The influence of societal nationalist sentiment on trade flows

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Abstract
In recent years, the world has witnessed a backlash against globalization and a rise in populist and nationalist movements around the world. However, there appears to be little empirical research concerning how these movements, and especially nationalist sentiment, actually influence trade. Therefore, we explore how and when nationalist sentiment within a country influences trade. Our results indicate that the effect of nationalist sentiment on imports is mediated by lower participation in free trade agreements (FTAs) but not via tariffs. Furthermore, we are unable to confirm support for a direct effect of nationalist sentiment on imports, as predicted by the consumer ethnocentricity literature. However, we do find a strong and negative impact of nationalist sentiment on exports. It would appear that nationalist sentiments tend to blunt the desire to export. Psychic distance between the countries appears to magnify the effects of nationalist sentiment on tariffs and FTAs, but not the direct effects on trade. Finally, we also find that custom union membership, such as the EU, negates the effect of nationalist sentiment on tariffs but this cannot be confirmed for FTAs. Overall, our model enriches our understanding of how nationalist sentiment in society affects trade and offers guidance to policymakers.

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INTRODUCTION

After a long period of de-globalization beginning with the Great Depression, the world entered what Jones (2010) called the "second global economy" around the late 1970s. This era is characterized by broad liberalization, deregulation, and increased global trade. Initially, populism and nationalism were on the retreat during this new era, which shifted much of the attention of scholars and policymakers away from such issues. However, more recently the world is witnessing a reversal in that trend with a backlash against globalization, accompanied by a rise in populist and nationalist movements and ideologies. For example, the Trump-inspired MAGA movement in the United States (U.S.) is built around a discourse that is both anti-elite (i.e., populist) and anti-foreign (i.e.,

nationalist). This is not unique to the U.S., and we are witnessing both populist and nationalist movements in many countries including the Brexit movement in the United Kingdom (UK), the Bharatiya Janata Party in India under the leadership of Narendra Modi, and the Marine Le Pen led National Front party in France. Yet, little empirical research in the international business (IB) literature and international economics (IE) literature has been conducted into exactly how much such movements influence trade, what are the important mediating mechanisms, and what are the implications these movements might have for economic policy.

This paper takes a tentative step in filling this void by exploring how, and under what circumstances, a country's nationalist sentiment influences both its levels of exports and imports. As we will explain in more detail later in the paper, we define societal nationalist sentiment as the degree to which nationalist beliefs, as typically defined and measured in the political science literature (e.g., Kosterman & Feshbach, 1989), are widely held by the general population. While populist and nationalist movements are increasingly intertwined, we focus on the nationalist sentiment aspect of these movements, which centers around a distinction between the domestic versus the foreign, as this is most likely to affect trade.

We develop a mediating model that proposes that nationalist sentiment may affect trade through both direct and indirect paths. Specifically, building on the insights from the economic nationalism perspective, which focusses on nationalism as a matter of economic policy, we propose that nationalist sentiment may negatively influence trade indirectly via tariffs and/or the propensity to participate in free trade agreements (FTAs). However, our model also allows for direct effects of nationalist sentiment (i.e., not through government policy decisions) on both imports and exports. With respect to imports, we draw from the marketing literature to propose that higher 'consumer ethnocentrism' due to nationalist sentiment negatively affects imports. With respect to the influence of nationalist sentiment on exports, we draw from work in social psychology, and focus on an underacknowledged side effect of nationalist sentiment – the tendency to blunt the desire of firms to explore export opportunities. After having established these direct and indirect paths, we consider potential contingencies or boundary conditions of our hypothesized effects. We first theorize and test how

psychic distance, or more precisely psychic distance stimuli (e.g., differences in language and religion between the exporting and importing countries) may magnify the effects of nationalist sentiments. We also control for and explore how being a member of a customs union, such as the EU, might influence the indirect paths in our model. This allows us to assess whether being part of a custom union may act as a key boundary condition for parts of our model.

In more general terms, our study makes three major contributions to the nationalism-trade literature. First, as acknowledged above, this study embraces a wider range of possible mechanisms through which a nationalist movement might influence trade within a single model. The IE literature has focused extensively on how nationalism might influence trade policy (i.e., economic nationalism); however, individual papers within this stream have tended to focus on one particular form of protectionist policy at a time (e.g., tariffs, FTAs, or non-tariff barrier), and typically explore it within the context of a small number of countries (e.g., Born, Müller, Schularick, & Sedláček, Born, 2019; Johnson & Barnes, 2015). In contrast, this paper embraces a much broader range of mechanisms, including both tariffs and FTAs, but also considers possible direct effects on imports and exports, and then compares them across a broader set of countries. This allows us to assess the relative importance of the various mechanisms. The second major contribution, which complements the first, is that this paper explores what precedes nationalist trade policy and starts by identifying the overall level of societal nationalist sentiment in a wide range of countries. This is in contrast with the existing IE literature, which typically begins by identifying a particular incident of protectionist behavior; and from there, explores its impact on trade and investment. This existing literature explicitly or implicitly acknowledges that broader-based nationalist sentiments are motivating the observed protectionist behaviors, but that critical link between them, until now, has typically remained unexplored. As a result, the combination of these two contributions allows us to shed new light on how broad societal movement, such as nationalism, may affect international trade. The third major contribution concerns the identification of two key contingencies and boundary conditions to the aforementioned effects. In particular, the role of psychic distance in potentially magnifying the effects of nationalist sentiments, and the

role of more elaborate FTAs, such as the EU, in potentially suppressing the effects of nationalist sentiments on trade-policy decisions.

Overall, our theoretical model enriches our understanding of how nationalist sentiment in society affects trade. It also offers guidance to policy makes by improving our understanding of how nationalist sentiment might be affecting economic policy, and equally important how government policies that stimulate nationalist sentiment might impact trade.

In terms of our empirical results, they indicate that strong nationalist sentiments do appear to suppress imports, but it is mediated almost exclusively by reduced participation in FTAs, echoing the UK's experiences with Brexit. Surprisingly, our results do not support the potential direct effect of consumer ethnocentrism, nor a path mediated by higher tariffs. Nationalist sentiments do appear to influence the level of tariffs to some extent, but the predicted negative impact of tariffs on trade is not evident. Most interestingly, the strongest effect of nationalist sentiments appears to be in terms of suppressing exports. In this instance, the direct effect, which we refer to as the 'blunting of the desire to export', seems to dominate the overall effects on exports. However, a greater reluctance to enter into FTAs also plays a role in reducing exports. In terms of contingencies and boundary conditions, psychic distance appears to magnify the effect of nationalist sentiments on trade policies (i.e., tariffs and FTAs) as predicted, but it does not appear to moderate either of the direct effects. In addition to that, custom unions such as the EU, appear to act as a critical boundary condition for tariffs; however, for FTAs, the evidence does not support such a conclusion. Even amongst EU countries, nationalist sentiments appear to influence participation in FTAs. Nevertheless, customs union membership still appears to have a direct effect on participation in other FTAs.

Our study is structured as follows: We begin with a brief summary of work on gravity models in the international trade literature, followed by a focused review of the political science and social psychology literature relating to nationalist sentiment and economic policy. From there we develop a series of hypotheses concerning the direct and indirect mediated effects that nationalist sentiment might have on trade. This is followed by a set of hypotheses that focus on contingency effects of psychic distance on our baseline predictions. We then use a well-established measure of nationalist sentiment drawn from a cross-national survey of attitudes conducted by the International Social Survey Programme (ISSP) to test our predictions using a sample consisting of 43 different countries. Finally, we will then discuss the policy implications and limitations of our findings.

LITERATURE REVIEW

The Gravity Model of Trade Flows

As explained in the Introduction, in this paper we are studying the impact of nationalist sentiment on international trade flows. In order to do this, we start with and build upon what is referred to in the international economics literature as the 'gravity model'. As Egger (2008) emphasized, for more than 40 years the gravity model has been the "workhorse" of international trade literature, and continues to be the starting point of virtually any empirical investigation of trade flows (e.g., Metulini, Patuelli, & Griffith Metulini, 2018). Underlying this model is the assumption that the respective size of each economy, plus the distance between them, is the starting point for predicting the flow of trade between any dyad of countries. This practice stretches back to the early works of Linnemann (1966), and such a model typically explains up to 70 to 80% of total trade. The international trade literature has continued to use this workhorse to explore numerous subtle aspects of trade flows; and in the process, have examined several sub-elements of the model we will develop in our study. For example, as we will discuss further when we derive our predictions, there is a substantial body of work that has established that tariffs (Aichele & Heiland, 2018; Ghodsi & Stehrer, 2022) and FTAs (Baier & Bergstrand, 2007; Cipollina & Salvatici, 2010) affect trade.

Another insight we build on is that international trade is not only affected by economic factors but also influences by the values, attitudes, and biases in society. For example, the work of Luigi Zingales and co-authors has illustrated that international trade is also affected cultural values and other values in society (e.g., Guiso, Sapienza, & Zingales, 2009, 2006). Specifically, using bilateral data concerning managers from five European countries, they show that culture affects the formation of trust which is turn affects economic exchanges such as international trade. This body of work highlights that culture and more broadly societal sentiments and values affect international trade. While

increasingly societal factors are considered in gravity models, to our knowledge no gravity model has explicitly explored how, or how much societal nationalist sentiment within a country might influence trade flows. Accordingly, we begin our investigations with a relatively standard gravity model as our starting point, but we extend it by focusing on the role of nationalist sentiment, and explore the mechanisms through which it might influence international trade. However, in order to do that, we need a concise and agreed upon definition of nationalist sentiment, and what behaviors and attitudes are associated with it. Therefore, we briefly turn to the origins of the concept in political science and social psychology.

Societal Nationalist Sentiment and Related Constructs

The issue of nationalism has a long history in the political science and social psychology literatures (e.g., Allport, 1927; Mead, 1929), which continues on to this day (e.g., Ayden, Bagci, & Kelesoglu, 2022). One key issue that needs to be clarified, particularly with respect to this investigation, is that the majority of these literatures "consider[s] nationalism as an individual's attitude" (Dekker, Malova, & Hoogendoorn, Dekker, 2003: 346) that is manifested in the everyday beliefs, assumptions, and behaviors of individuals, including managers, and consumers (Bonikowski, 2016). However, these individual beliefs, assumptions and behaviors are typically shared among the population of a country, turning this into a societal-level phenomenon, which we refer to as a country's *nationalist sentiment*.[1]

It is important to note that the concept of nationalist sentiment is distinct from other concepts of nationalism that primarily see it from a policy perspective, such as 'economic nationalism' (Zhang & He, 2014) or 'resource nationalism' (Bucheli & Aguilera, 2010; Click & Weiner, 2010). As we will develop in the hypotheses, these concepts are distinct but nevertheless related in the sense that nationalist sentiment amongst the voting population may likely result in a country embracing economic nationalism in a policy sense.

So far, we have established that nationalist sentiment pertains to shared beliefs, assumptions, and behaviors in society. Next, we want to elaborate on what this qualitatively entails. Kosterman and Feshbach (1989) definition is particularly useful in that regard. They define (and empirically validate through factor analysis) nationalist

sentiment as "*a perception of national superiority and an orientation toward national dominance. It consistently implie(s) downward comparisons of other nations*", which has been broadly embraced by the subsequent literature (Armagan & Ferreira, 2005; Balabanis, Diamantopoulos, Mueller, & Melewar Balabanis, 2001; De Figueiredo & Elkins, 2003; Mummendey, Klink, & Brown, Mummendey, 2001).[2]

This definition highlights two key features of nationalist sentiment that are relevant for our purpose. First, it emphasizes that there is a distinction between the ingroup (i.e., people, products or firms from same country) and the outgroup (i.e., people, products or firms from foreign countries). Second, it stresses that the ingroup is perceived to be qualitatively different from the outgroup. Namely, there is a negative assessment of the outgroup, which is looked down-upon. We will re-visit these two features when we establish the link between nationalist sentiment and trade in our theoretical framework.

This definition also helps us understand why many of the social movements we see have seen arise are both populist and nationalist in nature. Nationalist and populist sentiments are distinct yet closely related constructs (e.g., De Cleen, 2017). One key way how they relate to each other is that both refer to a discourse that is centered around an ingroup and an outgroup. In the case of nationalist sentiment this discourse is centered around the "*nation*" where the distinction is between the domestic ingroup and foreign outgroup. In case of populism, the discourse is centered around the "*people*" and a distinction is made between the "*people*" as a large powerless group with the "*elite*" as a small and illegitimately powerful group (e.g., Laclau, 2005a, 2005b; Müller, 2017; Stavrakakis, 2004; Stavrakakis & Katsambekis, 2014). As Brubaker (2020) and other recent works (e.g., Wojczewski, 2020) suggest, both often go hand in hand as the illegitimate powerful elite is often equated with foreign actors and influences. Thus, while populist and nationalist movements are increasingly intertwined, we focus on the nationalist sentiment aspect of these movements, which centers around a distinction between the domestic versus the foreign, as this is most likely to affect trade.

Having conceptualized nationalist sentiment, we now need to consider what behaviors and attitudes are typically associated with it that are potentially relevant for international trade. For this, we draw

upon the relevant social psychology literature, which has treated nationalist sentiment as a form of ingroup-outgroup behavior (Druckman, 1994: 48). We do so because the social psychology literature has tended to focus more heavily on behavioral outcomes associated with nationalist sentiment; whereas the political science literature has tended to focus more on the antecedents of nationalist sentiment (e.g., Blank & Schmidt, 2003; Brubaker, 2012). The most obvious attitude related to nationalist sentiment is virtually definitional – namely a strong belief that one's own country is superior. This *'superiority bias'* is not only strongly reflected in the outgroup literature (e.g., Brewer & Kramer, 1985), it is arguable the corner stone of the Kosterman and Feshbach (1989) definition of nationalist sentiment. This attitude will become particularly relevant when we begin to discuss our hypotheses concerning the direct effects of nationalism on imports, where we for example build on work that has focused on consumer ethnocentrism (Sharma, Shimp, & Shin, 1995).

Building on the work of Druckman (1994), we also argue that there are three other attitudes related to nationalist sentiment which may be relevant. Each will be discussed in more detail in the development of the relevant hypotheses, but in brief they are: (a) a strong tendency to exhibit *'favoritism'* towards the ingroup (i.e., people, products and firms that originate from one's home country), (b) a greater *'distrust'* in people, products and firms from foreign countries, and (c) a greater *'reluctance to interact'* and work with people and firms from a foreign country.

HYPOTHESES

In this section, we theorize how nationalist sentiment impacts imports and exports. To do so, we first build on existing insights from the international trade literature on economic nationalism to establish how nationalist sentiment might affect trade through economic policy. Specifically, we will outline indirect mediating paths that may link nationalist sentiment to trade through tariffs and free trade agreements. Next, by building on the attitudes and behaviors associated with nationalist sentiment that are outlined in the previous section, we propose that nationalist sentiment may also have a direct impact on trade. We present a summary of our theoretical mediating framework in Figure 1.

Economic Nationalism: The Effect of Societal Nationalist Sentiment on Trade through Trade Policies

Indirect effects on imports

In our first prediction we are interested in how nationalist sentiment in society may indirectly affect imports by influencing protective trade policies (i.e., economic nationalism). To establish such a mediating path, we first need to explain how nationalist sentiments in a society might manifest themselves in terms of economic nationalism; and thus, influence protective trade policies (i.e., the first half of the indirect mediating effect). Then, we need to establish that protective trade policies, such as tariffs and the reluctance to enter into free trade agreements, do indeed negatively impact imports (i.e., the second half of the indirect mediating effect). As this second half of our mediating effect is well established in the international-trade literature (e.g., Baier & Bergstrand, 2007, 2001; Conlon, 1985; Geraci & Prewo, 1977), we simply outline this relationship to fully establish the mediating path we propose and to formalize all the relationships we need to test in our empirical analysis.

To establish the *first half of this indirect mediating* effect we extent work that has suggested that nationalist sentiment can shape economic policy that is nationalist (e.g., Baughn & Yaprak, 1996), by building on work that has linked nationalist sentiment with favoritism. Nationalist sentiment can lead to what is referred to in social psychology as ingroup favoritism (Dovidio & Gaertner, 2010). Along with more favorable assessments (which we will re-visit in our predictions below), ingroup favoritism is one of the two most commonly studied biases in ingroup-outgroup research. Numerous studies have found that, particularly under certain conditions (e.g., when there is a competitive element), people show favoritism by biasing their choices in favor of other ingroup members (e.g., Billig & Tajfel, 1973; Brewer & Kramer, 1985). As a result, in more nationalist societies there tends to be a sentiment that local people, firms, and products should be favored, and a stronger expectation that governments act in their interest. Accordingly, this puts pressures on policymakers to act in the national interest, which is likely to manifest itself in economic nationalism, i.e., 'discrimination in favor of one's own nation, carried on as a matter of policy' (Baughn, & Yaprak, 1996: 760). In other words, policymakers are more likely to introduce protective and discriminating
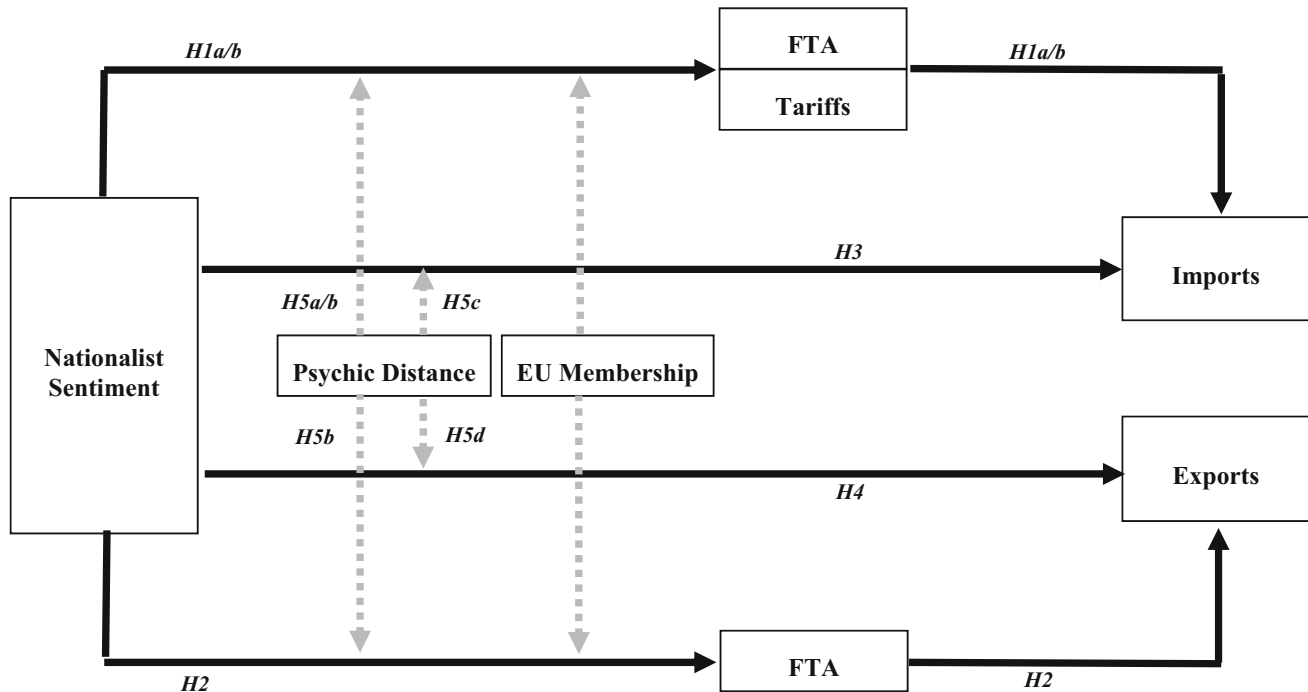
Figure 1 Theoretical model.

government policy in countries with higher societal nationalist sentiment to meet the expectations of their populace and electorate (e.g., Colantone, Ottaviano, & Stanig, Colantone, 2022).

We believe that this might affect two important aspects of a country's trade policy: its' import tariffs and free trade agreements. Specifically, when societal nationalist sentiments are high, policymakers might be more likely to impose (or slow the reduction of) import tariffs to protect domestic firms and products in response to this societal pressure. Similarly, strong nationalist sentiments might make it less likely that policymakers enter into free trade agreements. Two real-life examples of this are the US' sudden decision to withdraw from the proposed Trans-Pacific Partnership (TPP) agreement in January 2017 (Riley, 2017), and the UK's decision to exit the EU (Goodman, 2016). In both instances, a surge in local nationalist sentiment (e.g., Economist, 2016) appeared to be a strong factor in these sudden policy reversals. In terms of the existing body of IE research on this issue (i.e., the impact of societal nationalism on trade policy choices), there is not to our knowledge any explicit empirical confirmation using a broad-based sample of countries. However, we would argue that there is substantial inferential and indirect support for that relationship.

To begin with, the body of economic literature on nationalism is quite large.[3] While a substantial portion of that literature focuses on the antecedents of nationalism, such as immigration policies (e.g., Burgoon, 2009; Harmon, 2018), and theoretical issues, such as whether nationalism and globalization are necessarily diametrically opposite constructs (e.g., Harmes, 2012; Levi-Faur, 1997), there is still a substantial body of literature concerning the economic impact of societal nationalism. This body of work consists out of two substreams of work:

First, in terms of evidence concerning the impact of rising nationalism on economic issues other than trade policy, Serdar Dinc and Erel (2013) demonstrate that even within the EU, broad-based nationalism (measured by voting patterns) appears to negatively influence whether mergers and acquisition involving both a local and a foreign firm are consummated. They explicitly link this outcome to both direct and indirect actions by the local governments in response rising nationalism. Similarly, a single country case study of Hungary by Johnson and Barnes (2015) examines how the Viktor Orban government rode to power on a nationalist/populist platform and implemented a series on 'financial nationalist polices' resisting pressure from the EU and the IMF. The authors

strongly attribute these policy initiatives directly to the rising nationalism and populism. In addition to that, an entire special issue of the *Review of International Organizations* (Copelovitch & Pevehouse, 2019) is dedicated to how rising nationalism is influencing international institutions such as the WTO, NATO, UNESCO, and the International Criminal Court. Thus, there is a sizable body of research confirming impact of societal nationalism on a range of economic policy issues other than trade.

Second, with respect to the impact of societal nationalism on trade policy, there is a dearth of formal empirical evidence. However, there are a substantial number of editorials, commentaries, and theoretical papers that either implicitly or explicitly acknowledge a linkage between societal nationalism and trade policy. For example, Lester and Manak (2018, p 152) "explore the possibilities and limitations for completing a 21st-century trade agreement in the context of the recent surge in nationalism" and explicitly include the issue of tariffs and tariff rules, as well a trade agreements in their discussion. Similar attributions of a link between societal nationalism and trade policy are also made in numerous other journal articles (e.g., Dmitriev, 2020; James, 2018; Lester & Manak, 2018; Pryke, 2012). However, the most direct support comes in a set of four articles. First, Mayda and Rodrik (2005), in an extensive empirical study of 23 countries, demonstrate that societal nationalism, when measured using the same data as in this paper, appears to have a strong direct impact on an individual's preference for the government to "limit the import of foreign products in order to protect its national economy" (i.e., protectionism). The other three articles approach the issue from an entirely different methodological perspective. Blanchard and Willmann (2022) and Grossman and Helpman (2021), respectively, develop models predicting how trade-policy decisions might evolve in response to exogenous shocks and the emergence of a populist movement. In a similar manner, Shayo (2020) develops a model "to study the two-way interaction between economic policy and social identity [i.e., nationalism]". In all three cases, the authors draw directly upon the same stream of social psychology literature (e.g., Tajfel & Turner, 1986) that we employ in identifying the behaviors associated with nationalism, and they also come to the same conclusion: high levels of societal nationalism may result in higher tariffs and other trade barriers.

In sum, we expect nationalist sentiment in society to trigger economic nationalism which manifests itself in higher trade tariffs and the greater reluctance to participate in free trade agreements. It is worth nothing that an important caveat with respect to the preceding line of argument are customs unions such as the EU. In such custom unions, the member countries cede many aspects of their trade policies to a central body. As a result, the member country governments do not have unfettered discretion over the setting their tariffs and entering into new FTAs. Nevertheless, as we will detail later, individual member countries may still have power to influence the overall union's trade negotiations and their outcomes. Thus, we believe that, even for country that is part of a custom union, the level of nationalist sentiment might still have a meaningful impact on the union's overall trade-policy decisions. However, this does not rule out that customs unions, such as the EU, may represent an important contingency or boundary condition for the effects we propose here. Therefore, we discuss this important issue in more detail in our Methodology section; and include a control variable and a moderating variable for EU membership in the empirical analyses. This allows for the fact that the strength of the impact of nationalist sentiment on trade policy decisions may differ for countries belonging to the EU.

As already mentioned, the *second half of the indirect path* between high nationalist sentiments in society and imports, i.e., the relationship between restrictive government trade policy and imports, is well established. Therefore, we simply outline this relationship for theoretical completeness. The relationship between setting restrictive tariffs and entering in FTA, respectively, and imports has received a vast amount of attention in the international trade literature. For example, it is well accepted that the absence of free trade agreements (e.g., Baier & Bergstrand, 2007; Cipollina & Salvatici, 2010) negatively affect imports. This is also in line with a more specific body of work that has focused on how economic nationalism, i.e., discriminatory economic policy, negatively affects imports (e.g., Pryke, 2012).

Combining both parts of our mediating path, we expect that nationalist sentiment pressures governments to engage in discriminatory policy that favors domestic firms and products, which translates in higher trade tariffs and the absence of free trade agreements and thereby negatively impacts

imports. Accordingly, we propose that strong societal nationalist sentiments may affect imports through two forms of discriminatory trade policy:

Hypothesis 1a: The level of nationalist sentiment in a country will be positively associated with the levels of tariffs imposed by that country on imports; and in turn, the level of import tariffs will be negatively associated with the level of imports, i.e., the level of tariffs will mediate the impact of nationalist sentiment on imports.

Hypothesis 1b: The level of nationalist sentiment in a country will be negatively associated with that country's participation in free trade agreements; and in turn, participation in free trade agreements will be positively associated with the level of imports, i.e., participation in free trade agreement will mediate the impact of nationalist sentiment on imports.

An indirect effect on exports

In a similar fashion, we also look at how nationalist sentiment impacts exports through trade policies. To do so, we build on the logic outlined in the previous prediction, and again we propose a mediating path consisting of two parts.

For the *first half of the indirect path* between high nationalist sentiments in society and exports (i.e., the relationship between nationalist sentiment and FTAs), we revisit our logic from Hypothesis 1b. Namely, we expect strong nationalist sentiments might impose pressures on policymakers (e.g., Colantone et al., 2022) that make it less likely that they enter into free trade agreements. Accordingly (and in line with Hypothesis 1b), we expect that nationalist sentiment in a country is negatively associated with that country's participation in free trade agreements.

For the *second half of the indirect path* between high nationalist sentiments in society and exports (i.e., the relationship between FTAs and exports), it is important to consider that the lack of participation in FTAs does not only favor domestic firms in their home market, but also constraints these same firms' ability to export (compared to when there would be participation in free trade agreements). This highlights a potential negative consequence of nationalism-driven favoritism. However, this might be a cost that more nationalist customers, managers and policymakers are willing to bare as their priorities and preferences tend to lay domestically rather than overseas. Thus, the same reduced

participation in free trade agreements that may lead to lower level of imports (Hypothesis 1b), is also likely to reduce exports, as the free trade agreements in general are reciprocal. Again, combining both parts of our mediating path, we predict:

Hypothesis 2: There will be a negative relationship between the level of nationalist sentiment in a country and the level of its exports which will be mediated by the country's involvement in free trade agreements, i.e., the level of nationalist sentiment will be negatively associated with the involvement in free trade agreements, and level of involvement in free trade agreements will be positively associated with the level of exports.

Consumer Ethnocentrism: The Direct Effect of Societal Nationalist Sentiment on Imports

In Hypotheses 1a and 1b we proposed that strong nationalist sentiment may indirectly affect the level of imports through shaping nationalist trade policy. In addition to this perspective, we combine insights from the marketing and social psychology literatures to predict that nationalist sentiment may also have a separate direct effect on imports.

In the international marketing literature, it is well established that consumers are not only influenced by economic considerations but may also exhibit preferences for particular products and services based on, for example, their country-of-origin (e.g., Balabanis & Diamantopoulos, 2004; Fong, Lee, & Du, 2014). This body of work highlights that a product or service's country-of-origin is an attribute that appears to directly influence consumer preferences. While such a 'country-of-origin' (COO) effect does not necessarily imply a preference for local products and services, a related stream of work in international marketing, primarily lead by Sharma et al. (1995), speaks more directly to why some customers exhibit strong preferences for local products and services while others do not. This literature refers to this preference for local goods as '*consumer ethnocentrism*' and has found broad evidence of that a wide range of products and services are subject to consumer ethnocentrism (e.g., Fernández-Ferrín, P., Bande-Vilela, B., Klein, J. G., & Luisa Del Río-Araújo, Fernández-Ferrín, 2015; Güneren & Öztüren, 2008; Shimp & Sharma, 1987). While most of this body of work does not explicitly refers to

nationalist sentiment, the implicit link to nationalist sentiment is quite strong. Furthermore, the work of Balabanis et al. (2001) explicitly shows that there indeed is a link between nationalist sentiment and consumer ethnocentrism.

Addressing the same issue from the social psychology perspective (i.e., the aforementioned behaviors and attitudes linked to nationalist sentiment) yields similar conclusions and helps us to understand why nationalist sentiment might be driving consumer ethnocentrism. First, as mentioned earlier, nationalist sentiment can be considered to be a specific form of 'superiority bias' within the context of the broader social psychology phenomenon of ingroup-outgroup behavior (Druckman, 1994). Ingroup-outgroup behavior (Brewer, 1979, 1999; Brewer & Kramer, 1985) refers to the observation that people tend to have a bias towards people within groups that they strongly identify with, over other individuals (i.e., outgroup members). Ingroup members are typically viewed as more intelligent, stronger, and more capable than outgroup members (Brewer & Silver, 1978; Dion, 1973; Dovidio & Gaertner, 2010; Druckman, 1994). As highlighted in Kosterman and Feshbach's (1989) definition of nationalist sentiment, more nationalist people associate more strongly with their ingroup, see a clearer distinction with outgroup members, and consider their own country superior to other countries. As a result, they are likely to manifest a stronger superiority bias than people from countries with weaker nationalist sentiment. Due to this stronger superiority bias we expect more nationalist customers to pay more attention to the country-of-origin of products and exhibit a stronger preference for local products and services which will be considered superior over from other countries.

Second, nationalist sentiment is also associated with *favoritism*. Namely, people from more nationalist countries have the tendency to favor one's own country (i.e., one's own ingroup), at the expense of foreign organizations (i.e., outgroups). Numerous social psychology studies stretching back to early work by Billig and Tajfel (1973) and Brewer and Kramer (1985) have found that particularly in situations where there is a competitive element, people show favoritism by biasing their choices in favor of other ingroup members. This form of ingroup favoritism may manifest itself in customers favoring local firms and products, which would lead to lower levels of imports.

Third, another attitude associated with higher levels of nationalist sentiment is the tendency to view members of one's own ingroup as more *trustworthy* and cooperative, and members of the outgroup as less trustworthy (Yzerbyt & Demoulin, 2010). This attitude was the focus of much of early ingroup-outgroup research (e.g., Dion, 1973; Brewer & Silver, 1978). For example, (Brewer, 1999: 433) went so far as to characterize ingroups as 'bounded communities of mutual cooperation and trust' and (Brewer & Silver, 1978) found that perceptions of 'trustworthiness' and 'cooperativeness' are two of the three strongest effects relating to outgroup bias. Building on this, Druckman (1994) and others (e.g., Davidov, 2009) acknowledged that higher levels of trust in locals and lower levels of trust in foreigners as a key aspect of strong nationalist sentiment. We argue that this extends to a customer's trust in local and foreign products. Hence, we would expect people from more nationalist countries to have higher levels of trust in local products and services, and lower levels in foreign ones, which would lead to lower levels of imports.

In sum, we expect these three nationalism-driven behaviors and attitudes – a *superiority bias*, *favoritism* and *lower levels of trust* may all trigger a stronger preference for local products and services; and thereby, negatively influence the level of imports, independent of any government policy decisions. While this is in line with the predictions and evidence at the individual level in the literature on consumer ethnocentrism in marketing, it outlines more precisely why we expect this to be the case for trade. It is also worth noting, that these nationalism-induced effects might be strengthened by the fact that these are general biases and attitudes and that it therefore are not just customers that may share in nationalist sentiments. Other parties that play a role in an importing decision (e.g., purchasing agents) may also be affected by the same nationalist sentiment; thus, further strengthening the effect. In light of the above arguments, we predict that:

Hypothesis 3: There will be a direct negative relationship between the level of nationalist sentiment in a country and the level of its imports, over and above anything mediated by government policy decisions such as tariffs and/ or free trade agreements.

Blunting the Desire to Export: The Direct Effect of Societal Nationalist Sentiment on Exports

Next, we turn to a potential effect of nationalist sentiment on trade that arguably has not received the same level of attention in the literature as the previous discussed effects (i.e., economic nationalism and consumer ethnocentrism). We are referring here to the possibility that high levels of societal nationalist sentiment within a country may have a direct negative effect on exports. To develop this hypothesis, we will build in turn on each of the four 'nationalism-related behaviors' discussed earlier. In line with a substantial body of work in the management literature that has shown that managers' strategic decisions are not only driven by economic motives but also by their personal values and attitudes which they often share with the general population (e.g., Elnahas & Kim, 2017; Semadeni, Chin, & Krause, Semadeni, 2022; Steenkamp & Geyskens, 2012)[4]. This will allow us to establish that managers' export decisions are affected by nationalist sentiments.

With respect to the *superiority bias* that is associated with nationalist sentiments, we suggest that arguments could be made in either direction, i.e., this bias might either lead to more or less exports. Specifically, the same superiority bias that leads to reduced imports might also make managers believe that their 'superior' products might also have substantial export potential. This might lead to an increase in exports. However, it is important to consider that firms often face trade-offs between pursuing domestic and foreign opportunities (e.g., Iurkov & Benito, 2020). While managers from countries with higher nationalist sentiments might be more optimistic about the export potential for their products, they also are likely to believe that their home market and local customers are more critical and important than the foreign markets and customers. As a result, they may prefer to operate in their domestic market which more strongly favors their products or services. Hence it might be more lucrative and easier for them to prioritize their local market at the expense of pursuing more uncertain and challenging foreign opportunities, resulting in lower levels of exports.

In light of the preceding arguments, we would suggest that the impact of the 'superiority bias' on exporting is somewhat ambiguous; however, with respect to the other three attitudes and behaviors that we have associated with nationalist sentiment, we argue that the case for a negative direct impact on exports is quite strong and clear cut.

First, *favoritism* associated with high nationalist sentiment might lead to managers having a tendency to favor customers and opportunities in one's own country. Such a direct preference to 'serve the local market first' may systematically handicap potential exporters when compared with suppliers from other countries who may place a greater urgency on meeting the needs of the foreign customers.

Furthermore, the tendency of more nationalistic people to *distrust* foreigners to a greater extent, might be reflected in managers having lower levels of trust in foreign opportunities and foreign distributors who often play an important role in exporting. Exporting is a challenging activity that often requires substantial upfront investment and work before one is entirely certain about the magnitude of the benefits. Lower levels of trust will likely increase the perceived costs of developing an export opportunity, and may make the managers more cynical about the likelihood of the benefits. Thus, just as lower levels of trust may reduce the tendency for firms to import goods, lower levels of trust may also blunt the desire of firms to explore export opportunities, and at the very least, it may increase the perception that the export opportunities are riskier.

We now turn to the final behavior that we associate with nationalist sentiment – a greater *reluctance to interact* with foreigners. Within the ingroup-outgroup literature, there is a substantial body of the research supporting the view that the desire to work and interact with some individuals but not others is quite strong (e.g., Paladino & Castelli, 2008). As Yzerbyt and Demoulin (2010: 1052) note "*Group members … have a tendency to avoid other groups, and to approach members of the ingroup.*" Echoing a similar theme, Thomas and Ravlin (1995) have observed that people are less likely to interact and associate with people who are dissimilar to themselves. Moreover, numerous other researchers have found similar results with respect to the frequency of communication (e.g., Lincoln & Miller, 1978; Zenger & Lawrence, 1989) and social integration (O'Reilly III et al., 1989). Specifically, within the nationalism literature, Ayub and Jehn (2006: 189) cite the work of Ibarra (1995) and comment that "*strongly nationalistic people are inclined to maintain distance and to avoid contact with people from other nations.*" Accordingly, managers from countries with stronger nationalist sentiment might be more reluctant to interact with foreign

customers or distributors. As a result, they might be less inclined to pursue exporting opportunities.

We should also note that recent nationalism research drawing on the same ISSP data (Ertug, Cuypers, Dow, & Edman, 2023) also emphasizes the same issues of 'distrust' and 'a reluctance to interact', and demonstrates that higher levels of societal nationalist sentiment tends to reduce the willingness of firms to engage in cross-border collaborations, and when they do engage in such collaborations, they systematically favor doing so though types of alliances that create less interdependencies between the partners and minimize interactions (i.e., non-equity alliances).

Combining the preceding arguments, we propose that managers in countries with higher nationalist sentiments may be less likely to pursue export opportunities compared to peers in countries with lower nationalist sentiments. Again, it is important to emphasize that managers are not solely driven by economic motives and that they often face trade-offs between pursuing domestic and foreign opportunities (e.g., Iurkov & Benito, 2020) so that nationalist sentiment has the potential to shift their preferences towards domestic opportunities. We also acknowledge that these arguments are operating at the level of managers, rather than the general public, and there may be selection biases at play. However, there is a substantial amount of work that has shown that managers often share values with the general populace (e.g., Hofstede, 1980). Furthermore, when we are dealing with overall levels of trade at a national level (rather than predicting the behaviors of a specific firm), we are looking at the aggregate outcomes of decisions made by the population of managers and therefore population-wide differences in attitudes across countries are more likely to be representative. Hence, we expect that the *superiority bias, favoritism, distrust of foreigners* and the *reluctance to interact with foreigners,* which are all associated with high nationalist sentiment, jointly lead to less exports. Accordingly, we propose:

> **Hypothesis 4:** There will be a direct negative relationship between the level of nationalist sentiment in a country and the level of its exports which is not mediated by government policy decisions such as free trade agreements.

The Moderating Effect of Psychic Distance on Societal Nationalist Sentiment

So far, we have proposed that nationalist sentiment in a country may have a direct impact on export and import levels (Hypotheses 3 and 4), as well as an indirect impact through shaping trade policy (Hypotheses 1a, 1b and 2). However, the strength of these direct and indirect effects is likely to vary under certain conditions. Indeed, several studies have argued and shown that nationalist sentiment can become more manifest in certain contexts as the related attitudes and behaviors are activated (e.g., Ayub & Jehn, 2006; Ertug et al., 2023).

To identify such a factor, we focus on a key aspect of nationalist sentiment. Namely, as Kosterman and Feshbach's (1989) definition highlights, societal nationalist sentiment hinges on there being a clear distinction between ingroup and outgroup members. In the extreme, when there is no clear distinction at all between the ingroup and outgroup, it is impossible to make a downward comparison of the outgroup, and more generally when the distinction is less pronounced nationalist sentiments is likely to be activated less.

Work on cross-country differences highlights that the distinction between the domestic ingroup and the foreign outgroup is not always equally clear (e.g., Dow, & Karunaratna, 2006; Cuypers, Ertug, Heugens, Kogut, & Zou, 2018), and is likely to be stronger when the differences between nations are larger, and vice versa. We exploit this variance and propose that nationalist sentiment will manifest itself stronger when the differences between nations are larger. To illustrate our logic, Americans who are highly nationalist may react more strongly towards people from a very different country, such as Azerbaijan, in comparison to people or products from a country that is relatively similar to the USA, such as Canada. Furthermore, in recent years we have witnessed several anecdotal examples in line with this on the world stage. For example, in the US, former-President Trump repeatedly responded more strongly to Islamic, African, and Hispanic nations; and in a much more muted fashion towards Canada, Norway. In a similar fashion, we have recently seen refugees from Ukraine received much more openly by other Eastern European countries than refugees that originated from Afghanistan or Syria in the past. Hence, we expect managers' and customers' nationalist sentiment to be activated more when they deal with firms, people and products from more distant countries compared to those from more similar countries

because it will be clearer that they are dealing the foreign outgroup.

While countries might differ on a wide range of range of dimensions, we specifically explore the impact of differences in terms of the psychic distance stimuli factors (from here on labeled psychic distance) proposed by Dow and Karunaratna (2006), which refers to differences in language, religion, industrial development, education and political systems. Our reason for doing so is two-fold. First, most work in IB has focused on cultural differences – typically operationalized as Kogut and Singh's (1988) national cultural distance index (Cuypers et al., 2018). However, countries differ on a much wider range of dimensions than just culture. Hence, the psychic distance concept is broader and more encompassing of actual differences between countries (e.g., Maseland, R., Dow, D., & Steel, 2018). Furthermore, cultural differences tend to be more subtle, and while these subtle differences might be particularly relevant in other settings (e.g., settings where people from different countries have high degrees of direct interactions), they might be less relevant in the context of international trade where factors such as language, industrial development and political systems are likely to be easier to observe by managers and customers. Second, existing findings in empirical work suggest that psychic distance tends to have more explanatory power than cultural distance in gravity model setups that look at trade flows (Dow & Karunaratna, 2006). Hence, psychic distance seems to be a more practically relevant factor in our specific context.

Accordingly, we propose that the effect of societal nationalist sentiments is stronger when the psychic distance between two countries is higher, because the distinction between the domestic ingroup and the foreign outgroup will be clearer which allows for nationalist sentiment to be activated more easily. Accordingly, we expect both the mediating path – the effect through tariffs and free trade agreements – and the direct effects for importing and exporting to be stronger when the psychic distance between two trading countries is larger. Therefore, we propose:

Hypothesis 5: Psychic distance stimuli will moderate the relationship between nationalist sentiment and trade flows by magnifying:

a. the effect of a country's nationalist sentiment on tariff barriers (H1a),
b. the effect of a country's nationalist sentiment on free trade agreements (H1b and H2),
c. the direct effect of a country's nationalist sentiment on imports (H3), and
d. the direct effect of a country's nationalist sentiment on exports (H4).

METHODOLOGY

Data and Sample
We test our hypotheses on imports and exports using a sample consisting of 43 countries for 1996, 2006, and 2016. We opted for these particular years as they correspond to a 3-year lag from the times for which the key independent variable – the societal nationalist sentiment for a broad range of countries – is available. The source for this data, the national identity module of the ISSP survey is only conducted once a decade – 1993, 2003, and 2013. A 3-year lag seems reasonable in light of the length of time it takes to negotiate trade deals and implement them. For example, Moser and Rose (2012) find that on average FTAs take 24 months to negotiate, and Lechner and Wüthrich (2018) find that on average preferential trade agreements take 2.5 years to negotiate. In addition, we check the robustness of our findings using alternative lags, specifically 2-, 4-, and 5-year time lags. The results of these robustness checks are discussed and reported in Online Appendix II.

While our sample consists of 43 countries, it is important to note that due to data limitations, not every country is included in each time period. For 1993, nationalist sentiment data is only available for 23 countries. For 2003 and 2013, nationalist sentiment data is available for 32 countries in each year. Table 1 provides a list of the countries for each time period. Thus, our analysis is conducted on an unbalanced panel. The combination of trade data amongst these 43 nations across three years yields 2490 unique trade flow dyads. However, missing data relating to a number of key variables, principally tariffs, reduces our effective sample to 2424 dyads.

During the time period in question, i.e., 1996 to 2016, it is important to draw a distinction between the first decade (1996 to 2006) and second decade (2006 to 2016). During the first decade, the GDP of the 43 countries grew 56%, while their total trade

Table 1 Countries included in the analyses and their average degree of nationalist sentiment*

Country	Nationalist sentiment for 1993	Nationalist sentiment for 2003	Nationalist sentiment for 2013
Australia	3.69	3.73	
Austria	3.71	3.56	
Belgium			3.25
Bulgaria	3.19	3.00	
Canada	3.66	3.82	
Chile		3.42	
Croatia			2.80
Czechia	2.62	2.90	3.04
Denmark		3.41	3.41
Estonia			2.58
Finland		3.27	3.30
France		2.85	2.80
Georgia			3.45
Germany	2.74	2.81	3.13
Hungary	2.68	3.00	3.03
Iceland			2.75
India			4.19
Ireland	3.46	3.19	2.96
Israel		3.07	3.29
Italy	2.78		
Japan	3.63	3.49	3.84
Korea, South		3.06	3.33
Latvia	2.65		2.81
Lithuania			2.81
Mexico			3.11
Netherlands	2.88	2.94	
New Zealand	3.58	3.63	
Norway	3.24	3.14	3.36
Philippines	3.36	3.52	3.70
Poland	3.03	3.01	
Portugal		3.20	3.06
Russian Federation	2.93	3.16	3.34
Slovakia	2.55	2.70	3.09
Slovenia	2.75	2.82	2.53
South Africa		3.68	3.78
Spain	2.98	3.26	2.87
Sweden	2.94	2.92	3.07
Switzerland		2.53	3.05
Turkey			3.77
United Kingdom	3.28	3.25	3.36
Uruguay		3.26	
USA	3.69	3.70	3.41
Venezuela		3.55	
No. of countries	23	32	32

* On a five-point scale.

with all countries grew at twice that rate (approximately at 109%). In this period, the growth in trade just amongst the 43 countries covered in our sample grew at roughly the same rate (approximately at 112%). In terms of trade policy over this period, the average rate of tariffs for our sample declined from 9.2% to 6.7%, and the proportion of dyads involved in some form of trade agreement rose from 44 to 51%. In terms of societal nationalist sentiment, the 'within the same country' growth was an average of 4.4%, with Hungary reporting the largest increase at 12%.

For the second decade (i.e., 2006–2016), most of the economic figures slowed considerably, with the

GDP of the 43 countries only growing 24%. Growth in the total trade of all the countries roughly matched that at 23%. However, the largest shift occurred in the destination of that trade. Growth in the trade amongst the 43 countries covered in our sample slowed to 13%, with a clear shift in trade towards countries outside this group. With respect to trade policy, the decline in tariff rates also slowed, only decreasing from 6.7 to 6.1%. However, the participation in free trade agreements rose rapidly from 51% of the dyads in 2006 to 74% of the dyads in 2016. Over this same time, the 'within the same country' growth in societal nationalist sentiment increased to an average of 6.9%, with Switzerland and Slovakia reporting the largest increases at 21 and 14%, respectively.

Dependent Variable

Our dependent variable is the flow of goods from country A to country B for all industries, except for the three main mineral fuel sectors.[5] We intentionally employ such a broad definition of trade as we propose that the effects of nationalist sentiment are arguably applicable to a wide range of goods. Nevertheless, we conduct a robustness check applying our main model to a sample of industrial goods and a sample of consumer goods. The trade data is denominated in current US$ millions and was accessed from the United Nations Comtrade database (World Bank, 2020). As is standard practice in gravity models, the trade data was subjected to a natural logarithm transformation to reduce skew and kurtosis (Trade $_{X \text{ to } I}$).

The Key Independent Variable: Societal Nationalist Sentiment

To obtain a measure of nationalist sentiment, we use the National Identity module of the International Social Survey Programme (ISSP), which is commonly used for work on nationalism (e.g., Coenders, Lubbers, & Scheepers, Coenders, 2021; Ertug et al., 2023). While the ISSP conducts a survey every year, the individual modules are repeated less often and the module containing items that relate to nationalism (the "national identity" module) is only available in the 1993, 2003, and 2013 waves of the survey.

Following the lead of Huddy and Khatib (2007) and others (Ariely, 2012; Davidov, 2009; Ertug et al., 2023), we used the mean value of two questions from the ISSP survey: Q4c – "The world would be a better place if people from other countries were more like [country of the respondent's nationality]" and Q4d – "Generally speaking, [the respondent's country] is a better country than most other countries". The scores are measured on five-point Likert scales, and to facilitate the interpretation of our findings we have inverted the raw data such that a high value of our scale represents a high level of nationalist sentiment. The average number of respondents per country in the 2013 ISSP survey was 1274, and the two items of concern have a Cronbach's alpha of 0.680.

We include both the level of nationalist sentiment for the importing (Nat_I) and the exporting (Nat_X) country in our analyses predicting trade flows. For our mediating models predicting tariff levels, only the nationalist sentiment of the importing nation (Nat_I) is used. For our mediating models predicting participation in FTAs, the average of the two countries is used (Nat_{XI} Avg), which is in line with work on FTAs that typically uses the averages of country-level measures (e.g., Baier & Bergrand, 2004, 2007). The nationalist sentiment values for all countries in our sample are reported in Table 1.

The Mediating Variables: Tariffs and Free Trade Agreements

Our theoretical model consists of two mediating variables: tariffs and free trade agreements. In order to measure the level of tariffs for each country, we use data from the World Bank, which was accessed via the WITS online data system (World Bank, 2020). This data system offers two measures of tariffs: the most favored nation rates (MFN) and the effectively applied rates (AHS). However, each metric is available using a simple average and a weighted average across the various product categories. As a result, there are ultimately four approaches to measuring of tariff rates. For our main analysis, we use the simple average of MFN tariffs (Tf_I); however, we have checked the robustness of our findings using the three other approaches. It is important to note that all four measures of tariff rates are specific to the importing country, and not the dyad of countries. The MFN tariff, in particular, represents the baseline tariff a country offers to any other partner country, if there is no trade agreement between them. In contrast, the AHS rate does represent the actual effective tariffs applied, but is still an average across all other countries.

For the second mediating variable – free trade agreement (FTA_{XI}), we have adapted a scale developed by Bergstrand (2017). Bergstrand's

classification of free trade agreements is a seven-point scale with the lowest classification being no formal trade agreement, and the highest category being a full economic union (e.g., the current form of the EU). However, for our purposes we have dropped one of the simplest forms – the non-reciprocal agreement often extended by developed nations to developing nations – as it results in multicollinearity with one of the dimensions of psychic distance stimuli – differences in degree of industrial development – and one of the key control variables – GDP per capita. Thus, our final metric is a six-point interval scale ranging from zero to five.

The Moderating Variable: Psychic Distance Stimuli

For our moderating variable, psychic distance stimuli ($Psy\ Dist_{XI}$), we use a measure developed by Dow and Karunaratna (2006) that has been applied in a wide variety of managerial contexts (e.g., Boellis et al., 2016; Castellani & Lavoratori, 2020; Lupton et al., 2022; Sestu & Majocchi, 2020), and has also been occasionally used in trade models (e.g., Dow et al., 2014; Dow & Karunaratna, 2006). Specifically, we combine the five main cross-national difference dimensions proposed by Dow and Karunaratna (2006): differences in language, religion, industrial development, education levels, and degree of democracy. We are employing the most recent versions of these scales (Dow, 2019), which allows us to create a time-varying distance indicator for each time period. While more detailed descriptions of the five underlying dimensions are available from Dow and Karunaratna (2006) and www.dow.net.au, each dimension is in effect a reflective index based on a selection of three to six items, depending on the dimension. We have employed the Mahalanobis distance approach for combining the five dimensions as it compensates for the fact that not all of the dimensions are orthogonal to each other (Berry et al., 2010). When creating our moderating variables (e.g., $Nat_I * PsyDist_{XI}$), as recommended by Aiken and West (1991), we first mean-center each variable into a z-score before combining them together in order to reduce collinearity.

Control Variables

In addition to the aforementioned independent variables, we include eight additional control variables when predicting the flow of goods from country A to country B. These control variables are often used in traditional gravity models of international trade (e.g., Rose, 2004; Silva & Tenreyro, 2006), and include the natural logarithm of the GDP of both the importing and exporting countries in US\$ billions (GDP_I and GDP_X), the GDP per capita of the importing and exporting countries in US\$ thousands ($GDP\ pc_I$ and $GDP\ pc_X$), the natural logarithm of the geographic distance between the major financial cities of each country in kilometres ($Geo\ Dist_{XI}$), a dummy variable (Adj_{XI}) indicating whether the two countries share a common land border, and pair of control variables measuring the degree to which the importing and exporting countries are geographically isolated from other economies (REM_I and REM_X). All of the preceding control variables which include financial data are matched to the year of the trade flow in question (i.e., 1996, 2006, and 2016), and are sourced from the World Bank (2018).

With respect to predicting the first mediating variable – tariffs – the set of control variables is obviously constrained to the characteristics of the importing country. Specifically, we use the natural logarithm of the GDP of the importing country in US\$ billions (GDP_I), the GDP per capita of the importing country in US\$ thousands ($GDP\ pc_I$), and the geographic remoteness from the importing country (REM_I). Given the nature of the dependent variable, control variables relating to the exporting country (e.g., GDP_X) and the dyad of countries (e.g., $Geo\ Dist_{XI}$) are not relevant. However, we have added here what we refer to as the 'psychic distance isolation' of the importing country ($Psy\ Dist_{I\_avg}$). This variable is the average psychic distance of all the other countries from the country in question, weighted by the GDP of those countries; and thus, represents how isolated (or distinct) the importing country is in terms of psychic distance. By way of example, Canada is very low in terms of psychic distance isolation as it shares a common set of languages and religions with many other countries. In contrast, South Korea is relatively high in terms of psychic distance isolation particularly with respect to its language. This metric is analogous to our remoteness variable but concentrates on dimensions such as differences in language, religion, political systems, etc., rather than on geographic distance. One further control variable, the political ideology (i.e., left, central or right) of the importing country's executive and legislatures was also considered, but was found to be non-significant; and ultimately excluded from the models.[6]

With respect to predicting the second mediating variable – FTAs – we draw on the literature concerning the motivations for forming FTAs (e.g., Baier & Bergstrand, 2007, 2004; Baier et al., 2014; Castle, 2022; Egger & Larch, 2008) to identify the critical control variables. This literature reflects many of the same underlying metrics as the control variables used to predict trade and tariff levels, but often in slightly different forms. For example, in the FTA literature the GDP of the two countries is reported as the sum of the two (GDI_{XI} Sum) and the absolute difference between the two (GDI_{XI} Diff). Similarly, the same metrics concerning remoteness and GDP per capita are employed as in our main trade flow models, but are reported as the average value for the two countries involved (REM_{XI} Avg and GDP pc_{XI} Avg, respectively). An additional control variable, suggested by Baier and Bergstrand (2004), is the difference in the capital labor ratios between the two countries (DKL_{XI}). It is measured as the absolute value of the difference capital per employee, denominated in US$ thousands after a natural logarithm transformation. The remaining two control variables: geographic distance (Geo $Dist_{XI}$) and whether the countries are adjacent (Adj_{XI}) are measure in the same manner as in our main models predicting trade flows.

Analytic Techniques
We conduct our main analyses using GLS regressions with both year and country random effects. We acknowledge that GLS regression with fixed effects is the more common for estimating gravity models (e.g., Anderson & Wincoop, 2003; Feenstra, 2002). However, it is important to note that by including country fixed effects in a model, these models cannot control for time-invariant country-level factors (e.g., Allison, 2009; Bacchetta et al., 2012; Greene, 2011). This is generally not considered a problematic issue as the point of including the country fixed effects is to absorb the effects of any time invariant country factors in the first place. However, in this particular instance, as will be discussed below, we specifically want to incorporate and examine a time-invariant country fixed-effect membership in customs unions such as the EU. Moreover, roughly one-third of our countries (13 of 43) are only included in one of the three time periods. As a result, the various attributes of those countries, including our main independent variable, are 'slow-moving' across our sample, making country fixed effects problematic (e.g., Clark & Linzer, 2015).[7] Accordingly, using country random

effects is more appropriate in the context of our study.

Controlling for Customs Union Membership
As mentioned earlier, one particularly challenging aspect of our research agenda is the presence of customs unions such as the EU. Nowadays, many countries are members of a custom union, and for some such custom unions, the setting of rates of tariffs and the negotiation of new FTAs are coordinated and controlled centrally within the union. Indeed, roughly half of countries in our sample are members of such unions: i.e., the EU, Mercosur, and the Eurasian Customs Union. As such, individual member states arguably have less direct control over their tariffs and FTAs; and thus, the nationalist sentiment in a single country might play a muted role in the unions overall trade policy. Hence, it is a reasonable possibility that some custom union memberships might act as boundary conditions for the mechanisms that we propose.

Nevertheless, we argue that a country's nationalist sentiment might still have some influence on tariffs and FTAs, even within a custom union. If we take the EU as an example, while member states in most cases do not have unilateral control over tariffs and FTA negotiations, they do still have a reasonable degree of power to influence trade negotiations and their outcomes. Before any FTA negotiations can start between the EU and an external country, the EU member states first have to agree on a negotiation mandate through the Council of the EU. This requires a majority vote of the member countries. During the negotiation stage, individual member states, through the EU council, also have the possibility to request an update to the mandate or suspend negotiations all together. Finally, member states have to approve the final outcome of the negotiations and ratify the FTA through the EU parliament with a Qualified Majority of 55% of the countries representing at least 65% of the overall population. In addition to that, many FTAs involve issues, such as intellectual property, which makes it a 'mixed competence' agreement under the EU charter. This means that each member nation needs to ratify the agreement separately, yielding even greater power to the member nations.[8] The Comprehensive Economic Trade Agreement (CETA) between Canada and the EU is an example of this. Belgium, one of the EU's smallest members, almost brought the trade deal to the brink of collapse (The Guardian, 2016) when it initially vetoed the agreement. In light of these

processes, we argue that while nationalist sentiment of member countries in such a customs union may have less impact on trade-policy decisions than for countries not in such a union, it is feasible that nationalism might still shape tariffs and FTAs to some extent.

To methodologically address the issue of whether customs union membership acts as a boundary condition for our predictions, we include dummy variables that capture whether a country is member of such a custom union. Specifically, for the mediating models predicting tariffs, we include a variable (EU_I) indicating whether the importing country is a member of the EU.[9] For the mediating models predicting participation in FTAs, we include two dummy variables. The first, EU_{Both}, indicates whether both the countries in the dyad are members of the EU. The second dummy variable reflects when only one of the countries in a dyad are from the EU (EU_{One}). It is this latter dummy variable that we will use to moderate the level of nationalist sentiment. We also control for membership in two other custom unions – Mercosur, and the Eurasian Customs Union – for brevity, those results are not reported in the body of the paper, but are available on request.

Modeling Mediating Relationships
A second challenging aspect of our research agenda is that mediating effects play a major role in our theoretical framework. In order to deal with this, we follow the commonly used approach developed by Baron and Kenny (1986). This approach highlights that several conditions must be met in order to find (full) support of our mediating framework: (1) the independent variable (i.e., nationalist sentiment) must affect the mediators (i.e., tariffs and/or FTAs), (2) the mediators (i.e., tariffs and/or FTAs) must affect the dependent variables (i.e., exports or imports), and (3) the independent variable (i.e., nationalist sentiment) must affect the dependent variables (i.e., exports or imports). Accordingly, we run our analysis in a way that allows us to assess the significance of all these paths in our framework.

Controlling for Endogeneity
A third challenging aspect of our research agenda is the potential for endogeneity. In particular, we are concerned about the relationship between trade flows and the presence of FTAs. A positive correlation between the two is highly likely, but to what extent does that reflect countries preferring to negotiate FTAs with their largest trading partners,

as opposed to FTAs growing the bilateral trade? To control for this, we employ a two-stage estimation approach to deal with potential selection issues. Specifically, in our final set of models exploring the direct and indirect effects of nationalist sentiment on trade flows, we have employed the Heckman two-step approach (Heckman, 1979; Shaver, 1998) to control for selection bias relating to the free trade agreement variable, FTA_{XI}. For the instrumental variable to identify the first stage, we have drawn from Berry et al. (2010)'s concept of 'Global Connectedness Distance', and more specifically the internet usage per capita in the importing country (Internet Usage$_I$) The first stage probit model for this analysis is reported in Online Appendix I. This measure of the global connectedness of the importing country is a significant predictor of participation in free trade agreements, but has no meaningful impact on trade flows ($p = 0.118$), making it a suitable instrument.

RESULTS
The first stage of the analyses is to check the data for variables with abnormal distributions and possible collinearity issues. To that end, the descriptive statistics and the correlation matrix for the dependent variable and all the independent variables can be found in Tables 2 and 3. In general, the skew and kurtosis is low for all but two variables: the dummy variables Adj_{XI} and Psy Dist$_{XI}$. In terms of potential multi-collinearity, geographic distance (Geo Dist$_{XI}$) is moderately correlated with a few other variables (adjacent, remoteness, FTA and nationalist sentiment). Not surprisingly, GPD and GDP per capita are also moderately correlated. However, the variance inflation factors (VIFs) do not point to serious problems with collinearity Namely, the maximum VIF of 2.85 for geographic distance which is well below the accepted rule-of-thumb value of 10 (Neter et al., 1985).

Testing the Overall Relationship between Nationalist Sentiment and Trade
The second stage of the analyses is to confirm that overall relationships (i.e., without any mediators) exist between the main independent variables (the nationalist sentiment of the importing and exporting countries) and the main dependent variable (the trade flow between them). In Table 4, we first establish our baseline model (model 1.0) consisting exclusively of control variables. All but two of these variables are statistically significant at $p < 0.05$; and

Table 2 Descriptive statistics (n = 2424)

Variable	Label	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
GDP (US$ billion)[a] [b]	GDP_I; GDP_X	5.97	18,624	1242	2777	0.07	− 0.22
GDP per capita (US$ '000)[b]	GDP pc_I; GDP pc_X	1.16	79.82	27.38	18.99	0.62	− 0.26
Geographic distance (km)[a]	Geo $Dist_{XI}$	56	19,609	5,553	4876	− 0.37	− 0.80
Adjacent	Adj_{XI}	0	1	0.06	0.24	3.65	11.36
Remoteness ('000 km)[b]	REM_I; REM_X	4.90	12.66	6.39	1.90	1.96	2.99
Δ Capital labor ratio (US$ '000)[a]	DKL_{XI}	0.00	2.84	0.66	0.61	1.26	0.91
Psychic distance stimuli[c]	Psy $Dist_{XI}$	0.51	7.82	5.95	1.11	− 2.81	8.18
Nationalist sentiment[b]	Nat_I; Nat_X	2.53	4.19	3.20	0.36	0.26	− 0.53
Tariff - MFN - simple avg (%)	Tf_I	1.41	15.67	6.92	2.96	0.89	0.23
Free trade agreement	FTA_{XI}	0	5	1.82	1.77	0.35	− 1.38
Trade flow (US$ millions)[a]	Trade $_{X \, to \, I}$	0	294,079	4055	14,266	− 0.84	1.88

[a] These variables are all transformed by a natural logarithm function. The skew and kurtosis statistics are reported after this transformation; however, the descriptive statistics are reported before the transformation to maintain the ease of interpretation.
[b] Our analyses include GDP, GDP per capita, remoteness and nationalist sentiment values for both the importing countries (I) and the exporting countries (X); however, given that this is a balanced sample (less a small number of cases with missing values – 3.5%), we are only reporting the descriptive statistics for the importing countries (I).
[c] This is a Mahalanobis distance measure combining the five main dimensions from Dow & Karunaratna (2006): linguistic, religious, industrial development, education and degree of democracy distances. It is a dimensionless index; however, the scale has been adjusted so that a value of zero represents 'no difference' and 10 represents a dyad with the maximum possible score on all five dimensions.

overall, the model explains 51.8% of the variance in the dependent variable, which indicates that our model is well specific in terms of control variables. Next, in model 1.1, we introduce the nationalist sentiment of the importing and exporting countries (Nat_I & Nat_X). The overall effect of nationalist sentiment on exports appears to be negative as predicted with a coefficient for Nat_X (b = − 0.346, p < 0.001). However, while the coefficient for the effect of nationalist sentiment on imports (Nat_I) is negative, it is not statistically significant at this stage (b = − 0.138, p = 0.121).

Nevertheless, as laid out in our hypotheses, our main objective in this paper is not to merely report the overall effects of nationalist sentiments, but rather to explore the different paths that may mediate these results (e.g., the mediating roles of tariffs and free trade agreements). Model 1.2 in Table 4 is a key part of this process, but before we discuss those results, we need to first address several related issues. In particular, with respect to the indirect paths (i.e., Hypotheses 1a, 1b, and H2), we need to assess the first halves of the mediating relationships – i.e., the impact of nationalist sentiments on the mediators. As mentioned earlier, we also need to consider how custom union membership may act as contingency or boundary condition for each of the mediators. Only then, after controlling for the mediating variables, can we properly assess the direct effects of nationalist sentiments of trade (i.e., Hypotheses 3 and 4).

The Effect of Societal Nationalist Sentiment on Trade through Trade Policies

As mentioned above, in order to investigate the indirect mediating paths that link nationalist sentiment to trade through tariffs and free trade agreements (FTAs), we need to confirm the *first half of these indirect mediations,* i.e., the link between nationalist sentiment and tariffs, and the link between nationalist sentiment and FTAs.

The effect of nationalist sentiment on tariffs

In Table 5, we test whether the nationalist sentiment in the importing country (Nat_I) influences the level of tariffs (Tf_I). Model 2.1 indicates that higher tariffs are associated with smaller, higher-income countries, and countries that are isolated in terms of psychic distance. With respect to nationalist sentiment, the coefficient for the nationalist sentiment of the importing country (Nat_I) variable is positive but not statistically significant (b = 0.097, p = 0.615). However, when we control for customs unions such as the EU, the situation changes. In model 2.2 we add a dummy variable indicating whether the importing country is a member of the European Union (EU_I) and in model 2.3 we add an interaction term between this dummy and our nationalist sentiment variable ($Nat_I * EU_I$).[10] In model 2.2, the EU dummy variable (EU_I) is highly significant (b = − 1.776, p < 0.001). This indicates that the EU maintains a level of tariffs well below other similar countries, even after controlling for other factors. In the same model,

Table 3 Correlation matrix (n = 2424)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. GDP_I														
2. GDP_X	−0.02													
3. GDP pc_I	0.42	0.01												
4. GDP pc_X	0.01	0.42	0.03											
5. Geo Dist_XI	0.13	0.13	−0.11	−0.11										
6. Adj_XI	0.00	0.00	0.01	0.01	−0.44									
7. REM_I	−0.07	0.01	−0.28	0.02	0.48	−0.13								
8. REM_X	0.01	−0.07	0.02	−0.28	0.48	−0.13	−0.03							
9. DKL_XI	−0.09	−0.13	−0.26	−0.28	0.29	−0.12	0.19	0.19						
10. Psy Dist_XI	−0.08	−0.08	−0.07	−0.07	0.02	−0.22	−0.10	−0.10	0.12					
11. Nat_I	0.38	0.00	−0.01	0.02	0.38	−0.10	0.49	−0.01	0.17	−0.10				
12. Nat_X	0.00	0.38	0.02	−0.01	0.38	−0.10	−0.01	0.49	0.17	−0.10	−0.03			
13. Tf_I	0.01	−0.04	−0.20	−0.08	0.00	0.02	0.00	−0.01	0.17	0.03	0.03	−0.03		
14. FTA_XI	−0.09	−0.09	0.20	0.20	−0.71	0.18	−0.34	−0.34	−0.35	0.04	−0.33	−0.33	−0.13	
15. Trade_X to I	0.50	0.53	0.25	0.33	−0.33	0.26	−0.19	−0.25	−0.27	−0.23	0.05	0.00	−0.01	0.26

the coefficient for Nat_I more than triples in magnitude and is now statistically significant (b = 0.348, p = 0.065). In model 2.3, the term allowing the EU dummy variable to moderate the effects of nationalist sentiment (Nat_I * EU_I) is added. The results show that the coefficient of the interaction term is negative and significant (b = − 0.973, p = 0.008). The coefficient for Nat_I also increases in magnitude and significance (b = 0.935, p = 0.001). This indicates that the relationship between nationalist sentiment and tariffs is stronger amongst non-EU countries than EU member countries. In fact, combining the coefficient of the interaction term (Nat_I * EU_I) with the coefficient for Nat_I, indicates that for EU member countries the relationship between nationalist sentiment and tariffs is essentially zero (b = − 0.038, p = 0.894); whereas for non-EU countries, it is positive and highly significant (b = 0.935, $p < 0.001$). Hence, we find evidence supporting the first half of the path underlying H1a, but it only holds for countries that are not part of the EU. Hence, EU membership seems to act as a boundary condition of the effect we propose in H1a.

The effect of nationalist sentiment on free trade agreements

In a similar manner, we test the relationship between nationalist sentiment and the presence of free trade agreements. Specifically, in Table 6, we conduct analyses similar to Table 5 but for the other mediating variable – free trade agreements (FTA_XI). However, in this instance the attributes of the exporting countries and the dyads are once again relevant. Model 3.1 indicates that geographic distance is by far the strongest predictor of free trade agreements being formed. In addition, five of the six remaining control variables are also statistically significant (i.e., $p < 0.05$). Model 3.1 also indicates that the average nationalist sentiment of the countries in the dyad (Nat_XI Avg) is negative as expected, and is a statistically significant predictor of a free trade agreement at this stage (b = − 0.409, p = 0.001). We should note here that given the balanced nature of our sample and the fact that the formation of a FTA requires agreement of both parties, the coefficient for Nat_XI Avg is effectively testing both the FTA hypothesis concerning imports (H1b) and exports (H2).

In model 3.2 we add two dummy variables concerning EU membership. The first indicates if both countries in the dyad are members of the EU (EU_Both). The second dummy variable indicates if

Table 4 Regressions testing overall, direct, and mediating effects of nationalist sentiment on trade flows: trade $_{X \text{ to } I}$ ($n = 2424$)*

	Model 1.0	Model 1.1	Model 1.2
Constant	**– 12.586** (0.631)	**– 12.382** (0.629)	**– 14.291** (0.842)
	p < 0.001	p < 0.001	p < 0.001
GDP_I	**0.914** (0.022)	**0.928** (0.024)	**0.922** (0.024)
	p < 0.001	p < 0.001	p < 0.001
GDP_X	**0.974** (0.022)	**1.009** (0.023)	**1.008** (0.023)
	p < 0.001	p < 0.001	p < 0.001
GDP pc_I	**– 0.008** (0.002)	**– 0.008** (0.002)	**– 0.009** (0.002)
	p < 0.001	p < 0.001	p < 0.001
GDP pc_X	**– 0.005** (0.002)	**– 0.005** (0.002)	**– 0.007** (0.002)
	p = 0.003	p = 0.001	p < 0.001
Geo Dist$_{XI}$	**– 1.231** (0.047)	**– 1.210** (0.047)	**– 1.007** (0.076)
	p < 0.001	p < 0.001	p < 0.001
Adj$_{XI}$	**0.150** (0.166)	**0.152** (0.164)	**0.312** (0.170)
	p = 0.363	p = 0.354	p = 0.066
REM$_I$	**0.073** (0.021)	**0.081** (0.021)	**0.072** (0.022)
	p < 0.001	p < 0.001	p = 0.001
REM$_X$	**0.012** (0.021)	**0.037** (0.021)	**0.028** (0.022)
	p = 0.550	p = 0.083	p = 0.202
Psy Dist$_{XI}$	**– 0.310** (0.032)	**– 0.311** (0.032)	**– 0.323** (0.032)
	p < 0.001	p < 0.001	p < 0.001
Nat$_I$		**– 0.138** (0.089)	**– 0.128** (0.096)
		p = 0.121	p = 0.181
Nat$_X$		**– 0.346** (0.088)	**– 0.325** (0.093)
		p < 0.001	p < 0.001
Tf$_I$			**0.024** (0.008)
			p = 0.003
FTA$_{XI}$			**0.188** (0.022)
			p < 0.001
Mills ratio**			**0.054** (0.107)
			p = 0.611
Overall R^2	0.775	0.779	0.783
Wald chi-square, df	5691.4, 9	5783.4, 11	5982.2, 14
Significance	p < 0.001	p < 0.001	p < 0.001

* The models include both year and country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.
** The Mills ratio is generated by a probit model predicting the existence of a free trade agreement for any given dyad. This model is reported in Online Appendix I.

only one of the two countries in the dyad is a member of the EU (EU$_{One}$). The coefficients for both dummy variables (EU$_{Both}$ and EU$_{One}$) are positive and significant ($p = 2.201$, $p < 0.001$ and $p = 0.524$, $p < 0.001$, respectively), indicating that the EU countries are indeed a special case. At the same time, the reported coefficient for the nationalist sentiment variable (Nat$_{XI}$ Avg) remains negative and statistical significance ($b = – 0.206$, $p = 0.042$).

In model 3.3 we add the interaction term between the dummy variable indicating if one of the countries is from the EU and the nationalist

sentiment for that country (Nat$_{EU}$ * EU$_{One}$). The coefficient of this interaction term is not statistically significant ($b = – 0.129$, $p = 0.242$). Hence, the results of model 3.3 suggest that the impact of nationalist sentiments on participation in FTAs is the same for both EU countries and non-EU countries.

In brief summary, this evidence supports the first half of the mediating path outlined in H1b and H2 – i.e., that there is a statistically significant negative effect between nationalist sentiment of the participating countries (Nat$_{XI}$ Avg) and their participation in FTAs. We have also conducted similar

Table 5 Testing the effects of nationalist sentiment on the mediating variable – Tf_I (n = 2424) *

	Model 2.1	Model 2.2	Model 2.3
Constant	**22.653** (3.09)	**13.127** (3.13)	**14.434** (3.18)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
GDP_I	**– 0.566** (0.139)	**– 0.143** (0.141)	**– 0.287** (0.151)
	$p < 0.001$	$p = 0.311$	$p = 0.057$
$GDP\ pc_I$	**0.016** (0.004)	**0.004** (0.004)	**0.004** (0.004)
	$p < 0.001$	$p = 0.332$	$p = 0.342$
REM_I	**0.050** (0.097)	**0.165** (0.095)	**0.197** (0.096)
	$p = 0.607$	$p = 0.084$	$p = 0.040$
$Psy\ Dist_{I\_avg}$	**– 0.514** (0.128)	**– 0.395** (0.125)	**– 0.502** (0.131)
	$p < 0.001$	$p = 0.002$	$p < 0.001$
Nat_I	**0.097** (0.193)	**0.348** (0.189)	**0.935** (0.289)
	$p = 0.615$	$p = 0.065$	$p = 0.001$
EU_I		**– 1.776** (0.147)	**– 1.085** (1.083)
		$p < 0.001$	$p = 0.316$
$Nat_I * EU_I$			**– 0.973** (0.365)
			$p = 0.008$
Overall R^2	0.660	0.679	0.681
Wald chi-square, df	4558.9, 7	4988.4, 8	5012.2, 9
Significance	$p < 0.001$	$p < 0.001$	$p < 0.001$

*The models include country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.

analyses for the Mercosur and Eurasian Customs Union, and the overall results are similar for all three unions. However, the effects for Mercosur and the Eurasian Customs Union tend to be weaker and frequently non-significant, most likely due to the low incidence of countries in these custom unions in our data set. These results are available on request.

The effect of tariffs and FTA on trade

While the relationship between restrictive trade policies and trade is well established in the trade literature (e.g., Baier & Bergstrand, 2007), it is nevertheless important that we verify that we do indeed observe such relationships within our sample, in order to fully establish the indirect mediating paths. Therefore, we assess the impact of the mediating variables (Tf_I and FTA_{XI}) on the primary outcome variable, i.e., the magnitude of the trade flows (Trade $_{X\ to\ I}$), by returning to model 1.2 in Table 4. However, before doing so, we need to deal with any potential selection bias relating to the free trade agreement variable – FTA_{XI}. We do so by conducting a two-step Heckman analysis (see Online Appendix I for more details). Given that the first stage probit model in the Heckman test requires a binary dependent variable, we have converted our existing ordinal FTA_{XI} variable into a binary variable (FTA_{binary}), where no trade

agreement equals 0 and a trade agreement of any form equals 1. As explained in the Methodology section, this first stage model also includes an instrumental variable – Internet Usage$_I$. This instrumental variable is a significant predictor of FTA_{binary}, but has no predictive power with respect to Trade $_{X\ to\ I}$. The resulting Mills ratio is then included in all of our mediating models.

In model 1.2 (Table 4), we add both mediating variables (i.e., Tf_I and FTA_{XI}) as predictor variables of trade. The results provide some surprising results. While coefficient for the level of tariffs (Tf_I) predicting trade flows is statistically significant (p = 0.003), the coefficient is positive, rather the expected negative effect. To ensure the robustness of this result, this analysis was repeated with three other approaches to measuring average tariffs. All approaches yield similar results. Thus, we fail to find support for the second half of the predicted mediating path of H1a – i.e., the prediction that nationalist sentiment suppresses trade through higher tariffs. We provide some additional insight into this surprising finding in the robustness checks section below.

In contrast, model 1.2 indicates strong support that the free trade variable (FTA_{XI}) is a predictor of trade flows (b = 0.188, $p < 0.001$) even after the Heckman correction. Hence, we find support for the expected positive FTA-trade relationship.

Table 6 Testing the effects of nationalist sentiment on the mediating variable – FTA_{XI} (n = 2424) *

	Model 3.1	Model 3.2	Model 3.3
Constant	**11.231** (0.538)	**10.815** (0.466)	**10.816** (0.466)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
GDP_{XI} Sum	**– 0.010** (0.015)	**– 0.100** (0.013)	**– 0.103** (0.013)
	$p = 0.500$	$p < 0.001$	$p < 0.001$
GDP_{XI} Diff	**– 0.126** (0.019)	**– 0.060** (0.017)	**– 0.061** (0.017)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
$GDP\ pc_{XI}$ Avg	**0.023** (0.002)	**0.023** (0.002)	**0.023** (0.002)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
$Geo\ Dist_{XI}$	**– 1.161** (0.040)	**– 0.810** (0.036)	**– 0.812** (0.036)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
Adj_{XI}	**– 0.946** (0.136)	**– 0.758** (0.120)	**– 0.759** (0.120)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
REM_{XI} Avg	**0.140** (0.030)	**0.126** (0.026)	**0.121** (0.026)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
DKL_{XI}	**– 0.393** (0.047)	**– 0.262** (0.040)	**– 0.267** (0.041)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
$Psy\ Dist_{XI}$	**0.133** (0.027)	**0.079** (0.024)	**0.077** (0.024)
	$p < 0.001$	$p = 0.001$	$p = 0.001$
Nat_{XI} Avg	**– 0.409** (0.121)	**– 0.206** (0.101)	**– 0.147** (0.113)
	$p = 0.001$	$p = 0.042$	$p = 0.192$
EU_{Both}		**2.201** (0.071)	**2.195** (0.071)
		$p < 0.001$	$p < 0.001$
EU_{One}		**0.524** (0.046)	**0.916** (0.338)
		$p < 0.001$	$p = 0.007$
$Nat_{EU} * EU_{One}$			**– 0.129** (0.111)
			$p = 0.242$
Overall R^2	0.599	0.712	0.712
Wald chi-square, df	2576.2, 9	4430.3, 11	4431.9, 12
Significance	$p < 0.001$	$p < 0.001$	$p < 0.001$

*The models include both year and country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.

Combining this with our findings on the first half of the mediating relationship (model 3.2, Table 6) yields a Sobel test statistic of 1.98 (p = 0.047). Hence, a reluctance to participate in FTAs significantly mediates the effect of nationalist sentiment on imports, supporting hypotheses H1b and H2.

Overall, the findings concerning both the mediating roles of tariffs and FTAs have two further implications beyond merely confirming or refuting our hypotheses. They suggest that EU membership may be an important boundary condition; and thus, controlling for EU membership in such analyses is critical. With respect to tariffs, the evidence is quite clear. Membership in a customs union appears to fully negate any effect that nationalist sentiments may have on tariff policy. However, with respect to FTAs, the evidence does not suggest that EU membership acts as a boundary condition in the same manner. Nationalist sentiments still appear to affect participation in FTAs even with respect to EU countries. Nevertheless, the strong direct effects of the two EU membership dummy variables indicate that EU membership needs to be controlled for, but it appears to be a direct effect, rather than a moderating effect.

The Direct Effect of Societal Nationalist Sentiment on Trade

We started our analyses (i.e., model 1.1) by exploring the overall effect of nationalist sentiment on trade in a model that does not include our mediating variables. The key difference with model 1.2 (Table 4), is that we now include the two mediating variables (Tf_I and FTA_{XI}). With this change, the regression coefficients for Nat_I and Nat_X now reflect only the 'direct' portion of the relationship between nationalist and trade. This provides the proper formal tests of Hypotheses H3 and H4 as the coefficients of the nationalist variables represent the 'direct effects' of nationalist sentiment on

trade, over and above any effects mediated by tariffs and/or free trade agreements. The coefficient for Nat_I is negative but still non-significant (b = – 0.128, $p = 0.181$). Thus, H3 is not supported. The statistical weakness of this result is somewhat surprising given the amount of attention devoted in the international marketing literature to consumer ethnocentrism (e. g., Balabanis & Diamantopoulos, 2004; Carvalho, Luna,, & Goldsmith Carvalho, 2019; Sharma et al., 1995).

In contrast, the coefficient for the direct effect of Nat_X in model 1.2 is both negative and statistically significant (b = – 0.325, $p < 0.001$), supporting hypothesis H4. High levels of nationalist sentiment appear to have a direct negative impact on exports, over and above any effects mediated by government policies, such as a lower desire to participate in FTAs.

Comparing the Relative Importance of the Indirect and Direct Paths

Now that we have explored both the direct and indirect paths by which nationalist sentiment affects trade, it is worth comparing the relative magnitude of both paths by comparing how much variance is explained by each observed path. For imports, this is relatively simple given that we could not find statistical support for H1a, nor H3. The impact of nationalist sentiment is 100% mediated by FTAs (H1b). For exports, there is strong support for both the mediated path (H2) and the direct path H4 results: however roughly 94% of the overall effect of nationalist sentiment on exports is explained by the direct effect (H4). The role of nationalism in blunting the desire to export appears to dominate the relationship.

The Moderating Effect of Psychic Distance on Societal Nationalist Sentiment

So far, we have established that the impact of nationalist sentiment on imports appears to be entire indirect, through the shaping of nationalist economic policy – specifically FTAs. Whereas the impact of nationalist sentiment on exports appears involve both a direct and indirect paths. However, we propose that the strength of these direct and indirect effects are likely to vary under certain conditions. Specifically, we proposed that psychic distance may moderate the relationship between nationalist sentiment and trade flows by magnifying: (a) the effect of a country's nationalist sentiment on import tariff barriers (H1a), (b) the effect of a country's nationalist sentiment on free trade agreements (H1b and H2), (c) the direct effect of a

country's nationalist sentiment on imports (H3), and (d) the direct effect of a country's nationalist sentiment on exports (H4). We will now test these moderating effects in turn.

First, we look at how psychic distance effect of a country's nationalist sentiment on import tariff barriers. In model 2.4 (Table 7) indicates that the 'psychic distance isolation' of the importing country (Psy $Dist_{I\_avg}$) strongly moderates that relationship (b = 0.572, $p < 0.001$). Figure 2 graphically illustrates this moderating relationship. Thus, in line with H5a the nationalist sentiment of the importing country not only implies higher tariffs, but this effect is stronger when the country is more distinct (or isolated) in terms of psychic distance.

Second, model 3.4 (Table 7) confirms that psychic distance negatively moderates the nationalist sentiment – free trade agreement relationship (Nat_{XI} Avg * Psy $Dist_{XI}$,) with a negative and statistically significant coefficient (b = – 0.043, $p = 0.049$). In line with H5b, this indicates that the negative impact of nationalist sentiment on participation in free trade agreements appears to strengthen quite substantially when the psychic distance between the two countries increases. Figure 3 graphically illustrates this moderating relationship.

Third, model 1.3 (Table 8) tests how psychic distance moderates the direct effect of a country's nationalist sentiment on imports (H5c). This moderation coefficient (Nat_I * Psy $Dist_{XI}$) is effectively non-significant (b = 0.012, $p = 0.669$). Hence, we fail to find support in line with H5c.

Fourth, we test whether psychic distance moderates the direct effect of a country's nationalist sentiment on exports in model 1.4 (Table 8). Once again, we find that the moderation coefficient (Nat_x * Psy $Dist_{XI}$) is statistically non-significant (b = – 0.010, $p = 0.734$). Thus, we also fail to find support for H5d.

In summary, we find that the indirect mediating paths through which nationalist sentiment has an impact on trade is strongly magnified by psychic distance, supporting H5a and H5b. However, we failed to find a similar moderation of the direct path (H5c and H5d).

ROBUSTNESS CHECKS

To supplement the main analyses presented in this paper, we conducted four distinct sets of robustness checks. These are described in brief due to space constraints, but further details are available from the authors.

Table 7 Testing the moderating effects of psychic distance on nationalist sentiment for predicting - Tf_I and FTA_{XI} ($n = 2424$) *

	Model 2.4: *d.v.* - Tf_I *d.v.* - Tf_I	Model 3.4: *d.v.* - FTA_{XI} *d.v.* - FTA_{XI}
Constant	**18.611** (3.12) $p < 0.001$	**10.606** (0.479) $p < 0.001$
GDP_I	**– 0.432** (0.148) $p = 0.003$	
GDP_{XI} Sum		**– 0.098** (0.013) $p < 0.001$
GDP_{XI} Diff		**– 0.063** (0.017) $p < 0.001$
GDP pc_I	**0.006** (0.004) $p = 0.164$	
GDP pc_{XI} Avg		**0.023** (0.002) $p < 0.001$
Geo $Dist_{XI}$		**– 0.811** (0.036) $p < 0.001$
Adj_{XI}		**– 0.707** (0.122) $p < 0.001$
REM_I	**0.290** (0.094) $p = 0.002$	
REM_{XI} Avg		**0.124** (0.026) $p < 0.001$
DKL_{XI}		**– 0.259** (0.040) $p < 0.001$
Psy $Dist_{I\_avg}$	**– 0.967** (0.136) $p < 0.001$	
Psy $Dist_{XI}$		**0.108** (0.028) $p < 0.001$
Nat_I	**1.212** (0.283) $p < 0.001$	
EU_I	**0.043** (1.063) $p = 0.968$	
$Nat_I * EU_I$	**– 0.692** (0.358) $p = 0.053$	
$Nat_I *$ Psy $Dist_{I\_avg}$	**0.572** (0.056) $p < 0.001$	
Nat_{XI} Avg		**– 0.211** (0.101) $p = 0.037$
EU_{Both}		**2.190** (0.071) $p < 0.001$
EU_{One}		**0.523** (0.046) $p < 0.001$
Nat_{XI} Avg * Psy $Dist_{XI}$		**– 0.043** (0.022) $p = 0.049$
Overall R^2	0.694	0.712
Wald chi-square, *df*	5323.7, 10	4444.4, 12
Significance	$p < 0.001$	$p < 0.001$

*The models include both year and country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.

Industrial versus Consumer Goods

Our first robustness check concerns the consumer ethnocentrism prediction (H3) – i.e., the direct effect of Nat_I on Trade $_{X\ to\ I}$. In general, the consumer ethnocentrism perspective has tended to focus on the purchasing preferences of the consumer (e.g., Balabanis et al., 2001). Although we note in the development of Hypothesis 3 that
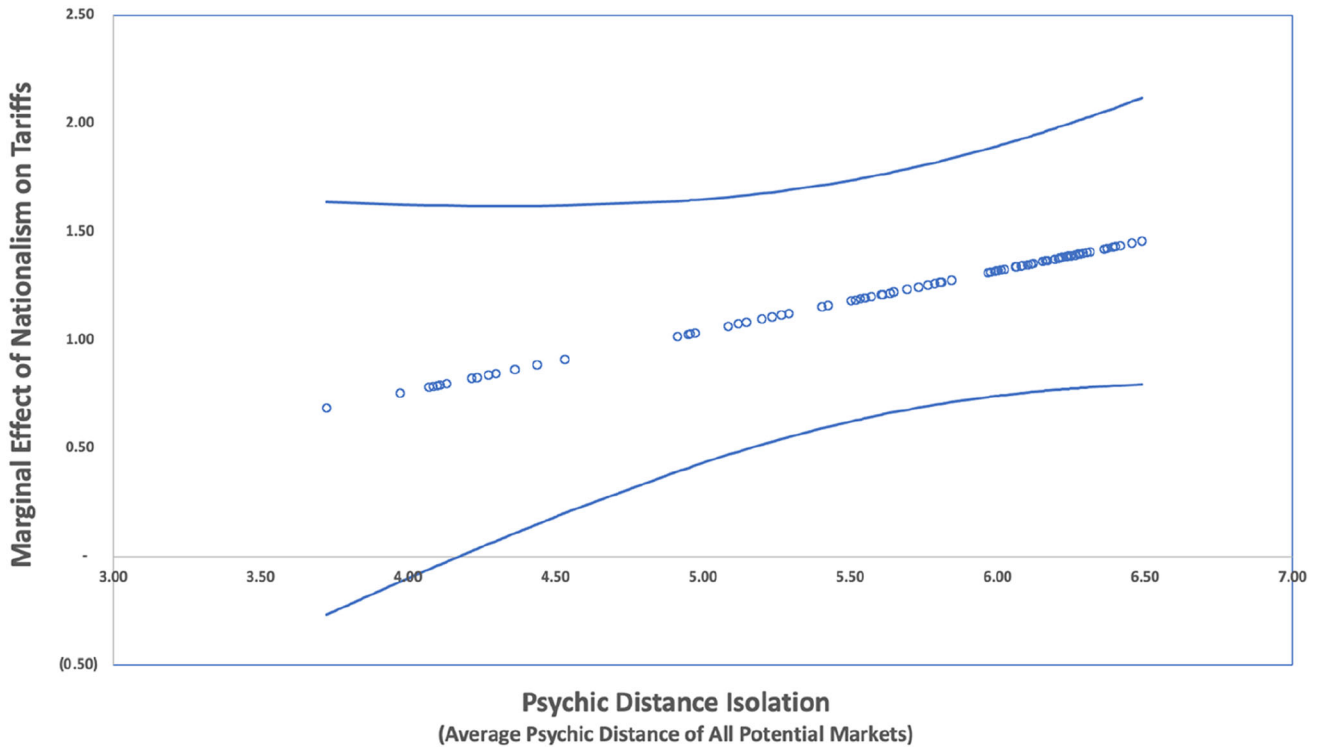
Figure 2 The moderating effect of psychic distance isolation on the nationalism – tariff relationship [for non-EU countries]*. *The *solid lines* represent the 95% confidence interval. The *circles* represent the actual distribution of psychic distance isolation data points in the analyses.

nationalistic sentiments amongst the various agents and intermediaries (such as purchasing agents and distributors) may augment this effect, the literature tends to assume that it is the nationalist sentiment of the consumers that is driving any observed preference for local goods. As a result, it is reasonable to expect that our results for H3 should be stronger for consumer products, compared to say industrial products. To test this, we have rerun model 1.2 (our main results on the full sample), first on a sub-sample of industrial goods (model 1.5, Table 9) and then again on a sub-sample of consumer goods (model 1.6, Table 9). In each case, we have selected roughly a dozen STIC 3 categories of goods to reflect the respective groups: industrial and consumer goods. Overall, the results roughly parallel our main results on the full sample (model 1.2 in Table 4 and Table 9). However, contrary to expectations there is no evidence that the coefficient for the consumer ethnocentrism effect (Nat_I) is stronger for the sample of consumer goods. The coefficient does appear to be larger for consumer goods (– .206 versus – .160); however, the

difference is statistically non-significant ($\Delta b = 0.046$, $p = 0.787$). Interestingly, the coefficient for the direct effect on exports (Nat_X) is also larger for consumer goods (– 0.542 versus – 0.182), and this difference is significant ($\Delta b = 0.360$, $p = 0.029$). These findings suggest that we fail to find evidence of the consumer ethnocentrism prediction on imports in both a sub-sample of industrial goods and a sub-sample of consumer good. However, we find evidence that nationalism affects exports on both sub-samples, and the effect of nationalism seems to be stronger in the consumer good sub-sample.

Lag Structure
The second robustness check explores whether using a different time lag between the measurement of nationalist sentiment and the trade flows may bias the results. Considering the average length of FTA negotiations, we adopted a 3-year lag in our main analysis, but in Online Appendix II we also replicate the findings using 2-, 4- and 5-year lags. Overall, the results appear to be consistent across all four time periods.

Table 8 Testing the moderating effects of psychic distance on nationalist sentiment for predicting - Trade $_{x \text{ to } I}$ ($n = 2424$)*

	Model 1.3	Model 1.4
Constant	**– 14.239** (0.851)	**– 14.321** (0.846)
	$p < 0.001$	$p < 0.001$
GDP$_I$	**0.921** (0.024)	**0.922** (0.024)
	$p < 0.001$	$p < 0.001$
GDP$_X$	**1.008** (0.023)	**1.009** (0.023)
	$p < 0.001$	$p < 0.001$
GDP pc$_I$	**– 0.009** (0.002)	**– 0.009** (0.002)
	$p < 0.001$	$p < 0.001$
GDP pc$_X$	**– 0.007** (0.002)	**– 0.007** (0.002)
	$p < 0.001$	$p < 0.001$
Geo Dist$_{XI}$	**– 1.007** (0.076)	**– 1.007** (0.076)
	$p < 0.001$	$p < 0.001$
Adj$_{XI}$	**0.301** (0.171)	**0.319** (0.171)
	$p = 0.079$	$p = 0.062$
REM$_I$	**0.072** (0.022)	**0.072** (0.022)
	$p = 0.001$	$p = 0.001$
REM$_X$	**0.028** (0.022)	**0.028** (0.022)
	$p = 0.198$	$p = 0.200$
Psy Dist$_{XI}$	**– 0.328** (0.035)	**– 0.318** (0.035)
	$p < 0.001$	$p < 0.001$
Nat$_I$	**– 0.129** (0.096)	**– 0.129** (0.096)
	$p = 0.177$	$p = 0.178$
Nat$_X$	**– 0.325** (0.093)	**– 0.325** (0.093)
	$p < 0.001$	$p < 0.001$
Tf$_I$	**0.024** (0.008)	**0.024** (0.008)
	$p = 0.003$	$p = 0.003$
FTA$_{XI}$	**0.189** (0.022)	**0.188** (0.022)
	$p < 0.001$	$p < 0.001$
Nat$_I$ * Psy Dist$_{XI}$	**0.012** (0.029)	
	$p = 0.669$	
Nat$_X$ * Psy Dist$_{XI}$		**– 0.010** (0.029)
		$p = 0.734$
Mills ratio **	**0.056** (0.107)	**0.055** (0.107)
	$p = 0.600$	$p = 0.610$
Overall R^2	0.783	0.783
Wald chi-square, df	5980.2, 15	5980.8, 15
Significance	$p < 0.001$	$p < 0.001$

*The models include both year and country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.
**The Mills ratio is generated by a probit model predicting the existence of a free trade agreement for any given dyad. This model is reported in Online Appendix I.

Alternative Tariffs Measures

The third robustness check concerns the measure of tariffs used in the analyses. While not reported here, we can confirm that the chosen form – a simple average of most favored nation (MFN) tariffs – yields the strongest results, and we feel this is appropriate given that the results concerning the mediating role of tariffs were only marginally significant at the best of times. These results are available on request.

Alternative Trade Agreement Measures

The fourth and final robustness check concerns the measure of free trade agreements used in the analyses. For our main analyses we utilized Bergstrand (2017)'s multi-item scale indicating the degree of integration in the trade agreement. However, as a robustness check we also repeated the same analyses reducing Bergstrand's scale down to a binary indicator (1 = a trade agreement, 0 = no trade agreement). This also included using random effects probit analyses to replicate Table 6. Overall, the results were broadly the same except that the

Table 9 Contrasting the effects of nationalist sentiment on trade flows: Consumer goods versus industrial goods ($n = 2424$)*

	Model 1.2 All Goods Less Coal, Oil & Gas	Model 1.5 Sample of Industrial Goods**	Model 1.6 Sample of Consumer Goods ***
Constant	**– 14.291** (0.842)	**– 20.341** (0.973)	**– 11.876** (1.121)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
GDP_I	**0.922** (0.024)	**1.012** (0.027)	**0.881** (0.032)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
GDP_X	**1.008** (0.023)	**1.184** (0.027)	**1.083** (0.031)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
$GDP\ pc_I$	**– 0.009** (0.002)	**– 0.014** (0.002)	**– 0.007** (0.002)
	$p < 0.001$	$p < 0.001$	$p = 0.003$
$GDP\ pc_X$	**– 0.007** (0.002)	**– 0.008** (0.002)	**– 0.024** (0.002)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
$Geo\ Dist_{XI}$	**– 1.007** (0.076)	**– 1.157** (0.088)	**– 1.445** (0.101)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
Adj_{XI}	**0.312** (0.170)	**0.285** (0.195)	**0.033** (0.226)
	$p = 0.066$	$p = 0.144$	$p = 0.884$
REM_I	**0.072** (0.022)	**0.135** (0.025)	**0.013** (0.029)
	$p = 0.001$	$p < 0.001$	$p = 0.652$
REM_X	**0.028** (0.022)	**– 0.074** (0.025)	**– 0.007** (0.029)
	$p = 0.202$	$p = 0.003$	$p = 0.801$
$Psy\ Dist_{XI}$	**– 0.323** (0.032)	**– 0.315** (0.037)	**– 0.438** (0.043)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
Nat_I	**– 0.128** (0.096)	**– 0.160** (0.112)	**– 0.206** (0.127)
	$p = 0.181$	$p = 0.152$	$p = 0.105$
Nat_X	**– 0.325** (0.093)	**– 0.182** (0.109)	**– 0.542** (0.124)
	$p < 0.001$	$p = 0.095$	$p < 0.001$
Tf_I	**0.024** (0.008)	**0.050** (0.010)	**– 0.007** (0.011)
	$p = 0.003$	$p < 0.001$	$p = 0.497$
FTA_{XI}	**0.188**	**0.162** (0.026)	**0.179** (0.029)
	$p < 0.001$	$p < 0.001$	$p < 0.001$
Mills ratio	**0.054** (0.107)	**0.001** (0.124)	**0.284** (0.142)
	$p = 0.611$	$p = 0.933$	$p = 0.046$
Overall R^2	0.783	0.771	0.696
Wald chi-square, df	5982.2, 14	5656.3, 14	3784.2, 14
Significance	$p < 0.001$	$p < 0.001$	$p < 0.001$

*The models include both year and country random effects. The coefficients are in bold, the standard errors are in italics and parentheses, and the p values are in italics.

**Pulp & paper (25 & 64), metal ores (28), organic chemicals (51), non-organic chemicals (52), Plastics in primary form (57, iron & steel (67), metal working machinery (73), industrial equipment (74), office machinery (751), and scientific equipment (87) – SITC V3 codes in parentheses.

***Beverages (11), domestic electrical equipment (775), digital computers (7522), motorcycles (785), trailers & caravans (786), furniture & furnishings (82), travel goods (83), apparel (84), footwear (85), baby carriages, toys & games (894), artwork (896), jewelry (897), and musical instruments & records (898).

coefficient testing the consumer ethnocentrism Hypothesis (H3) became statistically significant ($p = 0.080$), and the result concerning tariffs increasing trade became non-significance ($p = 0.137$). This latter exception is interesting as it indicates that some of the unexpected results concerning H1a may be due to an interaction between the tariff and FTA variables.

DISCUSSION

Our world is witnessing a backlash against globalization accompanied by a rise in populist and nationalist social movements and ideologies. Furthermore, these movements are more and more both populist and nationalist in nature in many countries. Therefore, it is increasingly important for scholars and policymakers alike to understand how these movements may impact important economic outcomes such as trade. Our focus on the nationalist sentiment aspect of these movements speaks
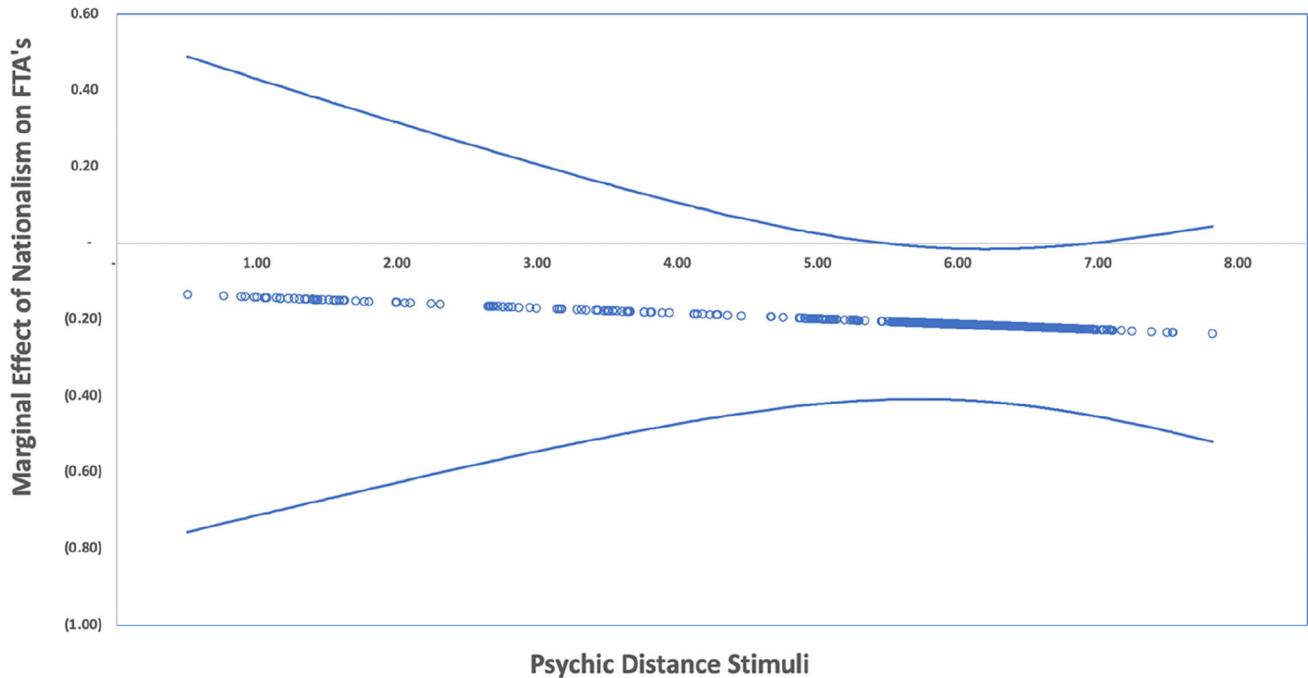
Figure 3 The moderating effect of psychic distance stimuli on the nationalism—FTA relationship*. *The Solid lines represent the 95% confidence interval. The circles represent the actual distribution of psychic distance stimuli data points in the analyses.

to this. As we elaborate below, our study makes important theoretical and empirical contributions that advance our current understanding of how nationalist sentiment in society affects trade.

Theoretical and Empirical Contributions
As noted in the Introduction, prior research in the international trade literature has primarily seen nationalism as matter of economic policy (i.e., economic nationalism). We broaden this view by developing and testing a theoretical model that allows nationalist sentiment to potentially affect trade through both direct and indirect paths. Specifically, we begin by building on insights from the economic nationalism perspective that focus on how nationalism negatively influences trade indirectly via tariffs and/or the propensity to participate in FTAs. We then extend our model to allow for direct effects of nationalist sentiment (i.e., not through government policy decisions) on both imports and exports. The former builds on the international marketing concept of consumer ethnocentrism; and the later builds on social psychology insights to predict that nationalist sentiments, through an increased distrust of foreigners and a reduced desire to interact with them, may blunt the

desire to export. This model allows us to make a number of theoretical and empirical contributions:

First, we contribute to the literature by providing greater insight into how nationalist sentiment impacts trade by shaping restrictive trade policy (i.e., the indirect mediating path in our theoretical framework). Our findings indicate that the level of nationalist sentiment in a country has a significant negative impact on a country's participation in FTAs, and that this in turn leads to reduced levels of imports and exports (H1b and H2). The second half of this relationship (i.e., the impact of FTAs on trade) is quite broadly proven and accepted in the existing IE literature; however, the first half (i.e., the link between societal nationalist sentiments and participation in FTA), while often taken as an article of faith, has never been previously tested to our knowledge. Hence, our findings play an important role in confirming how societal nationalist sentiment plays in driving economic nationalism. The effects we find are also practically meaningful. For example, a two standard deviation increase in the U.S. level of nationalist sentiment (which would take the U.S. to about India's level of nationalist sentiment) would translate in roughly a 2% or approximately US$ 35 billion reduction in

imports, and exports, by the U.S due to lower involvement in free trade agreements.

In contrast, we failed to find evidence that nationalist sentiment affects trade through tariffs (H1a). Specifically, while our analyses indicate that nationalist sentiment is positively associated with higher tariffs, the predicted relationship between tariffs and trade flows in our dataset is not only not confirmed, but for our sample there appears to be a surprising positive correlation between tariffs and imports. We speculate that this might be due to a combination of reasons: First, our sample of countries is biased in that 95% the countries are WTO members, and the participation in FTAs is relatively high ($\sim 60\%$). Thus, a null result may be a tribute to the effectiveness of the WTO in reduced tariffs across the member states to such a low and uniform level that the confirming the expected impact of tariffs on trade now seems to be a challenging task. Moreover, unlike FTAs, which are more visible and receive more media coverage, it might be harder for the general population to assess the impact of tariffs. This may allow policymakers to respond to societal nationalist pressures by appearing to increase tariffs, but doing so in a manner than has minimal impact on trade. Second, as our fourth and final robustness check demonstrates, the surprising positive coefficient concerning the impact of tariffs on trade disappears when the metric for measuring participation in a free trade agreement is changed to a binary indicator (as opposed to using the six-point scale based on the Bergstrand data). This suggests that the surprising result may be partly due to an interaction between the FTA and tariff variables. And lastly, as demonstrated in Table 9, the surprising positive coefficient concerning tariffs also only appears to be present in a sample of industrial goods, and does not hold for consumer goods. Thus, the unexpected result may reflect a spurious correlation particular to a sub-set of industries.

In addition to these insights concerning the possible mediating roles of trade policy, we also contribute to the IE literature by drawing on two other streams of literature: international marketing and social psychology, and highlight that nationalist sentiment may also influence imports and exports by more direct means (H3 and H4 respectively). Here, our analyses yield two sets of particularly interesting results. First, our results failed to confirm a significant direct relationship between nationalist sentiment and imports. This result is somewhat surprising given the emphasis on the concept of consumer ethnocentrism in the international marketing literature (i.e., predicting a direct impact on imports). This might be due to a mismatch between expressed preferences and actual behaviors amongst consumers, which is not uncommon with socially desirable issues (Auger & Devinney, 2007). Namely, highly nationalistic people may express a strong desire to purchase local goods, but they might not always follow through with these sentiments. Alternatively, customers might not always be able to differentiate between domestic (ingroup) and foreign (outgroup) products. We tried to delve deeper into this issue further by looking at trade on industrial and consumer good separately. This reveals that although the consumer ethnocentrism literature tends to focus on consumer preferences, the results are still non-significant even for a dataset explicitly focused on consumer goods. Given that these findings are surprising and not in line with those found at less aggregated levels in the consumer ethnocentrism literature, we would strongly encourage further research into this matter.

In contrast with the preceding results, we find that nationalist sentiment appears to have a strong direct effect on exports. We found this result particularly interesting because members of nationalist movements typically emphasize the importance of the domestic economy. While their attitudes and behaviors might benefit the domestic economy by reducing imports, it might also have negative impact by blunting managers' desire to seek out and exploit export opportunities. We outlined that this might be due to favoritism, distrust of foreigners and/or the reluctance to interact with foreigners. As it is challenging to identify whether all these behaviors or attitudes are at play in aggregated trade data, we would encourage more research in this area. We believe it would be especially helpful to study the exact motives that are driving managers, using firm or even individual-level data.

Our third and final major contribution concerns the role of two key contingencies and boundary conditions that may influence the impact of nationalist sentiment: psychic distance and customs unions such as the EU. With respect to psychic distance, our empirical results are intriguing as the moderating effect only influences the mediated paths (i.e., tariffs and FTAs) and not the direct paths (i.e., consumer ethnocentrism and the blunting of the desire to export). Psychic distance appears to only magnify the effects of nationalism

for decisions that are mainly in the political arena (i.e., in setting trade policy). It does appear to play a role in decisions at the level of the managers and/or consumers (i.e., the direct effects). This may possibly be due to the fact that in policy settings, the identity of the other party (e.g., the country you are negotiating a trade agreement with) is unambiguous. In contrast, when dealing with consumers and/or managers purchasing foreign goods, the actual national identity of the goods may be obscure and hard to identify. This largely arises from the globalization of the supply chains, and extensive use of offshoring. While one may nominally think of an iPhone as American and a BWM car as German, the former will most likely be made in Taiwan, and the latter may actually be assembled in a variety of countries in Asia. Thus, the desire to discriminate based on the national identity of the product may be present, but in many instances the actual location from which it is shipped may be very different.

With respect to customs unions such as the EU, they do indeed appear to blunt the impact of nationalist sentiments with respect to tariffs. However, with respect to FTAs, the results do not indicate that EU membership influences the effect of nationalist sentiments on participation in FTAs. Nevertheless, customs unions still appear to influence participation in FTAs, but it appears to be a direct effect, rather than a moderating effect. Thus, our findings still indicate that controlling for custom unions, such as the EU, is critical.

Policy Implications of Our Theoretical Framework and Findings

Our findings also offer important implications for policymakers. First, our findings suggest that pressures arising from nationalist sentiment in society can shape economic policy. Given that policymakers increasingly have to make decisions against a background of substantial nationalist and populist societal sentiments and pressures, our findings suggest that they might find themselves more and more constrained in terms of their policy options and pushed towards nationalist policies. Although more research is warranted on this, our finding that nationalist sentiment drives tariffs but in a way that does not significantly impact trade might suggest that policymakers can engage in policies that meet the societal pressures without having direct economic consequences. Again, this is speculative and requires more investigation, but it would be in line with insights in the management literature that

firms can adopt policies in a symbolic rather than substantive manner to meet societal pressures (e.g., Zajac & Westphal, 1994). Similarly, policymakers might be able to strategically or symbolically adopt economic policy to meet societal pressures while minimizing negative economic impact (e.g., minimizing the reduction in exports through policy).

Second, many governments are increasingly stimulating nationalist sentiment through education and media (e.g., Breuilly, 1993; Gellner, 2008; Wang, 2006). This generally seems to be done for non-economic reasons and it might have benefits in terms of social cohesion and political power. However, our work suggests that this might also have important economic implications. Hence, our work will inform policymakers on the potential economic costs (or benefits) of stimulating nationalist sentiment. We believe this would be useful in helping them decide whether to temper or stimulate nationalism through policy (e.g., education policy, etc.).

Finally, the reduced willingness to import due to higher nationalist sentiment, or other country's reduced willingness to export might also have implications for country's access to technology and other strategic resources. Much has been said about techno-nationalism (e.g., Petricevic & Teece, 2019) but this has mainly been seen as a matter of protectionist economic policy. Our findings suggest that policymakers should also consider that societal nationalist sentiment and the attitudes and behaviors that are associated with it might limit access to valuable foreign technology that is crucial for innovation and economic development. Hence, it might be important for policymakers in the technological innovation domain to offset the societal effects of nationalist sentiment by for example creating incentives that offset or de-activate these tendencies or by stimulating other means of obtaining crucial technology and innovation.

Limitations and Directions for Future Research

A number of suggestions for future research stem from this study's limitations. First, due to the limited availability of data on nationalist sentiment, the number and selection of countries is skewed towards developed countries and particularly Europe. This might affect some of our findings. For example, as discussed above, we fail to find that tariffs negatively affect trade and we speculated that might be due to this issue. In the same vein, it is unfortunate that, due to data availability limitations, we are unable to include

more Asian countries, such as China. Furthermore, the most recent year in our sample is 2016, due to data availability. More recently, we have seen nationalism increase further in many countries. We believe that our results should be generalizable unless more recent years have seen shifts in nationalism that is different in kind rather than in degree, but this is something future research can explore. Therefore, we encourage researchers to broaden our analysis when data on nationalist sentiment become available for additional countries and more recent years.

Second, we focus on tariffs and free trade agreements to capture a mediating effect of nationalist sentiment on trade. However, our measure does not include targeted tariffs, such as the ones imposed by the USA on Canadian steel and aluminum under Section 232 (Boscariol et al., 2018). We were also unable to include non-tariff barriers. Both of these limitations may further understate the mediating role that government policies may play. Future research might explore how nationalist sentiment might affect other economic policy issues and thereby trade.

Third, as we mentioned above, our analysis at the aggregated country level does not allow us to isolate the nationalist sentiment-related microlevel mechanisms (e.g., the superiority bias, favoritism, distrust, and/or a reluctance to interact) and to establish to what extent these mechanisms are at play. Doing so would require a different level of analysis (e.g., the firm or individual level) or a radically different research design all together (e.g., an experimental design).

Despite these limitations, we believe that our paper makes a major contribution by improving our current understanding of how nationalist sentiment affects trade. We also hope that our study will motivate continuing and new waves of scholarship on nationalism and populism.

NOTES

[1]While not everyone in a country might share the same level of this sentiment, data on nationalist sentiment has shown that there indeed are tendencies in nationalist sentiments among members of a country and there are meaningful differences in such sentiments across countries (e.g., the National Identity module that is part of the International Social Survey Programme [ISSP]). This parallels the notion of a national culture: while there is variation in the cultural values of individual people in a country, there are meaningful tendencies within a country that allow for there being a national culture (e.g., Hofstede, 1980).

[2]In defining nationalist sentiment, Kosterman and Feshbach (1989) also clarify how it difers from patriotism. Namely, they see patriotism as an "*affective component of one's feelings toward one's country … the degree of love for and pride in one's nation*" without the downward comparison of other countries that characterizes nationalist sentiment. In an exploratory factor analysis, they further show that nationalist sentiment and patriotism are distinct constructs.

[3]At time of writing, the number of published papers in economics-oriented journals (as defined by the Scopus search engine) that identified nationalism as a key issue in the title, abstract and/or keywords was 1332.

[4]For example, Semadeni, Chin, and Krause (2022) show that CEO's political ideology affects strategic decision such as how much a firm invests in R&D. Similarly, Elnahas, and Kim (2017) highlighted that CEOs' political ideology affects their merger and acquisition behaviour. While these studies focussed on CEOs' political ideology, there is a broader body of work that has focussed on relevance of a wide range of other values and attitudes such as national cultural values (e.g., Steenkamp, & Geyskens, 2012).

[5]Coal (SITC Rev 4 - 32), petroleum (SITC Rev 4 - 33) and natural gas (SITC Rev 4 - 34) are excluded. However, tests were also conducted using all categories of trade which are available on request from the authors and yielded similar results.

[6]This control variable was based on the 2020 Database of Political Institutions data (Scartascini et al., 2011) and was tested for predicting both tariffs and FTAs.

[7]Several of our key variables of interest are, as expected, slow-moving. This results in high correlations between these slow-moving variables and the fixed effects which can destabilize estimates of the effect of the independent variable, making a fixed-effect specification inappropriate (e.g., Clark & Linzer, 2015).

[8]The EU processes described here were endorsed at the 2009 Lisbon Treaty. Prior to that, the EU Parliament had a less prominent role in EU trade-policy decisions.

[9]Please note that within the sub-sample of EU countries in this study (for any given year) there is no variance in terms of tariffs and trade agreements. However, there is variance relating to the

EU data in two other forms. The first is variance within the EU across time. The second is variance when EU countries are contrasted with non-EU countries. Thus, the EU countries still provide important information to the overall sample, even though they share a common set of trade policies.

[10]For the EU moderating variables, rather than employing the mean-centring approach as we do with the psychic distance moderators, we use the raw product of the two components (e.g., Nat_I and EU_I), as this substantially eases the interpretation of the results.

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