

The Impact of Populist Executive on the Inflow of Foreign Direct Investment in Latin America¹

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I. Introduction

Populist forces have been resilient in Latin America and continue to cause instability and uncertainty across the region. Populist figures in the region first rose to prominence during the period of import substitution industrialization in the 1930s, capitalizing on the growing demands for mass politics and better social benefits from the rapidly expanding urban working class.

Populism, which had been rampant in Latin America for more than 30 years since then, seemed to fade into obscurity with military regimes which have dominated regional politics in the 1960s and 1970s. However, after a series of democratic transitions, Latin American democracies witnessed yet another wave of populism. A notable number of candidates

with a populist discourse have achieved victories in presidential elections in the 1980s and 1990s.

With the wave of democratization and the accumulation of public dissatisfaction due to a series of economic crises, some so-called neo-populists took power in a number of Latin American countries. They attracted voters by combining neoliberal economic policies with the typical “us-versus-them” discourse, demonstrating that any economic ideology can be linked to populist ideas.

The new millennium witnessed another tide of populist presidents across the region. While a rapid transition to neoliberal policies led to various socioeconomic problems, traditional

¹ This is a brief summarization of: Lee et al. 2022. "The Social and Economic Impact of the Spread of Populism in Latin America." *Studies in Global and Regional Strategies*, no. 22-10. Korea Institute for International Economic Policy. (In Korean)

parties and politicians could not respond effectively to the emerging problems. This time around, left-wing populist figures dominated the region's political landscapes, combining populist ideas with so-called 21st-century socialism.

While the era of radical left-wing populists came to an end, new breeds of populists appeared one after another and were elected to office in the 2010s. Not many expect that populist executives will cease to exist across the region in the near future. Social and economic inequality is worsening in the aftermath of COVID-19, and the public distrust of established party politics and existing democratic institutions is growing more than ever. All in all, there is fertile ground for populist forces to spread even more, who claim that they are the only ones who can eliminate the "incompetent and corrupt" establishment and truly represent the "virtuous" people.

Against this backdrop, there is a growing need to improve our understanding of the characteristics of populist governments that have repeatedly emerged in the region. Among many channels through which populist rule influences Latin American countries, Lee et al. (2022) dedicate one of their chapters to analyzing the impact of populist rule on the inflow of foreign direct investment, a variable of much importance in Latin American economies.

II. Definition of Populism

Before we try to assess how populist forces in power influence the inflow of foreign direct investment, it is essential to have a clear definition of populism. In order to do so, one should examine how populism has been defined in the existing literature.

Populism has been defined in many different ways. Some scholars emphasize the ideational nature of populism by focusing on the ideas centered on the "us-versus-them" division of society. Another group of authors describes populism as an economic phenomenon, suggesting that it is a set of policy outcomes. Other scholars support a political-strategic understanding of the term, while some locate populism in specific historical junctures such as the period of import substitution industrialization. Given the obscurity of the concept, diverse empirical phenomena and a wide variety of politicians in the region have been labeled populist.

Among many definitions of populism, Lee et al. (2022) follow the ideational definition of populism, which conceptualizes populism as a "thin-centered" ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, the "people" and the "elite," and which argues that politics should be an expression of the general will of the people.²

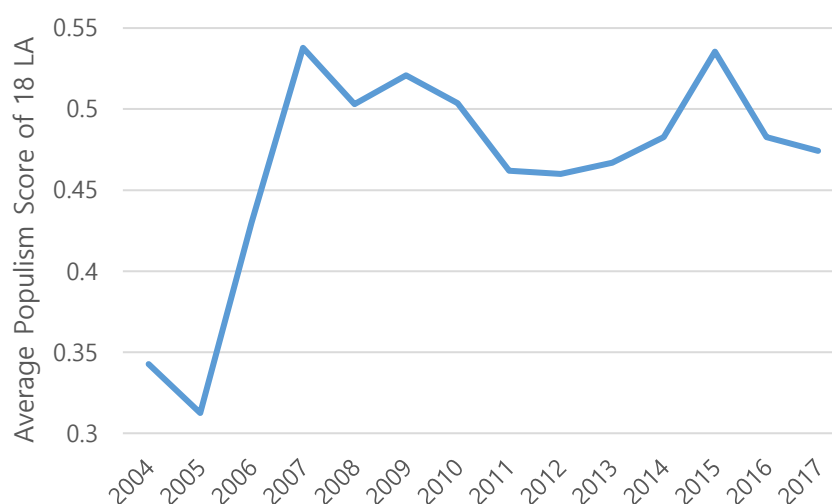
² Mudde, C. 2004. "The Populist Zeitgeist." *Government and Opposition*, 39(4), pp. 541–563.

According to the ideational definition of populism, at the core of diverse phenomena labeled ‘populist,’ there is the “thin-centered” ideology which allows for a minimalist conceptualization of populism. Following the ideational definition of populism, Hawkins et al. (2019)³ introduce a dataset called the Global Populism Database. The database is based on analyses of the level of populist discourse in the speeches of 241 chief executives from 74 countries, mostly between 2000 and 2022,

with the use of the “holistic grading” technique.

Data points consist of a single average score for each executive term. A term scoring higher than 0.5 is generally considered ‘populist.’ Figure 1 shows how the average Populism Score based on the Global Populism Database of 18 Latin American countries evolved from 2004 to 2017, confirming the resiliency of populist rule across Latin America.

Figure 1. Average Populism Score of 18 Latin American Countries 2004-2017



Source: Author's elaboration based on Hawkins et al. (2019).

III. The Impact of Populist Executive on the Inflow of Foreign Direct Investment in Latin America

Populist forces regard the "sacred" majority

as the ultimate source of legitimacy. They, therefore, attempt to realize the will of the “virtuous people” at the expense of the basic economic and political rights of the “corrupt elite.” Accordingly, populist forces demon-

³ Hawkins, K. A., Aguilar, R., Castanho Silva, B., Jenne, E. K., Kocijan, B. and Rovira Kaltwasser, C. 2019. “Measuring Populist Discourse: The Global Populism

Database.” Paper presented at the 2019 EPSA Annual Conference in Belfast, UK, June 20-22.

strate a tendency to avoid judicial and legislative restrictions on the executive power and ignore the principle of protecting minority rights, as they believe it is the only way to fully realize the will of the "pure people."

In the populist process of maximizing the welfare of the "pure people" there is ample room for the welfare of "elites," minorities, or groups that do not belong to "pure people" to be largely ignored. This means that asset holders and investors may at any time be deprived of their economic rights, including property rights.

The main information that asset holders and investors refer to when assessing a country's policy direction is the rhetoric of top-level politicians in government. Populist governments in Latin America, especially the ones whose ideological orientation is left-wing, have often employed a discourse that regards asset holders or foreign capital as enemies. Such rhetoric based on anti-neoliberalism, anti-globalization and resource nationalism inevitably causes asset holders or investors to have doubts about the state's willingness to respect economic rights, which in turn creates uncertainties across various economic sectors

Meanwhile, populist executives continuously mobilize supporters by encouraging ongoing conflicts between the "people" and the "elite" during their terms, increasing possibilities of rapid changes in the existing political order

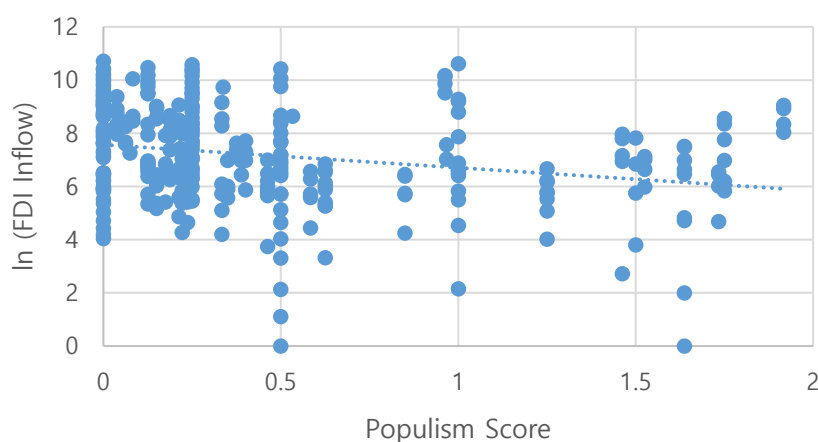
and intensifying related economic and political risks. This adds to the uncertainties of foreign investors who value consistency and predictability.

Against this background, Lee et al. (2022) establish a hypothesis that populists in power, especially the left-wing ones, are likely to result in a decrease in the inflow of foreign direct investment. Figure 2 provides a scatterplot of the Populism Score from the Global Populism Database against the inflow of foreign direct investment from 2003 to 2021. It shows that Populism Score is, on average, negatively associated with the inflow of foreign direct investment.

However, our regression results based on a panel dataset including 18 Latin American countries from 2003 to 2021 suggest that a stronger populist tendency of the ruling government does not necessarily lead to a decrease in foreign direct investment inflow. We find that the negative impact of the Populism Score is pronounced in left-wing populist regimes.

If the ruling government is left-leaning, a one-point increase in the government's populist score is associated with an average of 0.78% lower inflow of foreign direct investment compared to centrist and right-wing governments. For centrist and right-wing populist governments, we find no significant impact on the inflow of foreign direct investment from a more populist government.

Figure 2. Scatterplot of Populism Score against the Inflow of Foreign Direct Investment 2003-2021



Source: Author's elaboration based on Hawkins et al. (2019).

Table 1. Populism Score and the Inflow of Foreign direct Investment

	Dependent Variable: ln (FDI inflow)			
	(1)	(2)	(3)	(4)
ln (population)	2.57 (2.49)	2.88 (2.49)	2.56 (2.51)	2.06 (2.51)
ln (real per capita GDP)	0.99 (0.64)	0.89 (0.64)	0.96 (0.64)	0.96 (0.54)
Real per capita GDP growth	0.99 (0.64)	0.01 (0.02)	0.01 (0.02)	0.01 (0.02)
Openness	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)	0.03 (0.02)
Inflation	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Regulatory Quality	0.92*** (0.25)	0.88*** (0.25)	0.86*** (0.25)	0.87 (0.25)
Populism Score		-0.30 (0.22)	-0.24 (0.23)	0.28 (0.33)
Left-wing			-0.16 (0.16)	0.14 (0.21)
Populism Score*Left-wing				-0.78** (0.37)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Observations	304	304	304	304
R ²	0.62	0.61	0.62	0.64

Note: *** p<0.01, ** p<0.05, * p<0.1.

Sources: Population, real per capita GDP, and real per capita GDP growth from IMF World Economic Outlook; Openness and inflation data from Economist Intelligence Unit; Regulatory Quality from Worldwide Governance Indicators; Populism Score and ideological orientation of the executive from Hawkins et al. (2019).

IV. Concluding Remarks

Findings from simple regression results seem to suggest that left-wing populist regimes present an existential threat to the inflow of foreign direct investment. In Mexico, for example, AMLO's populist rhetoric based on left-wing nationalism has been received by investors with anxiety. It is true that Mexico's foreign direct investment inflow has not seen a decreasing trend since the inauguration of AMLO, given Mexico's growing significance as a nearshoring destination for firms targeting the U.S. market. Nevertheless, his populist rhetoric based on anti-neoliberalism and nationalism, is widely believed to have deterred foreign direct investment in a significant manner. His nationalization efforts in the energy sector have especially concerned foreign investors.

In the 2000s, left-wing populist figures such as Hugo Chávez and Evo Morales, who championed the anti-neoliberal and anti-globalization rhetoric, presented a threat much bigger than that posed by AMLO to foreign investors. Right-wing populists, on the other hand, often combine populist discourse with a pro-business narrative, thereby establishing a business-friendly reputation. Jair Bolsonaro, for example, benefited in the early days of his term from the perception of being 'pro-business.' He was warmly received by foreign investors as they expected that he would drive deregulation and tax reform for foreign investors.

Implications from the empirical findings are

clear. Foreign investors fear left-wing populists in power. For them, the biggest threat that left-wing populist executives pose appears to be resource nationalism. It is probably one of the most important variables that they consider for their investment decisions in strategic sectors such as oil, core minerals and electricity. As most of the left-wing populist governments in Latin America seem to be expanding the role of the state in strategic industries, it is questionable how they would be able to attract foreign direct investment that they desperately need for developing their strategic industries. **KIEP**