

Exploring political connections of emerging market multinationals: Opportunities and challenges

May 31 2024, by Stuart Pallister



Credit: CC0 Public Domain

Emerging market multinational corporations (EMNCs) have been in the headlines recently due to TikTok's travails in the United States. The US

Senate voted in late April to ban TikTok in the United States if its owner, the Chinese tech firm ByteDance, fails to divest the popular video app, with Republican Senator Marco Rubio saying it had been "dangerously short-sighted" to allow the Chinese Communist Party to control one of the most popular apps in the US.

SMU Associate Professor of Strategy & Entrepreneurship at Lee Kong Chian School of Business, David Gomulya, who has conducted a comprehensive review of EMNCs and their political connections, said that "on paper, TikTok is not owned by the Chinese government but how can anybody disprove there's no pressure or influence from the Chinese government? It's just not black and white."

"Now everyone is waiting with bated breath to see what happens with TikTok. If the US really forces them to change owners, what will the reaction of the Chinese government be?", Professor Gomulya said in an interview with the Office of Research ahead of the US Senate vote.

His paper, "Politically connected EMNCs in a (de)globalising world: A review and future research directions," highlights how emerging market multinationals have become large, significant global players that are often supported by relation-based and/or equity-based political connections to their home country governments "that present both opportunities and challenges."

The work is [published](#) in the journal *International Business Review*.

Is it all poliTik(Tok)s?

Although the paper does not mention TikTok specifically, it is clearly a good example of the challenges presented by political connections—real or perceived—with a foreign government which is considered by another country to be potentially hostile, particularly when it comes to overseas

investments.

Professor Gomulya said the study came about due to his interest in geopolitical issues between Washington and Beijing.

Some Chinese companies, he said, had been unable to make acquisitions in the US because of their political connections, "but we didn't want the review to be overly narrow and focused on that. So we widened it to emerging market multinational companies. We contrasted our paper with the existing research on more advanced market [multinational corporations](#) (AMNCs) which have been written about to a greater extent."

TikTok is not the only emerging market MNC which has run into difficulties abroad. The Federal Communications Commission in the US is now reportedly moving to prevent Huawei, ZTE, and several other foreign companies deemed to pose national security concerns from certifying wireless equipment.

"The issue's even bigger than just political connections," Professor Gomulya said. "There can be 'perceived' political connections, even though none arguably exist. In our paper we talk about how political connections can be a resource or a liability. From a resource-based view, it can reduce the risk of entering another country because they have the backing of the host country. But it depends on the context."

He and his co-researchers from China's Nankai University, Nanyang Technological University in Singapore, the National University of Singapore, and IMD Business School, found that the effect of political connections had been mixed. "Current studies often provide a fragmented view, with a focus disproportionately centered around state-owned enterprises (SOEs)," the paper states.

"This absence of a holistic conceptual framework makes it challenging to draw broad insights or compare the impacts of various types of political connections across different contexts," it continues, adding that 'addressing this research gap represents a critical step forward in achieving a more nuanced understanding of the multifaceted roles of different political connections in shaping firms' overseas expansion."

Based on content analysis, the researchers narrowed down some 1,271 papers to 74, applying a context-mechanism-outcome framework "for clarity," after organizing the studies according to frameworks such as institutional theory, transitional cost theory and resource dependence theory.

In their view, context matters and this drives the mechanisms. Then, "depending on the processes at play, the outcomes may follow accordingly."

As to whether political connections are more of a liability than a resource, Professor Gomulya said context plays a major role. "If we have political connections between two friendly countries it could be a benefit, as you have the backing of the home country and the resources that come with that. But if it's between two not-so-friendly countries then, of course, it's a liability," he said.

For instance, Chinese companies entering Russia's car and fast-moving consumer goods (FMCG) sectors could be expected to receive a more positive reception than in the US. But, he cautioned, it's not as simple as one country versus another.

Professor Gomulya said, "We also look at the different levels of practice in terms of the context at the micro level within the firm, at the meso level of the industry, and the macro level of the larger political forces that are at play. I think this paper could be very useful for people to

understand the geopolitical complexities that are ongoing right now."

Looking back to look ahead

In terms of the paper's research agenda, in addition to conducting a comprehensive review of EMNCs and political connections, the researchers propose potential directions and pose questions for future research, plus identify underdeveloped themes such as deglobalization.

"Deglobalization is interesting because it can mitigate some of the complexities, although many questions remain. For example, to what extent is the world deglobalized into different camps? Maybe political connections don't count in the sense that people just trade in their own clusters like BRICS+ (Brazil, Russia, India, China, and South Africa, plus Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates)," Professor Gomulya said.

"We hope scholars can move past this, reduce this unnecessary friction, and work together again to create the win-win analysis that we've seen in the past. That's why, I think, they need to learn how to manage this political connection and keep business as business."

He points out that in the US, the people who stand to lose out from TikTok's problems are not only shareholders but also influencers who have invested time and money in attracting advertising and endorsements.

"If they lose those, what's the alternative? Everyone has their own agenda, but we feel there are unnecessary concerns or worries about political connections when they're probably not warranted—although I am sure there are cases where they are warranted."

From time to time, governments may even try to block their own firms

from making investments overseas. Professor Gomulya cited the example of DiDi, a Chinese company like Uber, which had wanted to list on the New York Stock Exchange. This time it was Beijing which had issues with the move rather than Washington, he said, "as the Chinese government felt it could be used later by the US."

"So it's complicated and the concerns can come from the host country or the home country. But, overall, as management scholars, we feel that those who lose could be shareholders or stakeholders who cannot maximize their potential returns."

While many of the papers reviewed focused on China, Professor Gomulya said they deliberately did not want to frame this simply as a China versus the US issue.

He added, "The flavor of the month could be a given country, but in the future that might change. However, we believe concerns about political connections would still be valid. I keep using the examples of Chinese companies because they're on the front pages of newspapers every day, at least at the moment."

"We hope the paper is timely and will stimulate some debate on this issue. At least it may encourage more scholars to study this topic as we've reviewed the literature and they don't have to start from scratch. We've given them a head start so they can begin from where we are now, hopefully."

More information: Dongdong Huang et al, Politically connected EMNCs in a (de)globalising world: A review and future research directions, *International Business Review* (2023). [DOI: 10.1016/j.ibusrev.2023.102196](https://doi.org/10.1016/j.ibusrev.2023.102196)

Provided by Singapore Management University

Citation: Exploring political connections of emerging market multinationals: Opportunities and challenges (2024, May 31) retrieved 23 June 2024 from <https://phys.org/news/2024-05-exploring-political-emerging-multinationals-opportunities.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.