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Perspectives on topical foreign direct investment issues

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## The rise of nationalism, FDI and the multinational enterprise[*]


by

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Support for (or opposition to) trade and investment policies is typically seen as reflecting interest group politics in both liberal and authoritarian states. Displaced workers and competing industries oppose imports, potential suppliers support inflows of FDI, and competitors oppose it. The assumption is that individual and group impacts are what matters, and that outcomes reflect the strength and coherence of a group's interest, its ability to articulate its position and political power. Textile tariffs are a classic example.

Similarly, discussions of economic nationalism typically focuses on instrumental (if not economically efficient) policies that will extend state power or protect the domestic economy, such as industrial policy or domestic control over natural resources. In that context, "nationalism" is avoided, and "nation" is used as synonymous with "state." In contrast, some have argued[1] that, at least in new and developing countries, policies that do not make economic sense provide "psychic satisfaction;" a nationalist economic policy could have symbolic value, reinforcing, and perhaps creating, national culture and identity.

Given the rise of populist nationalism in advanced economies, the time has come to take a broader look at nationalism and its possible impacts on the multinational enterprise (MNE).

A nation is a socio-cultural concept, an imagined political community whose culture is shaped by collective historical experience or collective myth. "Nationalism" implies that "nation" and "state" should be territorially congruent, and any violation of that principle is seen as deeply offensive. Critically, nationalism and national identity require "others" who are not recognized as belonging.[2]

To the extent that economic policy reflects an ideologically driven nationalism focused on culture and identity, it represents a significant shift away from interest group politics toward a more ill-defined, amorphous focus on the nation as a whole: from a concern with the individual to the collectivity. In that context, international transactions and international actors may be considered an existential risk to the nation and its culture.

Thus, President Trump called for protecting the US "from the ravages of other countries making our products, stealing our companies, and destroying our jobs."[3] Theresa May argued that the UK voted to leave the EU to "become a fully independent sovereign country."[4] She also lashed out against multiculturalism, against citizens of nowhere. The implied threat is to the nation as a whole rather than to individual groups.

Ideologically-driven economic nationalism is not new. CNOOC's 2005 bid to take over Unocal, a minor US oil firm, failed when Chevron exploited growing Chinese power to generate nationalist opposition to the bid in the public and Congress. Dubai-based DP World dropped its bid to take over terminal operations in six US ports as a result of strong opposition in Congress to an "Arab" takeover. One certainly could add the outrage over a Japanese firm's purchase of Rockefeller Center in the 1980s to the list.

In this climate, policy toward MNEs and FDI will be much less predictable, uncertainty will be increased and "economically rational" arguments will have less traction. Equally important, as one moves away from interest group politics toward "threats" to the nation ("the ravages of other countries"), it becomes more difficult to influence policy formation. How do you respond to a charge that a MNE or FDI is a threat to national culture or identity? What do you do when job losses from outsourcing or outward FDI are seen as an affront to the nation as a whole, rather than a problem for the affected workers, or inward FDI is seen as a threat to a country's culture?

Suspicion of foreigners alone might suffice to raise security concerns about inward FDI. Supply chains may be at risk, despite arguments that consumers will suffer increased prices and lower quality as a result. Nationalism could well impose restraints on the ability of MNEs to transfer managers and needed skills and generate a reaction against foreign brands.

MNEs have to understand that the populist opposition to globalization, regardless of how it is expressed, is based on legitimate grievances that must be addressed. Firms should support policies that deal with the distributional effects of trade and investment, policies that go beyond paying lip service to generalized worker retraining. Nationalist reactions should also be given serious consideration in outsourcing and investment decisions; they can no longer be dismissed as economically ill-informed and should be considered as potential costs to the firm. At this point, investors cannot expect traditional responses to carry the day.

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[1] *See* Harry Johnson, "A theoretical model of economic nationalism in new and developing states," *Political Science Quarterly*, vol. 80 (June 1965), pp. 169-185.

[2] *See* Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (New York: Verso, 2016); *see also* Ernest Gelner, *Nations and Nationalism* (Oxford: Blackwell, 2006).

[3] "Inaugural address: Trump's full speech," *CNN Politics*, Jan. 21, 2017, http://www.cnn.com/2017/01/20/politics/trump-inaugural-address/.

[4] *See* Stephen Castle, "'Brexit' talks will start by end of March, Teresa May says," *New York Times*, Oct. 2, 2016, http://www.nytimes.com/2016/10/03/world/europe/brexit-talks-march-tresa-may-britian.html?_r=0; Amanda Taub,

"Behind 2016's turmoil, a crisis of white identity," *New York Times*, http://www.nytimes.com/2016/11/02/world/americas/brexit-donald-trump-whites.html?ref=world&_r=0.



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