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[Review]

## Economic Populism and Globalization\*

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### Abstract

**Purpose:** The purpose of this paper is to examine the recent resurgence of populism and the possible impacts it may have on contemporary business and economics. **Research design, data and methodology:** This is an exploratory case study that examines the rise of populism and identifies and analyzes the likely implications for contemporary business and economics. **Results:** Although populists tend to reject elitism, capitalism, economic globalization, and political establishment, their ethnocentric behavior is no different from those of the corrupt political and economic elites. Populism does enable nationalism and protectionism and negatively impacts business and economic growth. **Conclusions:** Populism existed for a long time, and this phenomenon will continue to exist as long as a triggered mechanism exist, e.g., income inequality, resurgence of immigration, recession, insufficient factors of resources and social welfare. The recent rise of populism is not a fad or a short-lived anti-establishment and anti-elitism movements but, rather, a force to be reckoned with in the near future. The rise of economic nationalism limits international trade, integration, and cooperation. As a result, international capital, service, and product flows will decline, and countries and multinational corporations have to develop and restructure their international supply and value chain to cope with this phenomenon.

**Keywords:** Populism, Nationalism, Globalization, International Supply and Value Chain

**JEL Classifications:** F1, F5, N7, P1, P2.

### 1. Introduction

Recent resurgence of populism that promotes anti-establishment and anti-elitist movements is so immense and out of control that it threatens globalization and world trade norms and practices. Until 2016, the wave of globalization was so rapid and great that stopping or slowing it down was unimaginable or unrealistic to everyone, and no one ever seriously thought about the collapse of globalization. However, the recent phenomena of Brexit (Posta & Rehman, 2017), Trumpism (Blinder, 2016), and political populism in Latin America (Cachanosky & Padilla, 2019) taught many to realize what the term “expect the unexpected” means and that resurgence of populism is dominating the world economy and global environment

today. It took nearly five decades or more to progress and establish globalization, but it seems it could only take a few years to eradicate globalization and initiate deglobalization.

Globalization was necessary for many countries and companies to maximize their comparative advantages and realize business and economic growth, but there was no government, organization, or person to make sure the majority receives a fair share of business and economic growth. Rather, many research outcomes and data indicate the rise of income inequality due to globalization (Bourguignon, 2015), and the rise of populism, especially in Europe and the United States, was evident because of the economic inequality and insecurity resulting from income and wealth inequality, technological advancement, disappearance of unskilled industries and jobs, global relocation of companies, assets, and jobs, and ever growing number and problems of refugees and migrations (Inglehart & Norris, 2016; Rodick, 2017). In general, populists believe that globalization left the poor and the uneducated behind. Consequently, they became disillusioned by economic growth, technological advancement, and industrialization through globalization. Furthermore, people throughout the world indicate that they do not have confidence in their governments, politicians, or political parties and that they do not care about other countries and

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other people. The worst phenomenon caused by the anti-globalization is that once a fully democratic country, the United States of America, is on the verge of becoming a flawed democracy or even a hybrid regime (see Daniels, Radebaugh, & Sullivan, 2018). The purpose of this paper is to examine the recent resurgence of populism and the possible impacts it may have on contemporary business and economics. This paper explores and applies existing research to explore and examine this phenomenon rather than investigating and analyzing it with a new methodological approach.

## 2. Literature Review

Rodrik (2017) investigated populism by addressing the economic roots of populism and the factors that affect the emergence of right-versus left-wing populism. He first suggested that the original concept of populism came from a coalition of farmers, workers, and miners in the U.S. when they rallied against the Gold Standard and the Northeastern Banking and finance establishment in the nineteenth century. However, the original average workers movement is different from those of political populism today, where political parties or people taking advantages of populism and political populism movements are expanding throughout the world. The wave of anti-euro and anti-refugees in Europe that resulted in Brexit, anti-trade and anti-immigration that resulted in the election of President Trump in the U.S., and economic populism that resulted in Chavezism, a political ideology that was used by Hugo Chavez, in Latin America are the few examples of today's political populism and its movements. The common traits of these political populism movements are anti-elitists, anti-trade, anti-globalization, and anti-establishments, and these populists tend to support authoritarian leadership (p. 12).

Although Rodrik (2017) has not entirely blamed the advancement of globalization as the root of economic populism, the orientation of the economic populism, anti-trade, anti-industrialization, anti-immigrants, anti-free market system, anti-technological advancement, among others, are typical populist backlash that are directly associated with globalization. Furthermore, both the economic history and the economic theories provide enough reasons to explain the populist backlash of globalization. Rodrik has applied economic theories to explain the fairness of trade and redistribution, where the gains from trade should be redistributed to compensate those left behind because of trade. He has also suggested that trade does cause job displacement but not as significant a job displacement due to technological changes, especially in industries that require automation. Many lost

manufacturing jobs in the U.S. due to technology change and automation. However, political campaign and rhetoric have always been focused and blamed on trade instead of technological advancement or automation in manufacturing industry: "...trade is a convenient scapegoat, since the politicians can point to identifiable foreigners, Chinese, Mexicans, or Germans as the source of problems" (p. 18). In terms of globalization, Rodrik argues that globalization helped and provided many companies, exporters, and poor countries, including China, but left many people behind, especially unskilled and uneducated people in developed countries, including the U.S. The populists believe they lost their fair share of benefits because of big corporations, foreign countries, and foreigners due to globalization and free trade.

Rodrik also suggests that the rise of populism in the U.S. and Europe represents right wing populism and in Latin America the left wing populism. These emphasize a cultural cleavage, the national, ethnic, religious, or cultural identity of the people against outside groups who allegedly pose a threat to the popular will" (p. 25). Mukand and Rodrik (2017) describes both left-wing and right-wing populism by applying two different cleavages -- identity and income cleavages, where identity cleavage blames foreigners and minorities (right-wing populism) and income cleavage blames the wealthy and the corporations (left-wing populism). The rise of right wing populism in Europe indicates that many European populists fear that refugees and immigrants will take their jobs and welfare benefits. On the other hand, Latin Americans have experienced inequalities in income and wealth due to financial crisis and opening of free trade and foreign corporations. As such, in order to reckon with both the right and the left wing populism, Rodrik believes rebalancing of globalization is necessary to develop fair trade and redistribution policies and policies that address domestic economic concerns.

Inglehart and Norris (2016) have also examined the recent rise of populism by applying two theories similar to those of Mukand and Rodrik (2017): economic insecurity and cultural backlash. The recent rise of populist movements in Europe supports the overwhelming evidence of economic insecurity and inequality in the West, "based on the rise of the knowledge economy, technological automation, and the collapse of manufacturing industry, global flows of labor, goods, people, and capital, the erosion of organized labor, shrinking welfare safety nets, and neo-liberal austerity policies" (p.2). The resentment of the left-behind, the unskilled and poor white populations, contributed to the rise of populist movements and political parties in Europe, and these populists targeted immigrants, refugees, and minorities for taking away their jobs and public goods. The cultural or liberalism backlash is another

form of the populist backlash that counter progressive cultural change, "... especially among the older generation, white men, and less educated sectors, who sense decline and actively reject the rising tide of progressive values, resent the displacement of familiar traditional norms, and provide pool of supports potentially vulnerable to populist appeals" (p.3).

Inglehart and Norris (2016) and Pieterse (2018) conclude that the rise of populism in Europe is supported by the older, religious, less educated, and ethnic majority men, but the relationship between the populist demographic and social control is not supported by the analysis. In terms of the economic insecurity or inequality, the populist political parties get overwhelming support from socially deprived or less well-off population. Those populists with anti-immigrant, anti-globalization, and pro-authoritarian values support the populist political parties and those old and less educated white men, who appreciate what they perceive to be traditional values, felt they are left behind by the progressive and cultural changes.

Snower (2019) and Parella (2019) suggest that the rise of populism and nationalism is a threat to multilateralism (see Debreșcu & Ciocea, 2018), and the crisis in the liberal world order today shows the fragmented social, economic, and political domains. The economic integration of the world, the globalization, generated both opportunities and problems, but decoupling the boundaries of economy, polity and society significantly poses threats to the liberal world order, e.g., economic inequality, labor migration, climate change, and financial crisis. In order to tackle the problems of globalization, both individual needs and interpersonal comparison domains need to be addressed through business and economic policies to promote individual satisfaction, cooperation, and fair distribution among stakeholders.

According to Ali (2017), there are two forms of economic nationalism -- managed economic nationalism, also known as protectionism, and aggressive economic nationalism, which is managed economic nationalism with strong militarization. Both forms of economic nationalism, according to Ali, hinder nations' economic growth and prosperity and view international trade as a winner-take-all or zero-sum game. As such, they only want to take an ethnocentric approach to deal with trade and resolve trade issues. He also argues that free trade makes countries become familiar with cultural and political differences, making it easier to transfer knowledge and reduces the risk of war. Ali (2017) also suggests that economic nationalism is different from state capitalism, socialism, and isolationism. Both state capitalism and socialism are in the hands of state or the government, which controls trade with foreign countries; whereas, in economic nationalism, "...the government interferes in the marketplace to serve the

agenda of certain elite classes to justify its protectionism policies" (p. 92). He concludes that economic nationalism has been occurring and reoccurring for the last four centuries to protect local economies (see Patunru, 2018); however, the recent phenomenon of economic nationalism is the wealth of one country at the expense of other countries.

A study by Lee, Lee, and Lee (2013) found economic nationalism to be an indispensable tool for emerging economies: "A notable characteristic in industrialization of emerging economies, such as South Korea and Taiwan, is that their rapid economic growth would have been unlikely without economic nationalism being the binding force that gives direction to modernization policies" (p. 92). According to Ghemawat and Altman (2019), recent backlash against globalization and rise of economic nationalism make harder for both domestic and foreign businesses to operate in different locations. However, focusing on domestic operations and taking care of domestic issues, including taking care of their own citizens, should be the main concern for business organizations. They also mention, "...the biggest winners regardless of whether globalization goes up or down, are likely to be companies that embrace globalization's complexity rather than purely local or global visions of their business environments" (p. 8).

### 3. Discussions

Existing research suggests that the rise of recent populism and economic nationalism was intensified by both Brexit and the election of President Trump. These phenomena have reversed the direction of globalization or internationalism, and the foreign policies have focused more on unilateral or bilateral trade agreements, at most, rather than the multilateral (Druckman, 2019). It seems both right-wing and left-wing populism was caused by economic inequality/insecurity, but the right-wing populists blame foreigners and minorities, while the left-wing populists blame the wealthy and the corporations. Recent populism promotes traditional values and nationalism, and this phenomenon is overwhelmingly supported by less educated and less well-off white old men. Although there is no research to clearly explain the behaviors of the nationalism supported populists that target and blame foreigners and minorities and go against globalization and trade rather than blaming on technological changes, including automation, the best possible explanation to explain their behaviors is their intense or extreme form of nationalism which leads to racism.

The left-wing populism and its issues are less complicated than those of the right-wing populists, and

developing business and economic policies addressing income inequality and fair redistribution could easily satisfy the left-wing populists. However, any business and economic policy would not satisfy the right wing populism because they are not concerned about anything but protecting their extreme form of nationalism. The right-wing populism promotes economic nationalism and protectionism despite their long-term negative impact on economic growth. If they were true populists who were left behind the wave of globalization and experienced income inequality, they would have expressed their resentment against their governments and focused on fair business, economic, trade, and redistribution policies. However, the Trumpian populists, who claim themselves as anti-elitists and anti-establishment, still support the Trump administration, wherein the majority of the cabinet members are the so called, “elites” and the “wealthy”.

The wave of globalization generated winners and losers, but the rise of populism will also generate winners and losers. For instance, the current trade dispute between China and the U.S. could easily generate winners and losers because the unilateral or bilateral trade agreement, a zero-sum game approach, only produces winners or losers. The U.S. could reduce their trade deficit through the current negotiation with China; however, no one knows the future state of the U.S. soybean farming. The US government can't continue to subsidize the soybean farmers forever, and there is no guarantee that China will resume their soybean import from the U.S. after resolving the trade disputes. Furthermore, the possible business and economic implications of the rise of recent populism could promote the worldwide economic nationalism and protectionism.

Based on the analysis above, history shows that economic nationalism and protectionism have only hindered economic growth, caused inflation, increased wages, and increased government spending to protect local economy, and political and economic insecurity could negatively impact business industries. No one knows how long this wave of populism would continue, but the longer the populism continues, the greater the price that everyone would have to pay. Reducing trade deficits and entering fair bilateral or multilateral trade agreements are entirely separate issues, but merely blaming others to benefit political figures violates the original concept of populism. In recent years, the U.S., as the world economic leadership, has demonstrated and showed the whole world that the new economic nationalism entails trade tariffs and barriers, anti-immigration policies, and state and domestic capitalism, and the world has also seen the rise of anti-globalization, anti-immigration, and anti-trade movements in the U.S. There is no guarantee that other nations, especially the economically and militarily strong countries such as China and Russia, would not

follow the nationalistic behaviors of the U.S. and generate more problems for the entire world and the global economic growth.

#### **4. Conclusions**

Although populists tend to reject elitism, capitalism, economic globalization, and political establishment, their ethnocentric behavior is no different from those of the corrupted political and economic elites. Populism does enable nationalism and protectionism, and negatively impacts business and economic growth. It seems the rise of economic nationalism limits international trade, integration, and cooperation. As a result, international capital, service, and product flows will decline, and countries and multinational corporations have to develop and restructure their international supply and value chain to cope with this phenomenon. There are not that many viable answers to defuse the rise of populism because some of the solutions that could have prevented this movement, such as financial reform, balancing trade, and fair taxation, were missing in the early stages of globalization. The recent rise of populism is not a fad or the short-lived anti-establishment and anti-elitism movements, but rather a force to be reckoned with in the near future.

The extreme form of nationalism is the major problem of the recent populism because simply rebalancing globalization by developing fair distribution and income equality policies would not work for the current populists. History has witnessed this type of extreme nationalism through Nazi Germany where Germans blamed the Jews for their less-well off conditions, rather than going after their own elites, the wealthy, and the political leaders. Existing researches depicted the problems and concerns of globalization; yet, no research advocates economic nationalism or populism because of its long-term negative impacts on economic growth. The five-country analysis of the rise of populism in twenty-first century in Latin America by Cachanosky and Padilla (2019) has suggested that the populist government policies failed to produce a clear evidence of improvement of economic performance, institutional quality, and welfare of their citizens. According to Stankov (2018), demand for populism and the rise and fall of populist phenomenon will continue to exist as long as a triggered mechanisms exist, e.g., income inequality, resurgence of immigration, recession, insufficient factors of resources and social welfare. It seems one of the approaches to diffuse the recent phenomenon of populism is to develop a mixed political and economic strategy that addresses economic, cultural/racial, and social issues and concerns.

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