

CULTURAL DETERMINANTS OF FOREIGN DIRECT INVESTMENT: NATIONALIST-XENOPHOBIC ATTITUDES

Sebastian Tocar¹

Abstract. Cultural characteristics related to the values of national identity (patriotism, nationalism) and attitudes toward other peoples (xenophobia) represent important elements of cultural specificity that influence various dimensions of socioeconomic life, including economic processes. Unfortunately, these specific characteristics are not often investigated, especially in this context, probably because of the difficulty of quantifying them and the general sensitivity of the topic. This study presents an original approach to the study of nationalist-xenophobic attitudes and their relationship to foreign direct investment (FDI). *The aim* of this study is to identify theoretical benchmarks for approaching the topic of nationalism-xenophobia, to develop a synthetic indicator to quantify nationalism-xenophobic attitudes, and to highlight the mechanism of their influence on FDI attraction. *The methodology* used for conducting this research comprises the methods of analysis, synthesis, induction (for logical connections and theoretical argumentation), weighted average technique (for the elaboration of Nationalism-xenophobia Index), Cronbach's Alpha coefficient of internal consistency (to test the reliability of the construct) and Pearson correlation coefficient (for the correlation analysis). The author's contributions include a study of the relationship between nationalist and xenophobic sentiments, the development of the Nationalism-xenophobia Index, an indicator of the intensity of these sentiments in society, an analysis of the relationship between nationalism-xenophobia relations and the amount of FDI attracted per capita, the identification and explanation of the cultural mechanism by which nationalist and xenophobic sentiments influence various phenomena, including FDI. Logical-theoretical assumptions and arguments are confirmed by the results of quantitative data analysis. *The findings* of the study confirm that the cultural characteristics associated with nationalism and xenophobia represent important elements of cultural specificity that influence economic processes, including FDI. Numerous studies show that the nationalist dimension of ethnocentrism is closely related to xenophobia. Analysis of countries' scores on the nationalism-xenophobia index depending on the dominant Christian denomination and the presence of a communist past shows a link between nationalist-xenophobic, Orthodox (and, to a lesser extent, Catholic) values and the values of communist ideology, which negatively affect FDI attraction. Furthermore, nationalist-xenophobic attitudes have a negative impact on FDI attraction, both directly and indirectly, showing a strong negative impact.

Key words: nationalism, xenophobia, foreign direct investment, intercultural, cultural values, Nationalism-xenophobia Index.

JEL Classification: C43, F21, Z12, Z19

1. Introduction

Cross-border investments, one of the main determinants of economic growth in developing countries (including post-communist countries), involve engaging in cross-cultural communication, the characteristics and the results of which are strongly determined by cultural parameters related to national identity: ethnocentrism (patriotism, nationalism) and xenophobia, concepts that encompass the attachment to national cultural values and the separation from / rejecting of other cultures (and

values, respectively), considering them "external" (Latcheva, 2014).

Through reduced international cooperation, isolationism, etc. (Balabanis et al., 2001), nationalistic and xenophobic sentiments impede a country's economic development in a modern context dominated by globalization. On the other hand, economic nationalism can be seen as a way to ensure the profitability of domestic businesses in competition with foreign firms (Jakobsen and Jakobsen, 2011). As for the relationship with foreign direct investment

¹ Alexandru Ioan Cuza University of Iași, Romania (*corresponding author*)

E-mail: sebastian.tocar@feaa.uaic.ro

ORCID: <https://orcid.org/0000-0001-8937-4460>

(FDI), the situation is less ambiguous: nationalist and xenophobic sentiments impede intracultural communication, reduce interstate cooperation, and negatively influence the decision of the foreign investor (Balabanis et al., 2001; Khoury et al., 2010).

However, while the literature provides several views on this relationship, in the author's opinion a systematic approach that explains the impact of nationalist and xenophobic attitudes on FDI is lacking.

The purpose of this study is to identify theoretical benchmarks for approaching the topic of nationalism-xenophobia, to develop a synthetic indicator to quantify nationalist-xenophobic attitudes, and to highlight the mechanism of their influence on the attraction of FDI.

To achieve this goal, the author used a combination of methods, techniques and tools of quantitative and qualitative analysis, such as analysis, synthesis, induction, the method of weighted average value, Cronbach's Alpha coefficient and Pearson's correlation coefficient.

The author's contributions include a study of the relationship between nationalist and xenophobic sentiments, the development of the Nationalism-xenophobia Index, an indicator of the intensity of these sentiments in society, an analysis of the relationship between nationalism-xenophobia relations and the amount of FDI attracted per capita, the identification and explanation of the cultural mechanism by which nationalist-xenophobic sentiments influence various phenomena, including FDI.

The work is conducted as follows. The second section illustrates an analysis of the specialized literature regarding the main concepts under study and the relationship between them. The following sections present the methodology and data sources, as well as the results of the analysis, including the development of the nationalism-xenophobia index. The last section formulates conclusions and discusses limitations and directions for future research.

2. Nationalism, xenophobia and Foreign Direct Investment

Cultural characteristics related to the values of national identity (patriotism, nationalism) and attitudes toward other peoples (xenophobia) represent important elements of cultural specificity that influence economic processes, although they are not often studied, probably because of the difficulty of quantification and the general sensitivity of the topic. Nevertheless, these elements determine how people relate to their own culture ("loyalty" within the group) and to the culture of others ("hostility" toward other groups) (Cashdan, 2001). Nationalist-xenophobic values, being an integral part of culture,

influence the highlighting of some cultural values and the undervaluation of others, participating in the modeling of the value system. On the other hand, the system of cultural values characteristic of each country influences the predisposition of culture to the cultivation of nationalistic-xenophobic attitudes. The author puts nationalism and xenophobia together, even hyphenating them in order to emphasize the connection between these concepts. While patriotism is characterized by a person's attachment to his people, his country, its history and culture, nationalism is the taking of this attachment to an extreme, the idealization of his own nation ("blind patriotism") and the shift of attention from a positive assessment of one's own group to differentiation from other groups and hostility toward them (Mummendey et al., 2001). Numerous researches demonstrate that the nationalist dimension of ethnocentrism is strongly correlated with xenophobia (Mummendey et al., 2001; Davidov, 2009; Logan et al., 2015) leading to the statement that nationalism is xenophobic by its nature (Latcheva, 2010).

Even at the level of cultural values, nationalism (ethnocentrism) is also associated with xenophobia (ethnic discrimination): an analysis based on Milton Rokeach's system of cultural values revealed equality and cleanliness (neatness, tidiness) as values most involved in discrimination (including discrimination based on ethnicity) and at the same time as values characteristic of ethnocentrism. Cleanliness corresponds to a high level of ethnocentrism and discrimination, and equality corresponds to a low level of both parameters (Rokeach, 1973).

Patriotism, which theoretically does not involve offensive attitudes toward other groups, taken to the extreme of cultivating a sense of superiority of one's own nation, becomes nationalism and is directly linked to xenophobic sentiments in society.

These cultural characteristics will affect all areas of society, including the economic. There are several studies that demonstrate the impact of the concepts described above on economic phenomena in society, particularly on foreign investment.

Along with corruption, legal structures or individual rights, xenophobia is one of the social factors that will influence a foreign investor's decision to invest in a particular country (Khoury et al., 2010).

Nationalist sentiments cannot be useful for international cooperation because they create stereotypical images of foreigners (with a negative connotation), which, together with exaggerated self-perception, can lead to isolationism, violations of minority rights, ethnic violence and economic nationalism, expressed in a reduction of interstate cooperation, commercial protectionism, restrictions on foreign investment, foreign companies, etc. (Balabanis et al., 2001).

In societies dominated by nationalist ideas, domestic enterprises are preferred to foreign companies, which obliges the authorities to impose strict rules on foreign investment, rules that will lead to a reduction of FDI. Public authorities will act in accordance with widespread nationalist sentiments in society (seen as preferences of the electorate) by raising tax rates, canceling contracts, or expropriating assets of foreign companies (Jakobsen and Jakobsen, 2011).

On the other hand, economic nationalism can be seen as a way to ensure the profitability of domestic (state and private) enterprises, especially given the fact that they have difficulty surviving in competition with foreign firms (Jakobsen and Jakobsen, 2011).

Given that in today's globalized and internationalized economic environment, foreign direct investment is an indispensable tool for sustainable economic growth in developing countries, the exacerbation of nationalist and xenophobic sentiments will have a categorically negative impact on the economies of those countries that cannot effectively manage these sentiments.

3. Methodology

Data

The author used UNCTAD's online database (2022), the online cultural measurement database developed by Geert Hofstede (Hofstede Insights, 2022), and the World Values Survey online database (2022) to collect data.

Method

To develop the Nationalism-xenophobia Index, the author applied a weighted average method, with the weights of the three elements being equal. The elements of the indicator were responses to three relevant questions from the World Values Survey (WVS). The reliability of the construct was tested using Cronbach's Alpha internal consistency coefficient.

To analyze the correlation between the index of nationalism-xenophobia and Hofstede's cultural dimensions, as well as between the index and the volume of FDI per capita, the author used Pearson's correlation coefficient.

4. Results

Nationalism-xenophobia Index

To quantify nationalistic-xenophobic attitudes, the author developed the Nationalism-xenophobia Index, which is based on responses to relevant questions in the World Values Survey, a data source used in numerous studies in this field (for example: Shayo, 2009; Latcheva, 2014; Pradkhan, 2016 etc.).

This index included the results of responses to three questions from the World Values Survey, which

address both the nationalism and differentiation from other groups aspect ("Employers should give preference to people (nation)") and the xenophobia aspect (percentage of people who would not want immigrant neighbors and the percentage of people who did not mention tolerance and respect among important qualities of a child). The index was obtained by applying the weighted average method, with each of the elements having equal weight. This composition of the index was chosen due to the maximum reliability (compared to other combinations of elements), based on the results of the Cronbach's Alpha internal consistency coefficient calculation. The Cronbach's Alpha value (0.899 for the initial items and 0.91 based on standardized items) demonstrates the usefulness of the elaboration of Nationalism-Xenophobia Index.

To conduct the analysis, the author looked at the results of the most recent study available (WVS, wave 2017–2020). Figures 1 and 2 present a comparative demonstration of the results of calculating the index of nationalism-xenophobia for European countries, depending on two important factors that could explain the cultural specificity that determines a particular level of this indicator: the dominant Christian denomination and the presence of a communist past.

The predominant Christian denomination was determined based on results reported in the World Christian Database and the World Religion Database (Swiss Metadatabase of Religious Affiliation in Europe (SMRE), 2022). Of all the European countries analyzed in the WVS, those in which the most prevalent denomination represents less than 50% of the population were excluded.

The situation in terms of nationalistic-xenophobic attitudes by dominant Christian denomination is suggestive: on average, Orthodox countries have the highest index values, predominantly Catholic countries are in the middle zone, and Protestant countries have the weakest nationalistic-xenophobic tendencies.

At the same time, it is important to note that Catholic countries are represented in all areas of the chart: even though they are mostly concentrated between the other two groups, there are Catholic countries both with low values (France, Spain) and very high Index values (Lithuania and Hungary), and even the country with the highest Index score (Slovakia) belongs to this group. At the same time, Cyprus has a consistently lower rate than other Orthodox countries, being surrounded by Catholic countries, and Finland's rate is noticeably higher compared to the rest of the Protestant countries.

The results obtained in calculating the nationalism-xenophobia index suggest two possible explanations:

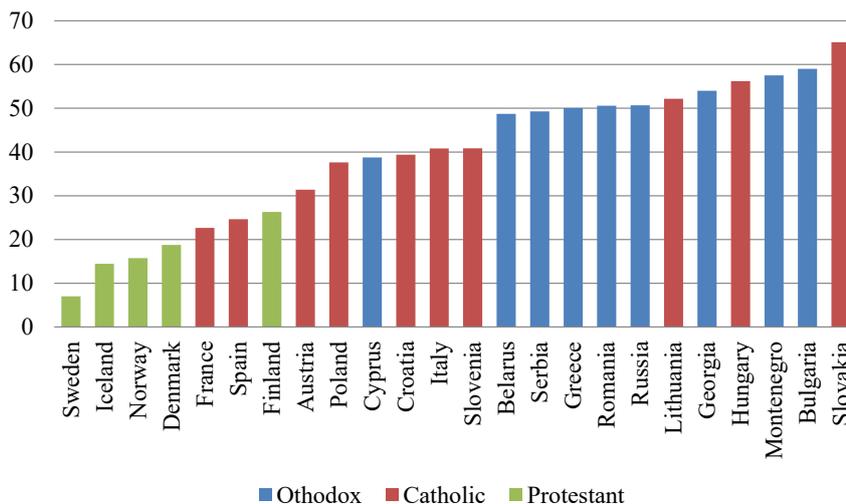


Figure 1. The values of the Nationalism-Xenophobia Index for the European countries according to the dominant religious denomination

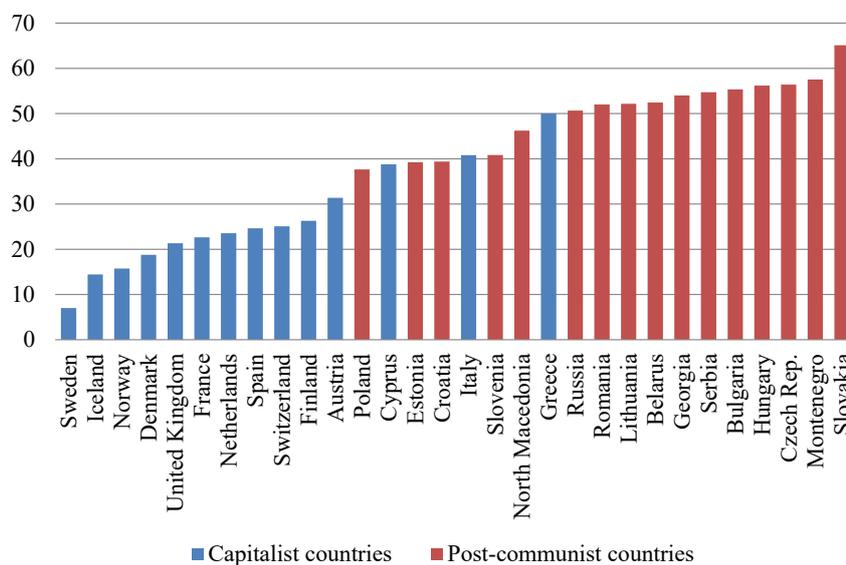


Figure 2. Nationalism-Xenophobia Index values for European countries depending on the communist past or its absence

Orthodox doctrine (following Catholic doctrine) includes elements that encourage the spread of nationalist-xenophobic attitudes; accordingly, Orthodox religiosity is positively associated with these attitudes. A second explanation might be as follows: Orthodox (and, to a lesser extent, Catholic) doctrine and nationalist-xenophobic sentiments are based (in part, though the values involved play an important role) on shared cultural values, so that the development of one of these aspects creates a favorable environment for the other.

The ranking of European countries on the basis of the values of the Index and depending on the communist past indicates the existence of a presumptive relationship: post-communist countries

in general show a higher level of nationalist-xenophobic attitudes, capitalist countries have, with one exception (Cyprus, which is a predominantly Orthodox country), a low level of the Index.

The distribution of countries on the basis of the Nationalism-Xenophobia Index according to the denomination and the communist past suggests an association between the nationalist-xenophobic, Orthodox (and, to a lesser extent, Catholic) values and the values of the communist ideology.

Correlation analysis confirmed a strong correlation between the values of the index of nationalism-xenophobia, on the one hand, and the Christian confession, respectively, the presence of a communist past (Table 1).

Table 1

Pearson coefficient values for the relationship between the index of nationalism-xenophobia and Christian confession and the communist past

Parameter	Correlation	Christian denomination	Communist past
Pearson correlation coefficient	Nationalism-xenophobia index	-.780**	.800**
Significance		.000	.000

Notes. 1) ** – p < 0,01.

The more one moves from Orthodox doctrine through Catholic doctrine to Protestant doctrine, the weaker the nationalist-xenophobic sentiments. Regarding the communist past, the results of the correlation analysis confirm that former communist countries are strongly associated with a higher intensity of nationalist-xenophobic sentiments.

The impact of nationalist-xenophobic attitudes on FDI through the cultural values

As already mentioned, nationalism (ethnocentrism) is associated with xenophobia (ethnic discrimination) even at the level of those cultural values with which they are associated: purity and equality (Rokeach, 1973). Cultures that emphasize purity and undervalue equality are more conducive to the spread of nationalist-xenophobic attitudes. On the other hand, nationalist-xenophobic attitudes will encourage the cultivation of the cultural value of purity and discourage the cultivation of equality.

The ratio of nationalism and xenophobia influences FDI both directly (the spread of these attitudes in society will negatively influence both the decisions of foreign investors (regarding the initiation and development of investment) and state authorities (regarding strategies for attracting foreign investment), and indirectly (through the cultural specificity of society, values related to nationalism and xenophobia are reflected in the country's score on the cultural dimensions).

Cultural measurements represent the most successful and widespread way of the quantitative approach to the cultural factor. Earlier research has shown that Hofstede's system of cultural dimensions is the most comprehensive and outlined (Tocar, 2019).

In order to explore the relationship between nationalistic-xenophobic attitudes and Hofstede's cultural dimensions (through the cultural values of purity and equality), the author conducted a

correlation analysis between the nationalistic-xenophobic index and the scores on Hofstede's cultural dimensions (Table 2).

The Pearson coefficient values demonstrate a very strong, highly significant relationship between the Nationalism-xenophobia index and the two dimensions developed by Hofstede: Power Distance (positive) and Indulgence versus Restraint (negative). There is also a highly significant moderately strong correlation between the Index and two other dimensions: Individualism vs. Collectivism (negative) and Uncertainty Avoidance (positive). Content analysis conducted earlier (Tocar, 2019) revealed a cultural value of purity or equality for each of these dimensions, and the direction of the correlation follows the direction suggested by the extremum of the dimension in which the cultural value was identified. Thus, strong nationalist-xenophobic attitudes are associated with greater power distance, collectivism, stronger uncertainty avoidance and restraint.

Thus, the connection between nationalistic-xenophobic attitudes and cultural dimensions based on cultural values is confirmed by the analysis of both quantitative and qualitative data related to these concepts.

At the same time, the author observed that the cultural value of national security (protection from attacks) is associated with strong Uncertainty Avoidance and Restraint. Given the fact that nationalist organizations often argue for xenophobic attitudes in terms of national security, and quantitative data analysis confirms this connection, the author sees national security as a cultural value associated with nationalist-xenophobic attitudes, even if the Rokeach analysis did not reveal this connection.

A smaller distance of Power corresponds to an emphasis on equality, as does a low level of prevalence

Table 2

The values of the Pearson coefficient for the relationship between the Nationalism-Xenophobia Index and the Hofstede's cultural dimensions

Parameter	Correlation	Hofstede cultural dimension					
		PDI	IDV	MAS	UAI	LTO	IND
Pearson correlation coefficient	Nationalism-xenophobia index	.722**	-.607**	.398*	.637**	.377*	-.811**
Significance		.000	.000	.029	.000	.040	.000

Notes. 1) ** – p < 0,01; * – p < 0,05.

2) PDI – Power distance index; IDV – Individualism vs. collectivism; MAS – Masculinity vs. femininity; UAI – Uncertainty avoidance; LTO – Long-term orientation vs. short-term orientation; IND – Indulgence vs. restraint.

Table 3

The value of the Pearson coefficient for the correlation between the Nationalism-Xenophobia Index and the FDI stock per capita in 2020

Parameter	Correlation	FDI stock per capita
Pearson correlation coefficient	Nationalism-xenophobia Index	-.728**
Significance		.000

Note. ** – $p < 0,01$; * – $p < 0,05$.

of nationalistic-xenophobic attitudes, and a strong positive correlation confirms this relationship. Stronger Uncertainty Avoidance is associated with an emphasis on the values of purity and national security, as well as a high level of prevalence of nationalist-xenophobic attitudes, and the correlation between the quantitative representations of these concepts is accordingly strongly positive. Societal restraint is associated with cultural values of purity and national security (and a low IND score), as well as strong nationalistic and xenophobic sentiments, with a strongly negative correlation between the Index and the IND score.

In order to examine the relationship between nationalist-xenophobic sentiments and FDI from a quantitative point of view, the author analyzed the correlation between the values of the nationalist-xenophobic index and the per capita stock of FDI (Table 3).

The results of the correlation analysis between the Nationalism-xenophobia Index and the amount of FDI per capita are consistent with the compelling claims drawn from the literature: Nationalism-xenophobia hinders FDI attraction, and the negative correlation between these variables is strong and highly significant.

Thus, nationalistic-xenophobic attitudes contribute to emphasizing the cultural value of cleanliness (tidiness, neatness) and undervaluing equality, modeling cultures characterized by great power distance, strong uncertainty avoidance and restraint that shape people's attitudes, decisions and actions towards FDI, leading to a decrease in the amount of FDI attracted.

Thus, the spread of xenophobic nationalistic attitudes in society, reflected in its cultural specificity through the emphasis on cultural values of purity and national security and underestimation of the cultural value of equality, negatively affects the attraction of cross-border investments into the economy. At the same time, the analysis confirmed that the Nationalism-xenophobia Index is a relevant indicator for quantifying the factor of the same name, given the consistency of the research results with qualitative and quantitative data.

5. Conclusions

The cultural characteristics related to nationalism and xenophobia represent important elements of cultural specificity, which influence economic processes, including FDI. Numerous researches demonstrate that the nationalist dimension of ethnocentrism is closely associated with xenophobia.

The distribution of countries according to the index of nationalism-xenophobia by Christian denomination and communist past shows a link between nationalist-xenophobes, Orthodox (and, to a lesser extent, Catholic) values and the values of communist ideology, which (as further revealed) have a negative impact on the attraction of FDI.

Nationalist-xenophobic attitudes have a negative impact on FDI both directly (the spread of these attitudes in society will negatively influence both the decisions of foreign investors (regarding the initiation and development of investment) and the decisions of government agencies (regarding strategies for attracting foreign investment), and indirectly (through the cultural specificity of society, values associated with nationalism and xenophobia (purity, equality and national security) are reflected in assessments of the country along cultural dimensions). Quantitative analysis confirmed the logical-theoretical propositions about the sharply negative impact of nationalist-xenophobic sentiments on the attraction of FDI in the economy and the consistency of the developed index.

Limitations and Directions for Future Research

The main limitation of this study is that World Values Survey data are provided by time period (waves) and a limited number of countries under consideration. Another limitation is related to the data on countries' scores on the cultural dimensions developed by Hofstede: for some countries they are calculated, for others they are estimated, and for some countries they do not exist (e.g., Cyprus).

In future studies, the author could increase the number of countries analyzed, improve the consistency of the index by adding some new elements, and deepen the analysis of certain categories of countries (e.g., post-communist).

References:

- Balabanis, G., Diamantopoulos, A., Mueller, R., & Melewar, T. (2001). The Impact of Nationalism, Patriotism and Internationalism on Consumer Ethnocentric Tendencies. *Journal of International Business Studies*, 32(1), 157–175.

- Cashdan, E. (2001). Ethnocentrism and Xenophobia: A Cross-Cultural Study. *Current Anthropology*, 42(5), 760–765.
- Davidov, E. (2009). Measurement Equivalence of Nationalism and Constructive Patriotism in the ISSP: 34 Countries in a Comparative Perspective. *Political Analysis*, 17, 64–82.
- Hofstede Insights (2022). *Country comparison tool*. Available at: <https://www.hofstede-insights.com/>
- Jakobsen, J., & Jakobsen, T. (2011). Economic nationalism and FDI: The impact of public opinion on foreign direct investment in emerging markets, 1990-2005. *Society and Business Review*, 6(1), 61–76.
- Khoury, S., Wagner, E., & Kepler, J. (2010). Explaining the Dearth of FDI in the Middle East. *Topics in Middle Eastern and North African Economies*. Available at: <http://ecommons.luc.edu/meea/136>
- Latcheva, R. (2010). Nationalism versus patriotism, or the floating border? National identification and ethnic exclusion in post-communist Bulgaria. *Journal of comparative research in anthropology and sociology*, 1(2), 187–215.
- Latcheva, R. (2014). Measuring National Identity. In: B A. Michalos, ed. 2014. *Encyclopedia of Quality of Life and Well-Being Research*. Springer Science + Business Media Dordrecht, pp. 3941–3953.
- Logan, S., Steel, Z., & Hunt, C. (2015). Investigating the Effect of Anxiety, Uncertainty and Ethnocentrism on Willingness to Interact in an Intercultural Communication. *Journal of Cross-Cultural Psychology*, 46(1), 39–52.
- Mummendey, A., Klink, A., & Brown, R. (2001). Nationalism and patriotism: National identification and out-group rejection. *The British Journal of Social Psychology*, 40, 159–172.
- Pradkhan, E. (2016). Impact of culture and patriotism on home bias in bond portfolios. *Rev Manag Sci*, 10, 265–301.
- Rokeach, M. (1973). *The Nature of Human Values*. New-York: Thw Free Press.
- Shayo, M. (2009). A model of social identity with an application to political economy: nation, class, and redistribution. *American Political Science Review*, 103, 147–174.
- Swiss Metadatabase of Religious Affiliation in Europe (SMRE) (2022). *Religious Affiliation*. Available at: https://www.smre-data.ch/en/data_exploring/religious_affiliation#/
- Tocar, S. (2019). Comparative analysis of some cultural dimensions systems: a qualitative value-based approach. *Cross-cultural Management Journal*, XXI(1), pp. 21–34.
- UNCTAD (2022). Foreign direct investment: inward stock, dollars per capita. Available at: <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>
- World Values Survey (2022). WVS Wave 7. Available at: <https://www.worldvaluessurvey.org/WVSContents.jsp>