist who is not acquainted with his work is a dodo."

Keynes was determined to apply the key insight of his *General Theory* – that the very existence of money at the heart of the economy wreaked havoc with the self-stabilizing mechanisms that classical economists believed to be at constant work – in the design of a new global monetary architecture, built around a new international reserve currency. That would be a threat to the global supremacy of the U.S. dollar and White was determined to keep it from seeing the light of day.

His visionary monetary schemes notwithstanding, Keynes had ultimately come to the United States with the mission of conserving what he could of bankrupt Britain's historic imperial prerogatives – what little room for maneuver it would be allowed in what seemed sure to be a dollar-dominated postwar world. His unlikely emergence as Britain's last-ditch financial ambassador – its chief voice in the Bretton Woods, Lend-Lease, and British loan negotiations – was grounded in the repeated failure of his country's politicians and mandarin class to make headway in what amounted to increasingly desperate begging operations in Washington.

White's role as the chief architect of Bretton Woods, where he outmaneuvered his far more brilliant but willfully ingenuous British counterpart, marks him as an unrelenting nationalist, seeking to extract every advantage out of the tectonic shift in American and British geopolitical circumstances put in motion by the Second World War.

While Keynes's ideas have endured the test of time better than the Bretton Woods monetary system, the conduct and result of the talks illustrate that you can win the argument but still lose out if the other side is holding most of the cards, as the Americans were against a financially strapped Britain. The following excerpt from *The Battle of Bretton Woods* gives a flavor of those talks.

Harry Dexter White's long-standing obsession was making the dollar as good as gold. To the extent that could be done by decree at Bretton Woods, he intended to use a new International Monetary Fund as his vehicle. John Maynard Keynes, however, had fiercely resisted White's earlier attempts to give the dollar any form of special status.

So it would have to be done out of his sight. White's committee process was perfect for this.

As with Operation Overlord in Normandy, White's dollar strategy relied on deception and enemy errors. He accomplished the first critical maneuver on July 6, at a meeting of the Fund Commission's Committee 2. The Joint Statement working document indicated that the par value of a member country's currency, which would be agreed with the Fund when the country was admitted, would "be expressed in terms of gold." The Americans submitted "Alternative A" text which said that the par value would instead "be expressed in terms of gold, *as a common denominator, or in terms of a gold-convertible currency unit of the weight and fineness in effect on July 1, 1944*." The text had never, however, been approved by the British; Keynes had never even seen it.

White deputy Eddie Bernstein explained that the suggested revision was "insignificant," but "so worded to show no obligation to sell gold was implied." It was obvious that "there will exist a gold-convertible currency by definition within the terms of the agreement," he said. Keynes had prior to the conference repeatedly insisted that the term "gold-convertible currency" could have no fixed meaning, and was therefore unacceptable. Yet no one in the Committee meeting raised an issue with this, and the revised text successfully went up to the Fund Commission.

"The Commission meeting this afternoon is extremely important," White told his superior, Treasury Secretary Henry Morgenthau at a July 13 morning strategy session. "That is where we either fish or cut bait on most of these things." What "things" he left unclear. White never raised the issue of the dollar's role in any American delegation meeting, despite it being the most important one to him; he was determined to handle it below the radar, through his carefully chosen operatives.

At the 2:30 PM Commission meeting the matter of the inscrutable "gold-convertible currency" naturally came up. The Indian delegate wanted to know what exactly it was: "I think it is high time," he interjected during a lengthy technical discussion in which White had invoked the term, "that the USA delegation give us a definition of gold and gold convertible exchange." At that point, Dennis Robertson, the British delegate on the Committee, apparently imagining that the issue was one of mere bookkeeping suggested that "payment of official gold subscription should be expressed as official holdings of gold and United States dollars." This change would, he remarked incautiously, require wording changes elsewhere in the agreement. Bernstein concurred with Robertson that "gold convertible exchange" was hard to define, and that getting a definition "which would be satisfactory to everyone here ... would involve a long discussion." But as a "practical" matter, he explained, since national monetary authorities could freely purchase gold for dollars in the United States, and international holdings of currencies which might be used to purchase dollars were small, "it would be easier for this purpose to regard the United States dollar as what was intended when we speak of gold convertible exchange."

John Maynard Keynes (left) and Harry Dexter White in 1946

Photograph: Getty Images

White must have had difficulty concealing his flush of excitement. With Keynes preoccupied managing the World Bank proceedings, Robertson had walked straight into White's trap. He now made his second critical maneuver, peremptorily ending the Commission's discussion of the matter. "Unless there are any objections," he said, "this question will be referred to the Special Committee." No objections being raised, he quickly passed on to another issue.

The next morning, 9:30 AM on July 14, Morgenthau began a meeting of the full American team by reporting cheerily that White had "worked up until three o'clock this morning with the Drafting Committee on the Fund and he feels [the text] is in excellent shape." Morgenthau had no idea what exactly that meant, and likely no interest. But among the achievements of the committee, comprised entirely of White's technicians, was strategically replacing "gold" with "gold and U.S. dollars" throughout the 96-page Final Act. White never submitted the changes for consideration in Commission One, yet they would become an important part of the IMF Articles of Agreement. Keynes would only discover them after his departure from Bretton Woods.

"Britain is 'Broke'", the *New York Times* blared on July 7. "It is no use to beat about the bush," said Minister of Labour Ernest Bevin. "We have spent everything in this struggle and I am glad we have." British bombers were that day dropping 2,500 bombs on Caen, in preparation for its recapture over the next two days, while the Americans were liberating Saipan Island in the Pacific, with nearly 4,300 Japanese dying in a final "banzai" charge on U.S. troops.

The *Times* article said that "pessimistic reports … from Bretton Woods about the future of the Monetary Conference were noted [in London] as discouraging auguries for … the difficult task" of boosting Britain's export opportunities.

Keynes continued to attack the idea of Britain taking a private loan from American bankers as an alternative to signing on to a deal at Bretton Woods. The *Times* quoted "the British financial expert and advocate of deficit financing and cheap money" as saying that the program being advocated by banking opponents of the conference, which would involve lending Britain $5 billion, was "too good to be true." White himself hit back at banker critics, telling the press that the only losers from a Bretton Woods deal would be the "buzzards" in the foreign exchange markets.

Tensions within the British "family," as the *Times* sarcastically referred to the Empire, were embarrassingly put on display at the conference. Lionel Robbins [economist and British delegate] on July 2 recorded "a special confabulation between Keynes and the Indian representatives on the sterling balance question which … threaten[ed] to be a sore point throughout the Conference." India, the *Times* reported, later "created a 'scene'" in front of the other delegations by demanding that the Fund provide some means of turning Britain's huge sterling debt to India into dollars. At nearly $12 billion, Britain's Indian debt alone was 50% greater than the entire proposed Fund capitalization. Egypt joined India in insisting "on some international magic to give their pounds the ability to purchase something that is wanted"; pounds being worthless as long as Britain's industrial capacity was focused on war production rather than supplying creditors with useful exports. Robbins called it "not particularly pleasant having to stand up before the assembled nations and defend a position in which we are unable to pay our debts on terms acceptable to our creditors."

The United States had been blessed by a unique confluence of events with a momentary window in which it could, in return for its now-vital financing services, not only put an end to competitive devaluation and trade protectionism – the scourge of the 1930s, from the Administration's perspective – but permanently eliminate the old European powers as rivals and obstacles on the global stage.

John Maynard Keynes died less than two years after the conclusion of the Bretton Woods Conference. He suffered a fatal heart attack on April 21, 1946, aged 62.

Harry Dexter White died aged 55, two years after Keynes, on August 16, 1948. He too suffered a heart attack. Three days earlier he had testified before the House Un-American Activities Committee, where he denied being a communist. It later came to light that White had been passing sensitive information to the Soviet Union during his time with the U.S. Treasury.

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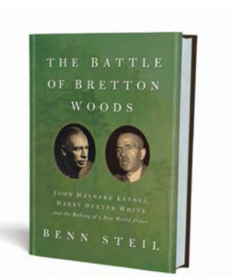


These excerpts are taken from *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order*, by Benn Steil.

BENN STEIL ON…

JOHN MAYNARD KEYNES

Keynes's writing sustained one supreme constant: biting disdain toward those who remained wedded to either old heresies, as he saw them, or old orthodoxies.

The General Theory of Employment, Interest and Money (1936) is one of the most influential works of economic thought, and arguably the most intellectually audacious, ever published. As a critique of the classical nineteenth-century liberal belief in the social solidity of the free market, it was, given its vastly superior intellectual rigor, far more devastating than Marx's *Das Kapital*. Yet its message could not have been more different; whereas Marx and Keynes both saw in capitalism the seeds of its own demise, Keynes was convinced that it could – and indeed for the good of society must – be saved through judicious government intervention, particularly in the form of timely large-scale public investment.

It is difficult to overestimate the impact the *General Theory* had on the economics profession, particularly in the United States.

HARRY DEXTER WHITE

White was on the tall side of short (five feet six), stocky, and moonfaced, with round rimless spectacles, blue eyes, and a trim, black mustache not infrequently likened to that of Germany's dictator, Adolf Hitler. Though colleagues … greatly respected his work ethic and command of detail, "He could be disagreeable," Treasury Secretary Henry Morgenthau reflected years later. He was "quick-tempered, overly ambitious, and power went to his head." He was also impatient, blunt, and sardonic. White's principal assistant at Bretton Woods, Edward Bernstein, described him as "temperamental" and "foul tempered."

The son of a peddler, he had an epiphany at age thirty, in his second attempt at an undergraduate degree. Having failed entrance exams in civics and American history the first time around, he was nonetheless incubating a growing passion for politics. Economics was a means to that end. "[P]retty soon I realized that most governmental problems are economic," he told a friend years later, "so I stayed with economics." Harry was onto something.

The shock of the new

The first standards war of the modern era, between Thomas Edison and George Westinghouse, had some macabre consequences

BY ROBERT MORAN, BRUNSWICK, WASHINGTON, DC

This is the story of two proud entrepreneurs, both founders of iconic tech companies, fighting a winner-takes-all war over industry standards to ensure that their technology has the dominant share of a massive emerging market. Patent fights, lobbying, public affairs campaigns and a healthy dose of showmanship result. And one standard emerges as the clear winner.

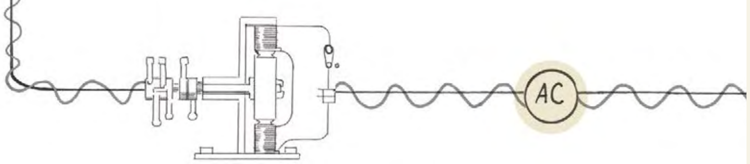
Gates vs. Jobs? Windows vs. Macintosh? Betamax vs. VHS? Good guesses, but this was the first standards war of the modern era, played out in America's "Gilded Age" at the end of the 19th century. It was a battle for the standards used in the hot new technology of the time: electricity. Think alternating current vs. direct current (AC vs. DC). Edison vs. Westinghouse. New Jersey vs. Pennsylvania. Two captains of industry fighting to ensure that their mode of electricity delivery would become the standard for businesses and homes. It was the first technical standards war, a high-stakes battle in the court of public opinion to determine which man would become modernity's "emperor of light."

Thomas Edison, the champion of direct current, began with a commanding lead. His previous inventions, including the phonograph and the long-lasting incandescent lightbulb, had made him famous and he had his sights set on a world electrified by a network of local Edison power plants. In 1882, the Edison Electric Light Company – with backing from W.H. Vanderbilt, the heir to a railway fortune, banker J.P. Morgan, and Western Union – electrified lower Manhattan with the Pearl Street Station. This was the first central power plant in the US, and it began disrupting the gas light market, an industry Edison attacked as unsafe and derided as "the old time light." By 1884 Edison power stations were also pushing DC power to Boston, Chicago, Philadelphia, New Orleans, and many other American cities.

Beyond his first-mover advantage and strong financial backing, Edison had the public's adulation. With fame rivaling that of today's tech billionaires, Edison had a special gift for publicity. Reinforcing his image as an inventor, he eschewed the formal dress of his day and wore laboratory work clothes. He summoned reporters to his Menlo Park, New Jersey headquarters to wonder at his inventions. He charmed New York City's political machine, its aldermen and the Superintendent of Gas, the regulatory authority for gas lighting in the city. And he astutely ensured that *The New York Times* was powered by the Pearl Street Station plant on its first day of operation, earning him glowing coverage in the country's paper of record.

Thus, Edison and direct current held the dominant position. But DC had a serious flaw: local power plants could only push direct current within a one-mile radius, requiring the construction of numerous local power stations.

Enter George Westinghouse, an inventor and progressive industrialist from Pittsburgh, Pennsylvania with a fortune from railroad safety products, which he began inventing at the age of 22. Westinghouse began competing against Edison with Siemens dynamos pushing DC power to neighborhoods, but Edison's position in the market was virtually unassailable. This drove Westinghouse to search for a technology that would disrupt direct current. He found his disruptive technology in 1885 while reading the English trade journal, *Engineering*, with its description of the novel Gaulard-Gibbs system of generating alternating current.



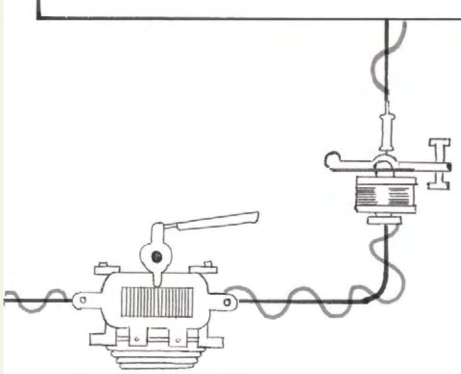
Westinghouse, understanding immediately that alternating current could be generated and sent for miles before being "stepped down" to homes and businesses, put everything behind this novel method. And in a masterstroke, he brought in Nikola Tesla, a Serbian-born engineer, former Edison employee, and owner of a patent for a new AC motor. By 1886, the Westinghouse Electric Company had quietly begun using alternating current to power retailers in the small town of Great Barrington, Massachusetts, and in Buffalo, New York. In contrast to Edison, however, the reserved Westinghouse avoided the press, fearing the loss of his trade secrets.

Edison reacted to Westinghouse's moves with alarm. In his view, not only was AC a threat to his DC business, it was a threat to public health. Having disrupted the gas light market with his incandescent bulb and the DC power business, Edison quickly realized that his favored DC power itself could be disrupted. Yet, like many engineers of his day, Edison was also genuinely concerned about the safety of high voltage AC systems strung overhead. He did not believe that high voltage AC power could be stepped down safely before entering homes and businesses. He truly believed that DC power was safer and, in order to maximize safety, had employed an army of Irish laborers to bury his power lines, at great expense, in lower Manhattan. Edison's initial reaction to Westinghouse's technology was blunt: "Just as certain as death, Westinghouse will kill a customer within six months."

In a clash reminiscent of his fight against gas lighting, "the war of the currents" began, with Edison positioning DC as safer than AC. Edison pamphlets described AC as "deadly" and claimed that the use of AC "greatly enhanced risks to life and property." The Edison campaign even sparked popular concern over accidental electrocution, as the newspapers began to methodically tally instances of "electrocution by wire."

Unfortunately, the public affairs campaign against AC veered into the macabre. First, a self-proclaimed safety crusader named Harold Brown held well-attended public demonstrations in which animals, mostly stray dogs, were electrocuted by AC power in order to prove its deadly nature. These shocking attacks on AC culminated in the bizarre electrocution of a rogue Coney Island circus elephant named Topsy in 1903. The electrocution was

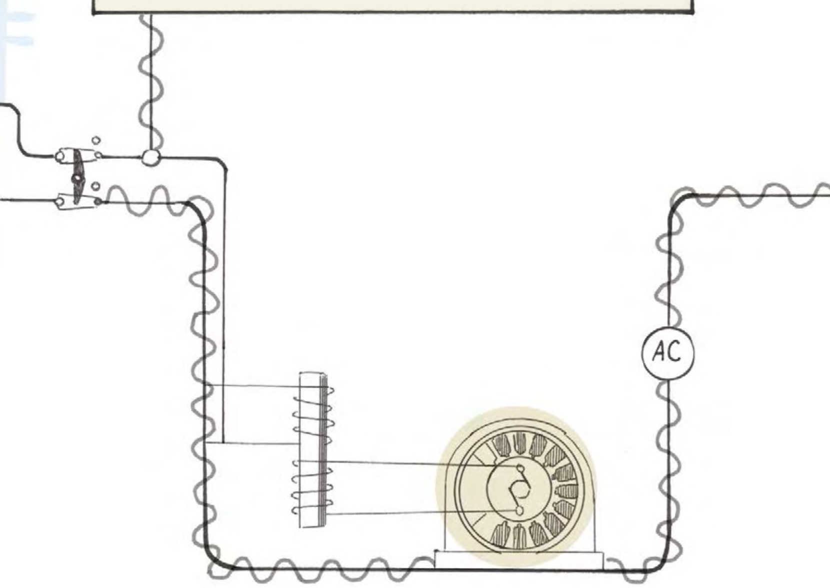
Westinghouse won the contract to power and light the 1893 World's Fair in Chicago and its brilliance captured the country's imagination. Americans had seen the future. It was electric and it was Westinghouse's AC



LESSONS LEARNED

Standards wars share a number of similarities; "the war of the currents" casts light on many of these.

1. First-mover advantage is no guarantee of success. It wasn't for direct current or Betamax. Still, if Edison had time to scale his system, he may have locked down key urban areas and crowded out AC.
2. Old and new technologies can coexist for some time. Gas and kerosene were relatively cheap and electricity did not immediately replace them. In 1907, only 8 percent of US homes enjoyed electricity; by 1920 it was 35 percent.
3. Standards wars are often about much more than technology. In the war of the currents, the merits of the competing technologies were often lost in the drama surrounding the personas of Edison, Westinghouse, and Tesla. Corporate and executive reputation matter.
4. Police your third-party advocates. Edison tried to keep his distance from Brown but was implicated when their connection was exposed.
5. Play for the inflection points. Edison worked toward knockout blows on safety. Westinghouse bid for the Chicago World's Fair project with almost zero profit in order to showcase his technology to a skeptical public. Had he not won the contract, the war of the currents may have raged for a generation.
6. Like a political campaign, standards wars are often decided by success in framing the issue. Edison tried to make it about consumer safety, Westinghouse about power delivery over distance.
7. Language matters. Edison knew this best, positioning gas light as the "old time light" and unsuccessfully attempting to pin the term for electrocution on his rival.



recorded by a new Edison invention, film, and exists to this day. In a warning to any company enlisting third parties in a public affairs war, Harold Brown was eventually exposed by the newspapers of the day for his hidden ties to the Edison camp. In August 1889, *The Sun,* a New York newspaper, exposed Brown with the headline: "For Shame Brown! Paid By One Electric Company to Injure Another."

The electrocution story took another, more hideous turn: the electric chair. Edison, initially an opponent of capital punishment, had written to the New York State Commission in 1887 suggesting that the surest means of execution would come from his rival's technology, alternating current. Three years later, convicted murderer William Kemmler was electrocuted in a purpose-built chair using AC. After Kemmler's execution, Edison suggested a new name for this hi-tech capital punishment – "Westinghoused." The term did not catch on. The electric chair did.

Ultimately, Westinghouse and AC won the war of the currents on technical merit *and* in the court of public opinion. It succeeded with two well-publicized achievements that captured the American public's imagination. First, in what the press covered as a David and Goliath story, Westinghouse dramatically underbid the newly-formed General Electric Company to win the contract to power and light the 1893 World's Fair in Chicago. The fight to power the World's Fair was a turning point in his media relations strategy. The understated Westinghouse shed his media-shy tendencies and instructed his public relations adviser, Ernest H. Heinrichs, to plead the company's case with all Chicago newspaper editors and capitalize on growing American uneasiness with industrial concentration. The strategy worked. Westinghouse, with a sterling reputation as an industrialist who was determined to pay a living wage, connected with the *zeitgeist* and positioned himself as the underdog. This was smart politics, as the Sherman Antitrust Act had passed into law only three years earlier, and a rapidly urbanizing and industrializing America struggled with the emergence of large, vertically integrated enterprises.

The *Chicago Times* roared, "Will Underbid the Trust: Mr Westinghouse Promises to Make Electrical Fur Fly." The PR offensive and the World's Fair coup were enormous successes for AC and Westinghouse. The fair was flooded with dazzling light, earning the nickname "The White City." Its brilliance captured the imagination of Americans – it even inspired Frank Baum's Emerald City in *The Wizard of Oz*. Americans had seen the future. It was electric and it was Westinghouse's AC.

The second game-changer came in 1895, when Westinghouse was able to overcome significant skepticism from the International Niagara Commission to construct an AC power system sending electricity from Niagara Falls to central and western New York. The war of the currents was all but over.

AC beat DC and won the war of the currents. General Electric quickly pivoted and competed successfully in the AC power market. In Promethean fashion, Westinghouse gave America alternating current but he lost his manufacturing company in the financial panic of 1907 and his beloved electrical company in a proxy battle in 1911. Tesla, the eccentric genius, descended into increasingly bizarre behavior, claiming invention of a "death ray." Edison turned his genius to other inventions and searched for emerging industries in which his beloved DC power could thrive. A full century ahead of his time, Edison focused his efforts on battery power and the battery-powered automobile and even created a functional one, too.

The first technology standards war is also the most instructive. First-mover advantage is no guarantee of success; in the media, the personalities of the founders and inventors will be inseparable from the technology itself; monitor your third-party advocates; and play for breakthrough inflection points. Don't be deceived, a standards war is as much a political campaign as a battle between technologies.

Finally, language matters. Edison, the first American captain of industry to master media relations, nearly succeeded in sidelining AC with a rhetorical focus on consumer safety. Own the language and you control the terms of the debate.

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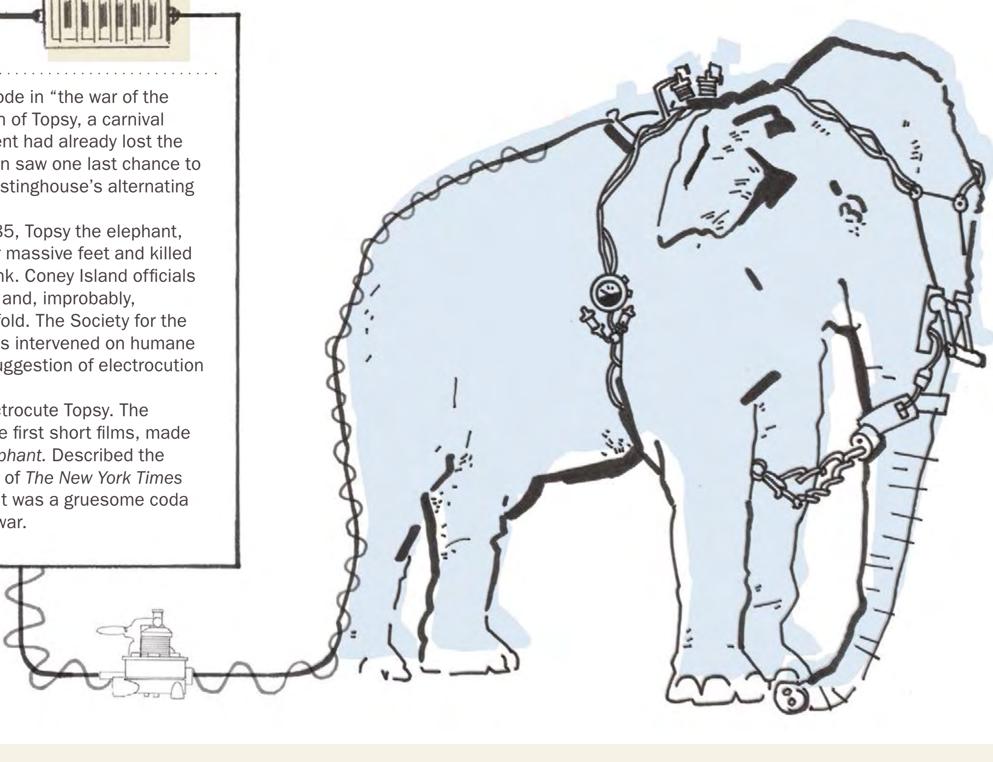
SHOCK TACTICS

Perhaps the most bizarre episode in "the war of the currents" was the electrocution of Topsy, a carnival elephant, in 1903. Direct current had already lost the war by then, but Thomas Edison saw one last chance to embarrass his rival George Westinghouse's alternating current, and he took it.

Brought to America in 1885, Topsy the elephant, crushed two trainers under her massive feet and killed a third in Brooklyn with her trunk. Coney Island officials prepared to hang the elephant and, improbably, began erecting a wooden scaffold. The Society for the Prevention of Cruelty to Animals intervened on humane grounds and Edison's timely suggestion of electrocution by AC was accepted.

It took 10 seconds to electrocute Topsy. The event is preserved in one of the first short films, made by Edison, *Electrocuting an Elephant.* Described the following day on the front page of *The New York Times* as "a rather inglorious affair," it was a gruesome coda to the first modern standards war.



Photograph: @BarackObama via Twitter

CRITICAL MOMENT

SNAPSHOT OF A COMMUNICATIONS TURNING POINT
NOVEMBER 6 2012

It was just after 11pm on the East Coast when TV networks called victory for President Barack Obama in the crucial swing state of Ohio. Moments later, this picture of the President tightly hugging his wife Michelle appeared on his Twitter account, accompanied by three simple words, “Four more years.”

A striking image, a triumphant declaration, the Presidential hug was shared around the globe and rapidly broke records for the most retweeted and “liked” photograph on Twitter and Facebook.

At a time when democracies are wrestling with how to make the election process more engaging, this tweet targeted with laser precision the young and global audiences who are Obama’s most fervent fans. The photograph, taken months before on the campaign trail in Chicago, was a refreshing departure from the traditional star-spangled banner waving.

Amid the countless words written about the election, this shot most eloquently captured the presidential message.

Some said this was as contrived a piece of campaigning as anything that had come before, but even critics of the President had to admit that the tweet perfectly captured the moment.

Bypassing the usual formality of election announcements, this image’s apparent humanity, authenticity and sincerity made the world want to share it. It also reminds us of a truism of communications: the medium is the message, and the medium is personal.

The final piece of genius behind this moment was that even though most of us probably knew we were being played, it didn’t seem to matter.

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