

Businesses Need to Beware of the Populist Promise

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The term ‘Populism’ is all over media outlets today. News, governments, businesses, and students all discuss the dangers and electoral outcomes of populist leaders. According to researchers, populism can manifest in different shapes, sizes, and types, yet a minimalist definition of the term ought to include the notion of a communication style or a political strategy that is confrontational insofar as it claims to uphold the desires of the ‘people’, while stigmatizing elites. This type of moral politics is often opportunistic, divisive, and ultimately comprises an illiberal hazard to governments and politics. Yet populist leaders can present potential threats to business and foreign investment, insofar as their authoritarian tendencies, political rhetoric and actions facilitate uncertainty, instability of regulations, laws and policies, and disengagement from established multilateral norms and economic agreements.

Populism has been a potentially dangerous shadow lurking in the political sphere of emerging and democratizing nations for years, but more recently in consolidated liberal democracies as well. In the past decade, we have seen charismatic or kleptocratic leaders (Berlusconi, Putin, Trump, Orban), xenophobic right-wing parties in Europe (Lega, UKIP, Jobbik, etc.) led by persons such as Le Pen, Bossi, Salvini, and left-wing or alternative populists like Syriza in Greece, Podemos in Spain, or the 5-star movement in Italy come to power. Broadly speaking, various types of internal political movements from the right and left are responding to, and taking political advantage of, difficult global socio-economic changes and inequities by promising a ‘new future’, a stronger heterogeneous identity, or a return to economic glory, by and large via a litigious (us/them) discourse.

A few by-products of populism have been resurgent nationalism or ethnocentrism, a serious decline in trust in traditional political institutions and parties, where skepticism and hostility towards European Union or Washington ‘elites’, is rampant. This extends to international institutions, where multilateral frameworks such as NATO, the World Trade Organization or NAFTA are attacked as inimical to the national interest. This produces a general environment of distrust, which breeds instability, a key factor for business success. In fact, there are significant issues that need to be understood when thinking about populism as a risk to business.

Businesses need certainty. Through Brexit, the election of Trump and other populists in Europe, increasing levels of political and economic uncertainty— or anxiety—have ensued in the aftermath based on concerns around the future of trade agreements, diplomacy, specific regulations and industrial policies, and more. Threats to repatriate capital, or ‘rip-apart’ trade agreements and long-established liberal norms that have for decades safeguarded the international investment and trade regimes, negatively affect that certainty and stability for businesses. Who would have guessed in 2016, that barely two years later, NAFTA would have to be renegotiated, or that tariffs of 25% would be imposed on North America’s integrated steel and aluminum industry by both the U.S. and Canada and still be in place? Equally, how many Canadian canola producers expected that their exports to China would be held hostage to US–China friction over trade negotiations and the arrest of a Chinese technology executive? Without a sense of confidence in the overall investment environment, businesses cannot clearly plan for the future.

Far-fetched promises are hard to keep. Populist strategies and policies that are currently being employed tend to ignore their regional or international responsibilities on trade, migration, climate change, and budgeting, as part of some sort of ‘patriotic’ renaissance, to ‘give power back to the people’. Brexiters guaranteed that the UK would be better off outside the EU, free from the shackles of the Brussels regulatory regimes, and able to stop the ‘invasion’ of so many migrants from the continent and beyond. Anti-establishment parties across Europe assured that a new prosperous future was on the

horizon, so long as we trusted in their protectionism, xenophobia, and scapegoating, and fought back against the globalist elite. Interested observers may not be surprised to see Brexit go off the rails. The UK is now at the precipice of a constitutional crisis, with ministers resigning and disobeying the whip. The House is in disarray and cannot come to agreement on a deal or no-deal Brexit, on some type of extension, or on a second referendum. The fallout from Brexit is complex, but one thing is certain – the UK's decision to leave will be mired in political instability, economic malaise, and social cleavages that will not go away post Brexit. (And while the populists enter ever more complicated policy contortions or employ ever more heated rhetoric to cover their failure to 'deliver' a national revival, institutions will continue to corrode and in response to continued uncertainty businesses will either grow catatonic or depart for greener pastures).

Institutions Matter. Concurrently, many populist leaders and governments often rhetorically attack the very same institutions they are controlling, and in the process, they delegitimize important aspects of democratic governance such as multilateralism, the separation of powers, the judiciary, and bureaucracy, all of which are extremely important for a functional investment environment. The populist governing coalition in Italy has learned that it cannot concurrently afford a universal basic income to its citizens, institute a flat-tax rate, block migrants, and spur economic growth while brushing off EU budgetary rules without being taken to court. The Trump administration is slowly coming to realize that border walls cannot be immediately erected on the whim of an authoritarian, that judges have sharp teeth, and that trade deals die hard (as do entrenched economic structures).

What this means for global trade, FDI, and international business is that new forms of political risks in 'stable' democracies, are on the rise. These issues are different than the more traditional political risks such as civil unrest, expropriation, war and terrorism, but they are caused by underlying socio-cultural and political conditions which should not be ignored.

How Companies Can Mitigate the Political Risks the Modern Populism Can Breed:

- Monitor contentious political developments and realities, and regularly evaluate policy proposals that affect international business, regulations, trade, and economic competitiveness;
- Businesses should conduct political risk assessments and have mitigation strategies in place to respond to such political-economic volatility, and be able to recommend corporate strategies to avoid future losses;
- Firms should consistently review their supply chains and export destinations in order to have a Plan B in case of unexpected tariffs or other types of disruption;
- Identify a network of experts that can provide investors and companies with an early warning of potential troubles ahead in key foreign markets or supply chain domiciles and advice on the protection and profitability of investments abroad.