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Populist politics and international business policy: problems, practices, and prescriptions for MNEs

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Abstract

In this editorial introduction to the Special Issue on populism, we discuss different approaches to defining populism in ways relevant to multinational enterprise (MNE) strategy and organization. In addition, we demonstrate how populist host-country government policies often target MNEs in ways that give rise to distinctly new forms of discriminatory treatment. This theoretical background sets the stage for the papers of this Special Issue, explaining the origins of these populist host-country government policies and the impact of such policies on FDI and international trade. We conclude with various suggestions for advancing IB policy research on populism, including building a better model of where populism comes from, how various conceptions of populism operate, and how they affect MNEs.

Keywords Populism · Multinational enterprise · Foreign direct investment · Risk management

The practical paradox of populism

Within modern democracies lies a paradox. Political philosopher Karl Popper described democracy as an “open society” where a majority of its members could choose tyrants ready to repress that openness, perhaps ruthlessly (Popper, 1966). As Gerson (2023) recently notes, majorities can grant tyrants license to attack democratic institutions: limit the exercise of political speech and association rights demanded by “unpatriotic” or “deplorable” minorities; restrict the enforceability of “unconscionable” loan and

investment agreements demanded by “elitist” banks; or limit the purchase of domestic firms demanded by “meddlesome” multinational enterprises (MNEs). With the people’s blessing, tyrants can skirt if not totally ignore regulators, legislators, legislation, judges, even constitutions. Democracy thus has the potential to degrade democratic institutions.

In this editorial introduction to the special issue on populism, we discuss different approaches to defining populism in ways relevant to multinational enterprise (MNE) strategy and organization. In addition, we demonstrate how populist host-country government policies often target MNEs in ways that give rise to distinctly new forms of discriminatory treatment. This theoretical background sets the stage for the papers of this special issue, explaining the origins of these populist host-country government policies and the impact of such policies on FDI and international trade. We conclude with various suggestions for advancing IB policy research on populism, including building a better model of where populism comes from, how various conceptions of populism operate, and how they affect MNEs.

Popper’s paradox is more than clever storytelling, as many countries are currently living it—the resurgence in populist electoral successes since the Global Financial Crisis of 2007–2009 have shown the ability of anti-elite, anti-globalization politicians to utilize domestic institutions for their own ends. In fact, this co-optation of institutional mechanisms has been the hallmark of the resurgence of

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populist politics across the world (Hartwell & Devinney, 2021). Moreover, the latest successes of populism have been distinct from earlier waves, which were centered in developing countries, particularly across Latin America, as the latest resurgence of populist ideas and—crucially—populist electoral successes has occurred in developed economies. This re-emergence of populism, with its discourse of “us versus them,” of a virtuous “people” (defined loosely) versus a wicked elite, is a phenomenon that has explicit ramifications for international business across the full spectrum of MNE operations. As such, populism’s latest wave has generated interest from international business (IB) scholars, who have been concerned with how the different varieties of populism (Devinney & Hartwell, 2020) affect cross-border business transactions.

The *Journal of International Business Policy* has addressed this question from its birth. Rodrik’s (2018) lead article in the Journal’s inaugural issue analyzed the research implications of nationalist, anti-elitist, and anti-globalist ideologies and ideologues often associated with populism in concept and practice. The literature has blossomed since 2018 both in terms of theorizing and in terms of empirical evidence, and this Special Issue looks to extend *JIBP*’s interest in this area by adding three new papers to the canon of IB research on populism. In particular, it examines the development of populism into a phenomenon spanning developing and developed countries, and how populism impacts the operations of MNEs.

The meaning of populism and MNEs as targets

The ideologues and ideologies underpinning populism did not commence in the 2010s, 2000s, or 1990s. Starting in the 1960s, IB researchers analyzed problems raised by mismatched host-country politics, political risk, and MNE investing practices (Kobrin, 1987; Robinson, 1963; Vernon, 1971). When host-country governments decide to increase taxes, royalties payable, or domestic employment requirements on MNEs, they might very well have been heeding a *vox populi* heard in recent protests or elections or they might have been imposing their own view of what “the people” needed. The motivation behind unilateral government interference with foreign investment, particularly in the extractive industries, may thus have come from populism, even if theorists in the 1960s and 1970s understood the expropriation phenomena (for example in Venezuela) from an obsolescing bargaining perspective (Müllner & Puck, 2018).

This leads us to a fundamental question that political scientists have grappled with for at least a century and a quarter: what exactly is populism? Aside from adherence to the people’s voice, populist ideology includes a clutch of

“anti” characteristics: anti-elitism, anti-foreignism, and anti-institutionalism (at least if those institutions are legal or constitutional). This ties directly back to Popper’s paradox in, for example, Hungary, where Prime Minister Victor Orbán’s popularly elected and re-elected Hungarian Civic Alliance (*Fidesz*) party has spent more than a decade in power bullying national media, disempowering the national judiciary, selectively enforcing regional free trade rules, flouting international human rights agreements, and revising laws crippling opposition party efforts to hold the government accountable (Paris, 2022; Rohac, 2023). Hungary may be a member of the European Union (EU), but the EU’s chief legislative body, the European Parliament, thinks Hungary has become an “elected autocracy” meriting suspension of all EU member rights and privileges (European Parliament, 2022).

Such an approach may rightly be considered mere authoritarianism, however, and Stanley (2008) points out that populism is a “thin” ideology, highlighting the problems in defining a concept largely by what it is not. Rode and Revuelta (2015) offer a more helpful approach, conceptualizing populism as a multi-dimensional creature, one which relies on organizations (political parties), leaders, and rhetoric to pursue a myriad of goals, including redistribution of national wealth away from elites and towards “the people,” however defined. The extant literature, including in IB, has expanded on these basic tenets to encompass all manner of definitions but with little deviation from the “anti” characteristics noted above, noting that populists weaponize “the people” in a way to both keep their own hold on power and to reshape domestic politics permanently in favor of populist political structures.

This “anti” bias in populism often finds its way towards MNEs, who present too attractive a target to pass up in the implementation of more protectionist international policies and more interventionist domestic policies. Indeed, MNEs check all the characteristic boxes and fit all of the definitional dimensions to be targeted by populists (Hartwell & Devinney, 2021). Foreign MNEs have a well-established “liability of foreignness,” but this liability is heightened in a populist political environment where there are fewer institutional constraints (Chen et al., 2023). They are also elite in terms of financial riches, knowledge assets, and technological capabilities, and they are typically strong guardians of contract and property rights as well as rule of law safeguarded by local legal professionals and their institutions. MNEs are thus ideal targets for host governments which purport to be serving (a particular brand of) the people’s will, serving as a convenient manifestation of elites, foreigners, and unhelpful institutions.

But targets to achieve what? Almost certainly, MNEs are a target for Vernon’s (1971) obsolescing bargain, where MNEs have advantages from the outstart of their operations

but, over time, the power shifts to the monopoly of violence and taxation that is the government. This power may be exercised by any government, but especially by an anti-global populist one, to redistribute wealth, create “an even playing field,” or merely claw back assurances given to foreign firms and expand them to domestic firms in new forms of industrial policy. For example, a newly elected government with President Jair Bolsonaro touting “Brazil above everything” could look askance at and seek to renegotiate investment agreements giving MNEs tax or royalty rates lower than for similarly situated domestic firms. Why would foreigners be the only ones so advantaged—and why could the government not be similarly activist with its preferred domestic firms? Likewise, a newly elected government with President Donald Trump seeking to “Make America Great Again” could press MNEs to re-locate more of their production processes to poorer locales with higher unemployment levels lest they lose their license to operate in wealthier places with lower unemployment. Populist host-country governments can act opportunistically just like other non-populist governments have been tempted to do for decades after MNEs make substantial sunk cost investments (the very heart of the obsolescing bargain argument), but with the added spin opportunism being the very center of populist politics.

Populist host-country governments might also target MNEs with a partisan flair. IB theories of political risk sometimes distinguish between left-wing governments typically prioritizing workers interests and lower unemployment while right-wing governments prioritize investor interests and lower inflation (Hibbs, 1977; Vaaler, 2008). When applied to host-country government policies, such partisan theories imply greater risk of adverse action against MNEs when left-wing governments take power, whether they be populist or not; on the other hand, if right-wing governments parties hold the reins, MNEs are supposed to benefit from lower taxes, regulation, and other investor-friendly policies. However, this dichotomy may only be true for conventional right-wing parties influenced by political and financial elites or by chambers of commerce, representing larger firms, but not so if they are grounded instead in the views of smaller business owners or older, less educated, and possibly more alienated workers. Then, a populist shift in right-wing party policies might focus less on longer-term economic benefits from MNE investment and more on near-term economic dislocations that this MNE investment may bring (Hartwell et al., 2023). Targeting by right-wing populist host-country governments becomes a rude surprise for MNEs expecting an easier path to profitability.

Additionally, however, MNEs might be targeted also by home-country populist governments (Hartwell & Devinney, 2021). IB research typically assumes that home-country governments are inclined to support internationalization efforts. MNE success abroad usually increases tax revenues,

headquarters employment, and research and development expenditures back home. It becomes good “industrial policy” for home-country governments to “buy American” or “buy British” for US- or UK-based MNEs competing in dynamically competitive global industries where only one or a few MNEs will dominate—great examples being historically of long-haul commercial aircraft (e.g., the industrial policy in the USA and Europe supporting Boeing and Airbus) or currently of digital media firms (e.g., the support for social media giants Meta and TikTok in the USA and China, respectively). However, populist home-country governments may put too many strings on industrial policy support for their MNEs. To get corporate tax rate decreases or R&D grant increases, populists back home may require MNEs to slow down or even reverse internationalization processes. US MNEs expanding into the Republic of Georgia rather than the State of Georgia may become easy targets for US politicians; populists pledging more “onshoring” to appease voters concerned about individual job security in the coming year will have more weight than broader pro-growth policies, which take longer to pay off. This targeting may be increased by the activities of multinationals themselves (Rašković et al., 2023), as even their presence may increase populist resentment, while success may be seen in one light by the firm but castigated as “stealing jobs” or “exploitation” by populists on either side of the aisle.

Implications of populism for IB research

The three papers comprising our Special Issue address some of these issues about populism’s meaning and IB research implications at differing levels of analysis and leveraging different empirical settings. All three papers contribute to IB research by drilling down into the mechanisms that connect populism to important MNE decisions at the core of IB research. The three papers in this Special Issue allow one to appreciate the breadth and depth of the impact of populism on IB activities, yet also to reflect on tactics that MNEs can put in place to address such threats.

Rašković et al. (2023) do so at individual and group levels using a social psychology lens. They explain the emergence of populist distrust for MNEs as a recursive socio-cognitive dynamic, beginning with industry globalization trends permitting MNEs to enter new markets and generating new wealth for more internationally oriented, technologically adept firms and individuals. Those same trends, however, also disadvantage less mobile domestic businesses and workers previously insulated from global competition. Over time, this dynamic increases wealth differences between globalization’s winning and losing constituencies. It also creates supranational institutions legitimizing these differences and assuring their persistence over time (Hartmann et al., 2022),

prioritizing investor protections and a sound legal foundation for investment over broad-based “popular” or public investment. Think, for example, of a World Trade Organization (WTO) created to assure liberalized trade in goods and services or the rise of major credit rating agencies like Moody’s Investment Services to assure proper pricing and allocation of credit internationally.

This dynamic engenders resentment among losing domestic constituencies. They see international elites and their transnational institutions as “common enemies.” This latent belief is then instrumentalized by both charismatic domestic politicians and their political vehicles (political parties) to articulate anti-elitist, anti-institutional policies consistent with that vision. These politicians then promise limitations on WTO jurisdiction to hear cases involving domestic firms in a highly unionized domestic auto industry. They urge the creation of new credit rating agencies and systems with less regard for international banking and more regard for national economic interests, keeping an eye on wealth redistribution and policy sovereignty, no matter the consequences.

These and other populist platforms sometimes support electoral runs that may lead to extended governmental leadership as in the case of Orban in Hungary. Such instances give populist politicians the most time to learn how to wield power, erode legal and constitutional constraints, and turn resentment into public policy detrimental to MNEs. At other times, the same populist platform supports only one term in office as in the cases of Bolsonaro’s Liberal Party (*PT*) in Brazil or Donald Trump (as of this writing). However, even a single term may be sufficient time to demonstrate how the populist politics of resentment can challenge the same legal and constitutional institutions on which MNEs depend, and even a campaign failing to win office can influence the terms of the debate among establishment parties relevant to MNEs. As of late 2023, Tino Chrupalla’s Alternative for Germany (AfD) party has never held office and controls only about 10% of the seats in the Bundestag. Yet, many observers of German politics connect the much larger Christian Democratic Union’s hardening stance against immigration and for lower taxes to the AfD’s presence and rhetoric (Guardian, 2023).

For Rašković et al. (2023), all three examples follow from the same recursive socio-cognitive dynamic first encouraged by globalization and MNEs and then challenged by resentful domestic constituencies and their populist political leaders. Their descriptive lens implies prescriptive responses for both MNEs and host-country governments looking to diffuse populist sentiment: in the first instance, MNEs may benefit from investment in locales more likely to breed resentment and populist politicians (such as counties or regions hard-hit by the beneficial competition accompanying trade liberalization), while host-country government subsidies to those same locales could pay for education and re-training

of displaced workers otherwise given to resentment and populist appeal.

The second paper by Sallai et al. (2023) asks us to think less about individuals and groups and more about firms and industries, focusing on firm vulnerabilities to the policy threat of populism. The context for their study is the post-socialist transition countries of Central Europe, an “extreme case” which has seen a marked rise in populist sentiment and backlash against the European Union after the global financial crisis. Crucially, Sallai et al. focus on the borderland between political risk and political uncertainty, a key distinction when discussing the channels via which populism operates, as risk mitigation becomes more difficult when the rules of the game are shifting in an uncertain manner. They also build on Hartwell and Devinney (2021) by examining the motives of political actors under populism, using the actions of populists in Central Europe to bolster the supposition that populists attempt to entrench their political control via institutional co-optation.

Using serial case studies examining country-, sector-, and firm-level characteristics influencing firm vulnerability to actions by populist host-country governments, Sallai et al. uncover patterns suggesting that MNEs in industries with low knowledge intensity, weak home-country political capabilities, and low bargaining power with host-country governments are more likely targets of discriminatory treatment. This treatment may be “explicit” or “implicit,” implemented with a “loud” or “soft” political voice. Their study connects the origins of populist policies analyzed by Rašković et al. (2023) with implications for MNE foreign direct investment (FDI). Sallai et al. (2023) also suggest certain risk mitigation strategies starting with a greater use of cooperative FDI modes (e.g., joint ventures) designed to make MNEs a little less “foreign” and thus, perhaps, a little less attractive as targets.

The third paper by Dow and Cuypers (2023) addresses similar issues about firm vulnerability to populist policy actions by examining country-level trade flows. Rather than focusing on how populism affects foreign firms, they study trade patterns of countries and, thereby, effects on all companies and consumers in a country (irrespective of foreign or domestic origin). Populist, or in their case, outright nationalistic, policies affect firms conducting international trade. In a first step, the authors show that nationalism dampens imports in an indirect fashion by lowering a country’s participation in free trade agreements. They do not find evidence that it directly influences imports through heightened consumer ethnocentrism. On the export side, they find that nationalism directly blunts export by shaping informal cultural values such as favoritism, distrust of foreigners, and xenophobia.

In a second step, the authors study the boundary conditions of the negative effects of nationalism on the trade

balance and they find partial support for the hypothesis that psychic distance between trading countries attenuates the negative relationship between nationalism and trade. The results show that nationalists' efforts to impose formal protectionist institutions concentrate on countries that are different in terms of language, religion, industrial development, education levels, and degree of democracy.

The study of Dow and Cuypers makes two theoretical contributions. First, it disentangles the complex and multifaceted ways in which nationalism negatively affects firms' and countries' balance of trade both through informal and formal institutions within a country. This includes effects on foreign but, more importantly, also domestic firms. Second, it also theorizes and shows that institutional differences are a relational contingency to this country effect (i.e., the transactional context).

Populism's promise for IB research

We believe that these three papers advance important debates about how populist policies matter for foundational issues in IB research concerning the survival and success of MNEs, their FDI decisions and volumes, and broader issues regarding trade across borders. There are, however, still important questions to address which go beyond what any individual paper or Special Issue could resolve. We—and the broader political science and IB literature—have already asked and attempted to answer questions about *what* populism is and via what channels it is relevant to MNEs. Yet, there remain many open questions, including what distinguishes populism from the broader debate on political risk in IB. Future IB research might additionally benefit by responding with a concept of populism relevant to affirmative MNE strategy. Nyberg and Murray (2023, p. 3) provide just such a response with their concept of “corporate populism.” It is a “firm or industry practice that constructs or reproduces a collective subject (the people) in denouncing a named political subject (the other) in an antagonistic struggle where the corporation supports or represents the people.” They are proposing nothing less than a corporate political strategy to exploit and profit from rather than be victimized by populist host-country government policies, whether they come from the left-wing or the right.

There are also important questions related to *when*. Populism, in its essence, is a phenomenon of globalization whose antecedents cannot be studied without regard to the related socio-economic trends. Some scholars find the roots of populism in immigration policies and the economic inequality some believe immigration prompts (Bischi et al., 2020). Others find the roots of populism in sudden hardship and economic shocks; Hartwell and Devinney (2021), for example, show how populism was given a shot in the arm

by the COVID-19 pandemic through different government responses to the virus. We see great opportunities for IB researchers to investigate and articulate alternative socio-cognitive dynamics feeding populist movements relevant to MNEs, as well as understanding MNE actions in fostering, benefiting from, or counteracting populist sentiment.

IB research is also well positioned to think about *how* populism affects MNE strategy. Our discussion of the Sallai et al. (2023) paper suggested that populist host-country government policies might prompt greater resort to cooperative FDI modes giving domestic partners a higher profile. The same policies likely affect how MNEs and their partners engage with host-country government officials as part of broader non-market strategies (Blake et al., 2022). The same policies might also affect where MNEs source intermediate goods and services through global value chains leading to the host country (Casadei & Iammarino, 2021).

To date, most IB research on *what*, *when*, and *how* questions about populism have been largely conceptual, with some notable exceptions. A logical next step is to continue in the empirical vein, showing the answers to these questions via cross-country and, in some cases, single-country econometric examinations. Dow and Cuypers (2023) attempt this in this Special Issue with econometric methods by analyzing the effects of populism on country exports and imports. These same methods would provide IB researchers with a broader evidentiary basis for guiding MNE strategy and policy debates about populism and global value chain management, the optimal structure of international financial transactions, and best practices in MNE human resources (Griffith et al., 2008).

In IB, research has a long history of investigating the political and institutional factors shaping the survival and success of MNEs (Delios & Henisz, 2003; Globerman & Shapiro, 1999; Henisz, 2000; Jensen, 2008). We might think of populism as yet another set of these factors to break down and analyze empirically. Data helping to operationalize populism on a cross-country basis are readily available for empirical research purposes. One helpful index-based cross-country measure is the Timbro Populism Index, along with others associated with the Varieties of Democracy (Coppedge et al., 2017), Google (Puhr & Kupfer, 2023) and GDELT (Jamison et al., 2023). These and other data sources help measure populist trends and understand their effects on MNEs, as well as differentiate between the effects of left-wing and right-wing populists (or, in Hartwell and Devinney's [2023] conception, pro-business and anti-business).

The papers included in this Special Issue connect the contemporary and increasingly important phenomenon of populism with core IB activities such as FDI, exports, and non-market strategy. While the papers shown here collectively offer a holistic picture of the phenomenon of populism over time and across levels of aggregation relevant to IB, they are,

at the same time, naturally limited in their theoretical and empirical scope and detail. As such, they offer a springboard for coming contributions that study the effects of populism.

As a phenomenon, populism is closely and directly connected to the issues of globalization, polarization, and decoupling. It affects MNE interactions with government, society, and a globally fragmented institutional environment. Therein, it constitutes one of IB's "grand challenges" (Buckley et al., 2017). Addressing these grand challenges from a scientific point of view requires phenomena-driven research, interdisciplinary perspectives, and multi-level theories, a reality to which we hope that this Special Issue has contributed.

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