



## **Populism and Protectionism: Assessing the Rhetoric and Realities**

### **Summary**

- Right-wing populism has been on the rise in Europe since the 1960s.
- Typically lacking governing power, these movements are issue catalysts.
- Public angst over globalization is empowering protectionist parties and policies.
- Globally, trade protectionism has been steadily increasing.
- Nationalist governments will impede rolling back trade protection measures.

---

**K.P. O'Reilly, PhD, JD**  
kpo@nwpcapital.com  
414.755.0461, ext. 110

172 N. Broadway, Suite 300  
Milwaukee, WI 53202

---

In this longer research note, we examine several topics related to the rise of populist politics and anti-trade policies across developed markets (DM), including what should be expected in terms of political traction by populist parties, what impact they might have on trade policies, and the overall state of trade protection policies globally.

Over the past year, the political surprises of Brexit and the US presidential election highlight the emergence of populism in DM countries. Populism, generally speaking, is a relatively thin political ideology subject to variation, all of which build off the common theme of a population repressed by societies' elites and giving voice to the people. The populism prevailing at the moment across Europe of the right-wing variety, generally characterized by radical right parties. These parties disparage globalization, but embrace capitalism, espousing "us v. them" themes, which blame "others" for current maladies. Hence, the anti-trade, anti-immigrant rhetoric commonplace in European politics of late.

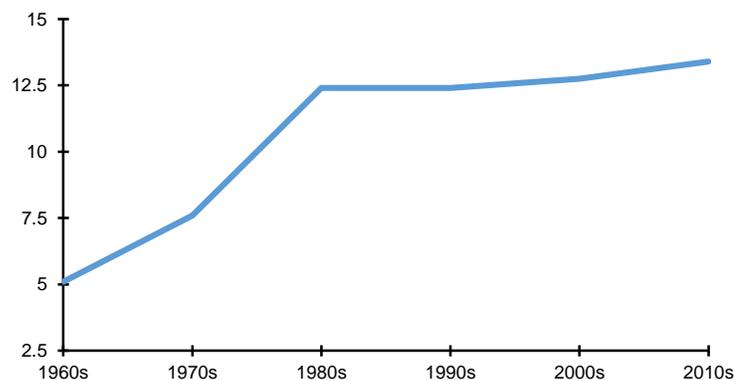
The recent success of populist extremist parties (PEPs) injects investment risks due to the political uncertainty and potential policy shocks should these parties act on their anti-trade, protectionist predilections. Increased trade restrictions will further hinder global trade while currently challenged by slow global demand. For emerging markets (EM), rising populism in DM countries raises the possibilities of slowed export growth and reduced foreign investment. Moreover, for EM watchers, this development is particularly oddly timed given the recent reversal of fortunes for populist parties across Latin America, albeit of the left-wing variety.

### **Europe's Populist Wave Four Decades in the Making**

Populist politics is far from a new phenomenon in Europe. As a recent working paper published by Harvard's Kennedy School, written by Ronald Inglehart and Pippa Norris, reports that PEPs have steadily gained votes over last four decades. European populist parties, both on the left and right, have made significant gains, going from an average share of 6.7% in the 1960s to 13.4% in 2010s for the right, and from 2.4% to 12.7% for the left.<sup>1</sup> The combined average of votes won by PEPs, both left and right, from the 1960s through 2015 is shown in Figure 1. Of late, right-wing parties have attained governing status in Finland, Hungary, Latvia, Lithuania, Norway, and Switzerland. Meanwhile, in Southern Europe, leftist populist parties have gained advantages in Spain and Greece.

Despite voluminous academic studies about the rise of PEPs across Europe, the extent of their political influence remains unclear. Although increasing in absolute vote shares, they remain relatively minor political actors historically falling well short of capturing the necessary majorities to govern. That said, they are well suited to serve as policy catalysts pushing particular agendas. The popular sentiment captured and amplified by these parties enables them to exert outsized influence. The UK Independence Party (UKIP) and Italy's Five Star Movement are prime examples of PEPs punching far above their electoral weight. In Italy, the Five Star Movement (M5S), while currently the largest of the opposition parties, holds only 91 of 630 (14%) seats in the Chamber of Deputies. Meanwhile, the UKIP offers a more extreme example, holding only one seat out of 650 (.001%) in the House of Commons. Nonetheless, both parties were formidable opponents in recent national referendums in their respective countries. Accordingly, PEPs are frequently examined through a demand-side lens, with their success rising on the wave of public angst.

**Figure 1. Electoral Results for European PEPs 1960s-2010s**  
 (mean average % per decade)



Source: Northwest Passage Capital Advisors, Inglehart and Norris, ParlGov database (Döring and Manow 2016)

Inglehart and Norris highlight two prevailing demand-side explanations for the electoral success of PEPs: economic inequality and cultural backlash. These explanations are represented by the anti-trade and anti-immigrant rhetoric standard across PEPs, especially the “us v. them” tone emanating from right-wing PEPs. Distinguishing between these explanations is difficult as they appear part of an interactive process. Increasing economic insecurity, resulting from workplace and social disruptions caused by globalization, fuels negative feelings towards those seen as benefiting from these changes.

An earlier study, conducted by Duane Swank and Hans-Gerog Betz, on the rise of far-right parties in Europe, revealed the effects of economic disruption and immigration.<sup>2</sup> The decline in manufacturing employment and post-industrialization spurred on by globalization were systematically connected to increasing vote totals for right-wing radical parties. As for the uneven success of these parties across Europe, a significant difference was credited to the presence of domestic institutions to mitigate the impacts of globalization. In countries with more universal, employment-orientated social programs, these parties were less successful, regardless of trade openness and capital mobility. They too found a significant effect caused by immigration as relatively large across the board. Notably, this immigration effect held regardless of domestic institutions, although it slightly diminished in universal social welfare countries.

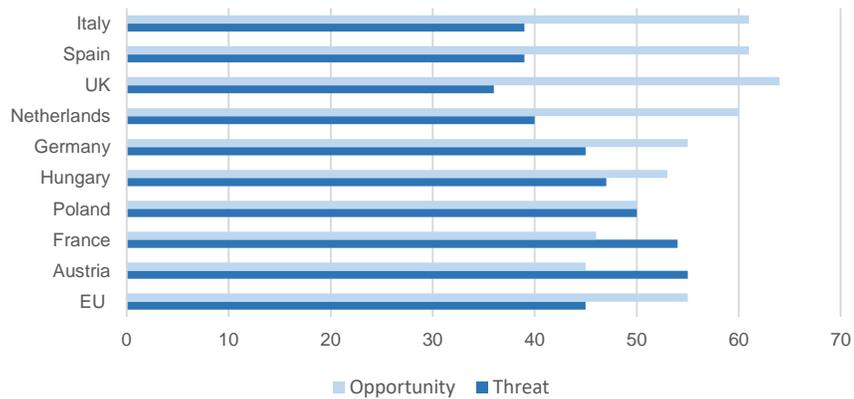
Acknowledging the economic disruption inherent in global trade, the IMF recently suggests that governments implement “sufficiently broad social safety nets, as well programs to support retraining, skill building, and occupational and geographic mobility.”<sup>3</sup> Such action is easier said than done. Welfare systems across Europe are facing retrenchment, under pressure by aging

demographics, slow economic growth, and declining revenues. In the US, the election of a unified Republican government means social spending increases lack legislative priority. Absent domestic policies alleviating economic inequality resulting from global competition anti-trade PEPs will continue to draw support from a growing segment of European and US voters.

**European and US Public Opinion: Anti-Trade and Political Attitudes**

Recent polling data shows increasing dissatisfaction about globalization by many Europeans and Americans. A Bertelsmann Foundation survey found Europeans continue to hold a more positive (55%) than negative (45%) view of globalization, in general. However, in some of the EU countries (*i.e.* Austria, Poland, Hungary, France) witnessing recent surges in right-wing populism, the sentiment is more negative (Figure 2). Overall, individuals identifying with PEPs were more fearful of globalization in general, with supporters of right-wing parties more fearful than those on the left.

**Figure 2. Public Sentiment on Globalization Across Europe (%)**



Source: Northwest Passage Capital Advisors, Bertelsmann Foundation

The survey also found distinct differences across an array of political issues (Table 1). As between respondents seeing globalization as a threat versus an opportunity, significant difference emerge over aspects of integration, especially staying in the EU, followed by immigration ('country has too many foreigners'). Moreover, those fearing globalization were more likely to see migration as the top global challenge versus war, the environment, crime, poverty, the economic crisis, or terrorism.

**Table 1. Political Views of European based on Globalization Sentiment**

If said <b>Globalization is a Threat:</b>		If said <b>Globalization is an Opportunity:</b>	
Vote for EU Exit	47%	83%	Vote for Remain in EU
Want more integration	40%	60%	Want more integration
Trust politicians	9%	20%	Trust politicians
Are satisfied with democracy	38%	53%	Are satisfied with democracy
Think country has too many foreigners	57%	40%	Think country has too many foreigners
Oppose gay marriage	29%	19%	Oppose gay marriage
Think climate change is a hoax	34%	28%	Think climate change is a hoax

Source: Northwest Passage Capital Advisors, Bertelsmann Foundation

In the US, public opinion exposes a similar trend. Despite a recent presidential campaign replete with anti-trade and protectionist rhetoric, Americans remain positive on globalization overall, with 65% believing that it is mostly good for the US. However, the poll, conducted by the Chicago

Council on Global Affairs, reveals a sharp contrast given political affiliations. Republicans held a less favorable opinion than Democrats about the benefits of globalization on jobs, American companies, their standard of living, and the overall US economy (Table 2). Democrats have traded places with their Republican counterparts, viewing international trade much more positively today than a decade ago. The results are striking given the Republican party's traditional embrace of free market and free trade policies, positions still held by much of the party's leadership, although not necessarily president-elect Trump.

**Table 2. US Public Opinion on Globalization by Party ID**

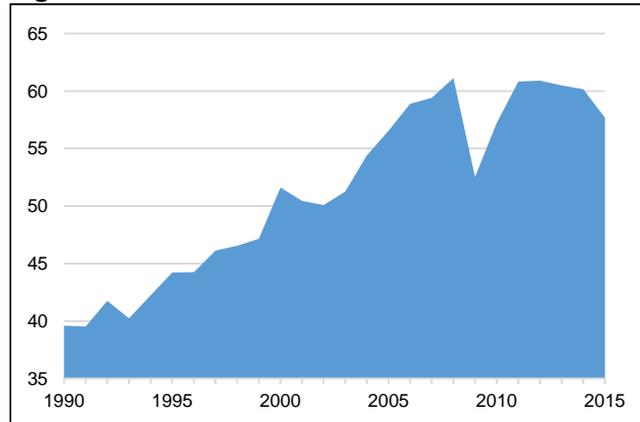
Overall, do you think international trade is good or bad for _____ ? (% good)			
	Year	REP	DEM
The US economy	2006	60	52
	2016	51	68
American Companies	2006	55	50
	2016	50	65
Creating jobs in the US	2006	38	38
	2016	34	47
Your own standard of living	2006	70	64
	2016	60	72

Source: Northwest Passage Capital Advisors, Chicago Council on Global Affairs

**Populism's impact on global trade**

Is slow economic growth fueling populism or are populist politics hindering growth? It appears to be a reciprocal relationship. PEPs' success, in turn, puts pressure on global liberal trade arrangements given these parties' nationalist and protectionist inclinations. As the IMF recently reported, continuing stagnation in advanced economy countries is expected to fuel anti-trade sentiment which, paradoxically, will further stifle growth.<sup>4</sup> Rather than retreating into protectionism's zero-sum outlook, the organization argues that global growth requires further integration and cooperation, reducing tariffs and regulatory barriers to trade and investment.

**Figure 3. Global Trade as % of Global GDP 1990-2015**



Source: Northwest Passage Capital Advisors, World Bank

Worries over rising European populism have intensified given its overlap with the slowdown of global trade. Since 2010, global trade has slowed, growing at only 2% per year. In 2016, trade growth fell by nearly 1% in Q2.<sup>5</sup> Trade as a percentage of global GDP has been in decline since 2012 (Figure 3). Some blame this slowdown on populists' anti-globalization sentiment, although the more likely culprit is overall slower global demand. Nevertheless, the growing presence and influence of populist parties within governments mean political action and policy coordination to promote growth will be challenging.

The political agendas of PEPs reveal a morass of trade policies and positions. Focusing just on right-wing populist parties, what one discovers are parties which by-and-large, are pro-capitalism and trade, but simultaneously reject European integration (anti-EU), globalization, and immigration (Table 3). These latter two positions are fueled by anti-immigrant and nationalistic sentiment rather than outright rejection of free markets. Their espoused economic policies cover issues such as foreign workers, preferential treatment of national corporations, and exercising national sovereignty over economic policy-making. In several cases, they offer little by way of concrete alternatives aside from voicing general opposition to the current status quo. In the case of Italy's Five Star Movement, the party offers no clear opinion as to remaining in the EU or the euro zone aside from seeking a popular referendum on those matters. In essence, these parties espouse mostly neo-liberal economic ideas, while rejecting global cosmopolitanism.

**Table 3. European Right-Wing Parties and Specific Policy Areas**

Country	Party Name	Leave EU	Leave (join) Euro	Free trade/ Globalization	Immigration (non-EU)
<b>Austria</b>	Freedom Party of Austria (FPO)	No, but limit power of EU law over national law	Yes	Yes, subject to national control, seek referendum on TTIP	Against immigration, strict limits on Muslim immigrants
<b>France</b>	National Front (FN)	Yes	Yes	Yes, subject to national control, rejects TTIP	Strict limits based on applications professional skills
<b>Germany</b>	Alternative for Germany (AfD)	No, seek de-centralization	Yes, but by orderly dissolution	For Free trade. Against TTIP	Point system based on labor market requirements
<b>Hungary</b>	Hungarian Civic Alliance (Fidesz)	No, but limit EU power vis-à-vis national sovereignty	Hesitant to join, no target date set	Anti-globalization, pro-nationalist economic policy	Recent referendum to reject EU immigration quota defeated
<b>Italy</b>	Five Star Movement (M5S)	Call for referendum	Call for referendum	Position unclear	Discord among party leaders on issue
<b>Poland</b>	Law and Justice Party (PiS)	No, but limit EU power vis-à-vis national sovereignty	Opposes euro adoption	Anti-globalization, pro-nationalist economic policy	Seek to limit EU's refugee policy
<b>UK</b>	UK Independence Party (UKIP)	Yes	NA	Free Trade w/in Commonwealth. Replace SEA with bilateral agreements	Create a point system like used for EU citizens

Source: Northwest Passage Capital Advisors, Deutsche Bank *EU Monitor*, April 28, 2015

### New Era of Trade Restrictions

Since the global economic crisis of 2008, there has been a surge in trade restriction measures globally. The WTO reports that since 2008 approximately 2,385 trade restrictive measure were implemented with 2,127 in place as of mid-2016.<sup>6</sup> A large number of these measures were passed by G20 countries, who, in spite repeated pledges against protectionism, have since 2009 imposed a total of 1,583 trade restrictive measures.<sup>7</sup> Only a quarter of these measures have been subsequently eliminated. These restrictions cover over 6% of all G20 imports and 5% of global imports.<sup>8</sup> These finds were supported by a recent EU Commission study, which although using the EU's more limited definition of protectionism, found 704 protectionists

measures passed from 2008 to mid-2014. The study similarly found the number of measures increasing at a more rapid pace of recent.<sup>9</sup>

As shown in Figure 4, the monthly average of implemented trade restriction measures coincides with the recent ebb and flow of global trade. It is expected that 2016 will witness an even higher monthly average of trade restriction measures given preliminary reports finding a monthly average of 21 measures from mid-2015 to mid-2016.<sup>10</sup>

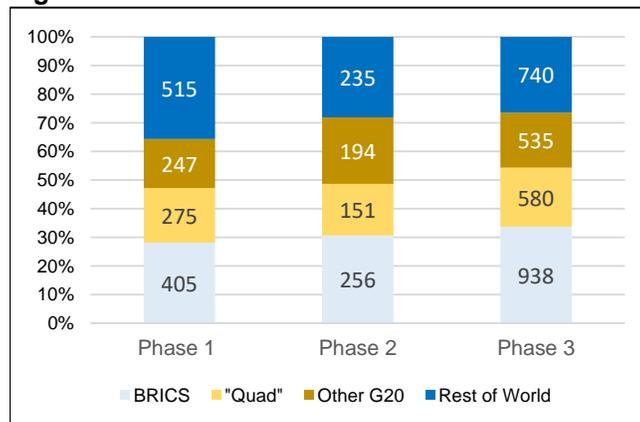
**Figure 4. Global Trade and Trade Restriction Measures**



Source: Northwest Passage Capital Advisors, WTO

Despite attention focusing on DM protectionism, EM countries accounted for nearly half of all new trade-restrictive measures introduced between June 2014 and December 2015.<sup>11</sup> China, Russia, Indonesia, and India combined accounted for almost half of all new restrictive measure.<sup>12</sup> Global Trade Alert found the BRICS countries and the Rest of the World accounting for a majority of trade protection measures. Looking across three phases of protectionism since the great recession (Phase 1 (November 2008 to Q3 2010), Phase 2 ( Q4 2010 to Q4 2011), and Phase 3 (Q1 2012 through mid-2015)) the group found a recent resurgence protectionist measures globally (Figure 5).<sup>13</sup> The relative percentages of measures by country groups were relatively stable across the three phases, however. The “Quads” (the US, Japan, Canada, and EU members of the G20) and the Other G20 were responsible, on average, for 39% of trade restrictive measures.

**Figure 5. Three Phases of Trade Protection**



Source: Northwest Passage Capital Advisors, Global Trade Alert

In sum, nationalism, not just western populist sentiment, appears to be fueling the current crush of protectionism globally. As one observer wryly notes “Sovereignty is the new capitalism.”

### **Conclusion: Long Live Sovereignty**

Today, domestic politics appears increasingly at odds with open, global trade. As Economist Dani Rodrik suggests, globalization appears to be forcing states to choose among two out of three factors: hyper-globalization, democracy, and national sovereignty.<sup>14</sup> He advises that in a struggle between the forces of hyper-globalization and domestic politics, the smart bet is on domestic politics prevailing. This conclusion indeed appears to hold in light of recent political events in Europe and the US.

Nevertheless, one should be wary of assuming the inevitability of populism across Europe or its staying power. These parties are historically more successful in amplifying public dissatisfaction than governing. Takeaways from the recent Austrian presidential election suggest pressing pause on the notion of the relentless march of populism across the continent.<sup>15</sup> That said, the increasing cultural dynamic underlying support for right-wing PEPs will not be subdued solely by improved economic conditions. Governments need to continue to provide safety nets for domestic losers of globalization to remedy growing economic dissatisfaction and stem cultural backlash.

For EM investors, a degree of caution is reasonable as rising protectionism threatens to corrode global trade further. However, trade protectionism, while brought to the forefront by political events in Europe and the US, has been an ongoing issue since 2008. EM countries have played an outsized role in resorting to the protectionism following the economic crisis. Rolling back protectionist measures will necessitate intergovernmental cooperation. In the near-term, such efforts are complicated by increasing nationalist economic sentiment across DM governments.

©2016 Northwest Passage Capital Advisors LLC. All rights reserved.

The views and opinions expressed are those of the firm as of the date on this report and are subject to change based on market and other conditions. There is no guarantee that the forecasts made will come to pass. This material is not intended to be relied upon as investment advice or a recommendation, does not constitute a solicitation to buy or sell any security and should not be considered specific legal, investment or tax advice. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. The information and opinions are derived from sources the firm believes to be reliable, however, the firm does not represent that this information is complete or accurate and it should not be relied upon as such. This information is prepared for general information only.

<sup>1</sup> Inglehart, Ronald, and Pippa Norris. "Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash." HKS Faculty Research Working Paper Series RWP16-026, August 2, 2016. Accessed on November 25, 2016.

<https://research.hks.harvard.edu/publications/getFile.aspx?id=1401>

<sup>2</sup> Swank, Duane and Hans-Georg Betz. "Globalization, the Welfare State and Right-Wing Populism in Western Europe." *Socio-Economic Review* 1, no. 2 (January 5, 2003): 215–45. Accessed November 28, 2016. doi:10.1093/soceco/1.2.215. <http://ser.oxfordjournals.org/content/1/2/215.abstract>.

<sup>3</sup> International Monetary Fund. "IMF NEWS ARTICLE-keeping the Wheels of Trade in Motion," September 26, 2016. Accessed December 1, 2016. <http://www.imf.org/en/News/Articles/2016/09/26/NA092716%20Keeping-the-Wheels-of-Trade-in-Motion>.

<sup>4</sup> International Monetary Fund. "IMF NEWS." October 4, 2016. Accessed December 1, 2016. <http://www.imf.org/en/News/Articles/2016/10/03/AM2016-NA100416-WEO>.

- 
- <sup>5</sup> Eichengreen, Barry. "Globalization's Last Gasp." November 17, 2016. Accessed November 29, 2016. <https://www.project-syndicate.org/commentary/growth-before-globalization-by-barry-eichengreen-2016-11>.
- <sup>6</sup> World Trade Organization. "Trade Monitoring Database." Accessed December 2, 2016. <http://tmdb.wto.org>.
- <sup>7</sup> World Trade Organization. "WTO Report: 'G20 trade restrictions reach highest monthly level since the crisis.'" June 21, 2016. Accessed November 30, 2016. [https://www.wto.org/english/news\\_e/news16\\_e/trdev\\_21jun16\\_e.htm](https://www.wto.org/english/news_e/news16_e/trdev_21jun16_e.htm).
- <sup>8</sup> Ibid.
- <sup>9</sup> Barone, Barbara and Roberto Bendini. "Protectionism in the G20." Report prepared for the Directorate-General for External Policies. March 2016. Accessed December 8, 2016. [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/549028/EXPO\\_STU\(2015\)549028\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/549028/EXPO_STU(2015)549028_EN.pdf).
- <sup>10</sup> World Trade Organization. "WTO Report: 'G20 trade restrictions reach highest monthly level since the crisis.'" Accessed December 8, 2016.
- <sup>11</sup> European Commission. "Commission report Points to rising Protectionism" June 21, 2016. Accessed November 29, 2016. <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1513>
- <sup>12</sup> European Commission. "Report from The Commission To The Council and The European Parliament on Trade and Investment Barriers and Protectionist Trends." June 20, 2016. Accessed on December 5, 2016. [http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc\\_154665.pdf](http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154665.pdf)
- <sup>13</sup> Evenett, Simon, J. and Johannes Fritz. "The Tide Turns? Trade, Protectionism, and Slowing Global Growth." Report prepared for Global Trade Alert. November 12, 2015. Accessed November 30, 2016. <http://www.globaltradealert.org/gta-analysis/tide-turns-trade-protectionism-and-slowing-global-growth>.
- <sup>14</sup> Rodrik, Dani (2011). *The Globalization Paradox: Democracy and the Future of the World Economy.* W. W. Norton & Company.
- <sup>15</sup> Weber, Alexander, Jonathan Tirone, and Boris Groendahl. "Austrian Nationalist Beaten to Presidency in Blow to Populists." December 05, 2016. Accessed December 6, 2016. <http://www.bloombergquint.com/politics/2016/12/04/austrian-freedom-party-defeated-in-presidential-vote-orf-says>.