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How multinationals survive populist governments

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The rise of populism in recent years has disrupted multinational corporations (MNCs). One of the most challenging aspects is economic nationalism, which leads to policies explicitly seeking to disadvantage foreign companies. ***Dorottya Sallai*** *and* ***Gerhard Schnyder*** *write that multinationals can mitigate some of the detrimental impacts of right-wing populism by strategically leveraging their technological advantages, international power and global presence.*

The rise of populism in recent years has disrupted the business world, leaving multinational companies and investors scrambling to navigate the uncertain political context.

For foreign multinational corporations (MNCs), arguably one of the most challenging aspects of populist economic policy is their reliance on ethno-nationalist mobilisation for political support. Populists' nationalism often translates into economic nationalism that leads such governments to adopt policies explicitly seeking to disadvantage foreign MNCs.

Investigative journalistic reports, like the recent one carried out by Der Spiegel, and our own study on authoritarian capitalism in Hungary, document instances of 'forced buyouts' where the state or people close to the government essentially expropriated foreign owners. In Poland too, the right-wing populist Law and Justice (PiS) government instructed the state-owned insurance company PZU and the Polish Development Fund to take over the second-largest Polish bank Pekao from Milan-based UniCredit.

While such attacks on foreign companies are well documented, in other cases populist governments' policies towards foreign MNCs are much more accommodating. Orban's very good relationship with German car manufacturers, for instance, is well-known.

So, what factors make a foreign MNC more or less vulnerable to negative policy actions by right-wing populist governments?

Our recently published study explores this question in the most extreme examples of right-wing populist rule in the European Union: Hungary and Poland. We investigate situations where right-wing governments present not just calculable and manageable political risk for foreign MNCs, but where political risk could turn into incalculable political uncertainty, which is much harder to manage. We provide insights into how multinational companies with headquarters in countries with right-wing populist governments reduce this risk.

We identify factors at the country, industry and firm level that lead to increased or decreased exposure of foreign MNCs to adverse action by host country populist governments.

At the country level, three factors affect how much political uncertainty MNCs face. First, risk depends on the extent of authoritarianism by the government. Higher levels of authoritarianism imply fewer checks and balances on governmental actions, which makes it easier for populist governments to favour political allies in domestic business.

Second, to what extent do the host government and the home country of the MNC share the same political ideas? East and Central European countries' right-wing populist rhetoric may not be so much against foreign MNCs as they are against *Western* MNCs. Right-wing populists may want to reduce reliance on foreign direct investment (FDI) from the West. Yet, they actively seek FDI from countries that are seen as being ideologically similar, especially China and, until recently, Russia. So, instead of being against FDI, populist governments may specifically try to attract FDI from countries that share their illiberal political agenda. Conversely MNCs from countries whose politics diverge from the populist host country may face increased political risks.

Third, political risk and uncertainty also depend on how much the host government depends on FDI from a given MNC for growth. We found that foreign MNCs face severe political uncertainty where alternatives exist. For instance, countries with strong local competitors to MNCs, or with alternative providers of FDI will be riskier than countries where MNCs have a technological advantage over local competitors and no alternative provider of FDI exist.

At the industry level, MNCs active in strategically important, technologically intensive sectors such as automobiles or manufacturing are less likely to be affected by adverse policy changes. Indeed, we found that firms in these sectors are often favoured and supported by populist leaders due to their capacity to create jobs and investment. In contrast, MNCs in less technology-intensive sectors, where domestic champions can more easily replace them, are more exposed to political risk.

Finally, at the firm level, our findings suggest that large multinationals with considerable investment capacities, sectoral power and technological ownership advantage will be less likely to be targeted by hostile populist government action.

MNCs that do not possess any of these advantages can reduce political uncertainty if they can count on the backing by the government of their home country. Indeed, our study shows that the host government is less inclined to intervene against a foreign corporation if it harms relations with the home country's government economically and politically.

Our study also has implications for MNCs' interaction with populist host governments. We find that firms that speak out against the populists in power will have an increased likelihood of becoming a target of adverse political interventions compared to those which show implicit or explicit support for the incumbents. This may explain why few MNCs openly condemn the democratic backsliding in countries like Hungary and Poland. Our study also suggests, however, that rather than simply accepting an authoritarian and oppressive regime, MNCs may use 'soft voice' – that is, engagement and persuasion – to influence the populist government's course.

In short, right-wing populism undeniably has a big impact on multinational firms. Populist governments often emphasise nationalism and protectionism in their economic policies resulting in direct or indirect measures that increase the political uncertainty for international firms. Multinational corporations, however, can leverage their technological advantages, international power, and global presence strategically to mitigate some of the detrimental impacts of right-wing populism.

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Notes:

- *This blog post is based on The antecedents of MNC political risk and uncertainty under right-wing populist governments, by Dorottya Sallai, Gerhard Schnyder, Daniel Kinderman and Andreas Nölke, in the Journal of International Business Policy.*
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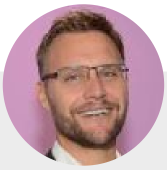

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