



**Open for Business in a Closed World? Managing MNE  
Nonmarket Strategy in Times of Populism and Geopolitical  
Uncertainty**

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**Abstract**

**Purpose** – Multinational corporations are increasingly augmenting their international strategies with insights on, and approaches to, external stakeholders and nonmarket dynamics. The rise of populism and increased geopolitical uncertainty have accelerated these efforts, particularly for business leaders anticipating and engaging external agents, events, and issues that challenge the strategic objectives of their enterprises.

**Approach** – In this introduction to the special issue, we begin by explaining why the increased preponderance of populism and geopolitical uncertainty are simultaneously posing an existential threat to the post-Cold War global economy predicated on free trade and (relatively) open borders, and consequently, challenging the structures and strategies of international business.

**Findings** – We provide an overview of the four papers in our special issue, and consider how each advances insights on how multinationals effectively navigate the nonmarket uncertainties of the contemporary global economy. We then advance four important areas for international business research around multinational nonmarket strategies: (i) resilience and legitimacy; (ii), diversification; (iii), market and nonmarket strategy integration; and (iv), institutional arbitrage.

**Research implications** – We anticipate that nonmarket strategy scholars can build on these themes to assess how nonmarket strategies can better enable multinationals to survive and thrive in an age of heightened global risk and uncertainty.

**Introduction**

The early 21<sup>st</sup> Century can be characterized as an age of global uncertainty, as we struggle, individually and collectively, to adapt to fast-moving and often unpredictable economic trends, political configurations, social dynamics, and technological changes. The COVID-19 pandemic also induced a fundamental rethink of everything from how and where we work, to ways in which we collaborate with different societal and organizational stakeholders (Lawton *et al.*, 2020).

Indeed, infectious diseases that spread rapidly across borders have shaped geopolitics and international commerce since time immemorial. The Justinian Plague, which lasted from about 541 to 750 AD, wiped out half of Europe’s population and played a key role in the ultimate demise of the Roman Empire and the reordering of Europe, the Middle East and North Africa. The 14<sup>th</sup> Century bubonic plague, or “Black Death”, spread along trade routes

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3 between Asia and Europe, killing one third of Europe's population, and lingering for  
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5 centuries, particularly in cities. But from this pandemic there also sprang economic renewal  
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7 and societal reinvention, as resultant labor shortages caused a reorganization of feudal  
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9 societies and increased benefits for commoners.<sup>1</sup> Therefore, although global phenomena such  
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11 as pandemics or geopolitical realignment precipitate short-term volatility and uncertainty,  
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13 they can also lead to long-term transformations that can stimulate new opportunities.  
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17 A number of economies around the world are now framed by weaker political and  
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19 regulatory institutions, resulting in nonmarket threats such as border and migration disputes,  
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21 judicial arbitrariness, increased regulatory uncertainty, and rising social inequality.  
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23 Multinational enterprise (MNE) strategic decisions are seriously challenged, and constrained,  
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25 due to these institutional uncertainties and shortcomings (De Villa *et al.*, 2019; White *et al.*,  
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27 2015). Further, whereas some MNEs benefit from these developments, most are dealing with  
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29 increased cost, complexity, and risk burdens in their markets and supply chains. Numerous  
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31 countries also face rising threats of terrorism, an increase in arbitrary legal rulings,  
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33 government instability, lop-sided and underdeveloped consumer markets, and potentially  
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35 destabilizing levels of youth unemployment. Much of the blame for these problems is  
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37 apportioned to free trade, opportunistic foreign direct investment practices, liberal  
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39 immigration policies and open borders, thus giving rise to anti-globalization movements.  
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41 Therefore, countries have developed far reaching new laws on migration, climate change, and  
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43 corporate tax. MNE corporate strategies are undoubtedly challenged by this populist and anti-  
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45 globalization sentiment (Meyer, 2017). In response to these institutional shifts, MNEs are  
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47 going through major strategic changes that involve new capability development, or re-  
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49 thinking capabilities in nonmarket arenas.  
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56 In approaching this threat, geopolitics and populism have gained traction and  
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58 increased prominence within nonmarket strategy (Lawton and Rajwani, 2015; Devinney and  
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Hartwell, 2020). Geopolitics, coined as a term at the close of the 19<sup>th</sup> Century, introduces geography as an important element of foreign policy conceptualization and practice (Ó Tuathail, 1999). While Populism, with its genesis also in the late 19<sup>th</sup> Century, is a more elusive concept, used to describe everything from the Brexit vote in the U.K., to the election of Donald Trump in the U.S. and Narendra Modi in India. The moniker has been attached to politicians and parties of the left and the right. In practice, it is less about ideology and more about positions and actions. For instance, populism has become virtually synonymous with politicians and policies that prioritise the national interest and domestic markets over multilateralism and the global economy (Viatcheslav and Tensaout, 2016). The resultant implications for international business and management research, and the attendant socio-political risk and regulatory uncertainty, means that there is a salient need for more research on MNE nonmarket strategies in what often appears to be a closed, or closing, international political economy. Taking this broad geopolitical uncertainty and populism perspective, we seek to synthesize and integrate the ideas from the four papers accepted in our special issue of *Multinational Business Review* to first, conceptualize the responses that MNEs can develop to manage and mitigate these anti-global challenges and risks, and, second, identify pathways for future research.

### **MNE nonmarket strategy, populism and geopolitical uncertainty**

MNEs operating in this era of nationalist rhetoric and mercantilist behavior encounter growing nonmarket threats and uncertainty. MNEs must therefore manage these nonmarket forces via nonmarket strategy, that is, how firms respond, proactively or reactively, to actors, influences, and events in social, political, and regulatory arenas, that impact on the success or survival of the enterprise (Baron, 1995; Lawton *et al.*, 2014; Sun *et al.*, 2021; White *et al.*, 2020). Bach and Allen (2010) emphasize that nonmarket strategy recognizes that businesses

are social and political beings, not just economic agents. Hence, increased anti-globalization sentiment and legislation have caused MNEs to adjust and adapt their nonmarket strategies to socio-political environmental volatility (Doh *et al.*, 2012). Consequently, there is an extensive literature on political risk and regulatory uncertainty (e.g., Brewer, 1993; García-Canal and Guillén, 2008; Henisz and Delios, 2001; Henisz and Zelner, 2003; John and Lawton, 2018; Kobrin, 1979; White *et al.*, 2018). In contrast, with a few notable exceptions (White *et al.*, 2014), there is little research on multinational nonmarket strategy that explores both socio-political risks and uncertainty derived from government policies, particularly arising from increased nationalism and protectionism.

Compared with the post-Cold War 1990s, when firms flourished due to the neoliberal business environment that accompanied globalization, the decade or more since the 2008 global financial crisis has been characterized by increased skepticism towards globalization. Populist movements and leaders have largely focused on inequality and those left behind by globalization, but also on new technologies, as low skilled workers in advanced economies have increasingly become redundant due to automation, outsourcing, and offshoring (Oestreich, 2002). These sentiments were evident in the emergence of populist political leaders around the world, from Brazil to the Philippines, including the 2018 Italian election that resulted in the first populist government of a large EU member state. There is increased evidence to suggest a new international consensus may be emerging, with a greater focus by governments on national interests rather than multinational solutions (Globerman, 2017). Some observers may point to the election of Joe Biden (as U.S. President) as a turning point, with a renewed rhetorical emphasis on global engagement and multilateral alliances. But in practice, the energy and focus of the Biden Administration to date has been on populist domestic issues such as infrastructure investment and the withdrawal of all U.S. forces from Afghanistan. The issues underlying the global surge in populism are giving rise to viable

political associations, parties and interests, which have largely elicited dismissive and passive aggressive responses from the established political classes, both at national and international levels (Avioutsii and Tensaout, 2016). This is evidenced in the defensive response of the EU institutional leadership to populist victories in member countries including Greece, Hungary, Italy, and Poland. As a result, this standoff has increased uncertainty for MNEs pondering investment, expansion opportunities, and locational choices.

### **Integrating MNE nonmarket strategy, populism and geopolitical uncertainty: Papers in this focused issue**

This special issue is predicated on the notion that nonmarket strategy research, specifically in an international business context, would benefit from an investigation of how anti-globalization forces and nonmarket threats are shaping MNE structure, strategy, governance, operations, and outcomes. We argue that by embracing and embedding geopolitical risk and uncertainty in strategic principles and practices, MNEs will be more adept at navigating the ebb and flow of international trade and investment in the modern world economy. The four papers in this special issue provide rich insights into and evidence of these issues and approaches.

The first paper in our special issue collection, by Ru-Shiun Liou, Lee Warren Brown, and Dinesh Hasija, entitled “Political animosity in cross-border acquisitions: EMNCs’ market and nonmarket strategy in a developed market”, examines reasons for how emerging market multinational corporations (EMNCs) strategically choose to acquire target firms in developed markets for the purpose of quickly upgrading strategic capabilities. Their paper focuses on the intersection of market and nonmarket actions, as they relate to mollifying risks associated with political animosity originating from differences between home and host country national political systems. The authors extend the legitimacy-based view of political risk through

investigating these relationships by drawing from a secondary data-set of EMNC cross-border acquisitions of U.S.-based targets from 2005 to 2011. They find that when confronted by higher levels of political animosity, EMNCs will utilize a market strategy where they acquire smaller ownership stakes but increase lobbying behavior. Also, when faced with heightened legitimacy concerns of developed market shareholders, cross-listed EMNCs, rather than non-cross-listed EMNCs, will more likely enhance legitimacy via these market and nonmarket strategic actions. Hence, this paper extends the legitimacy-based view by shedding light on the underlying motivations of EMNC acquisitions from a market and nonmarket-based perspective in developed markets.

Alternatively, the second study in our special issue, entitled “Real options flexibility or risk diversification: risk management of US MNEs when facing risk of war” by Yun Dong Yeo and Seung-Hyun (Sean) Lee, examines how the risk of war between North and South Korea drives strategic risk management practices by U.S.-based MNEs. The authors draw from two competing theoretical perspectives, real options and risk diversification, in exploring how U.S. MNEs strategically manage and reconfigure foreign subsidiary operations when confronted with the risk of war in South Korea. The authors find that when the risk of war is deemed to be high, U.S. MNEs with larger portfolios of global investments will leverage operational flexibility by shifting production to foreign subsidiaries in other locations outside of the host country (in this case South Korea). These MNE strategic risk management practices do not seem to vary based on ownership structure. Furthermore, the paper offers a unique perspective that contributes to the international risk management literature in general, as well as more specifically contributing to the operational flexibility and risk management literatures, in highlighting approaches that MNEs can deploy to reconfigure and leverage foreign subsidiary operations when confronted with the risk of war.

The third paper, “Taking advantage of institutional weakness? Political stability and foreign subsidiary survival in primary industries”, by Nathaniel C. Lupton, Donya Behnam and Alfredo Jiménez, explores how the extent of locating primary industry subsidiaries in politically unstable countries influences ultimate survival. A large longitudinal sample (1986-2013) of Japanese MNEs is used to conduct parametric survival analysis tests concerning the relationship between host country political stability and MNE foreign subsidiary survival. In drawing from FDI logic and institutional economic theories, the authors theoretically contend that MNEs operating in primary industries and located in less stable political environments are more likely to benefit from low policy compliance costs. Hence, the authors test a nonlinear model and find that there are substantial benefits associated with engaging in what they deem institutional arbitrage, which mitigates hazards and lowers MNE foreign subsidiary exit rates in politically unstable host countries. This nonlinear model finds these relationships to be particularly strong for efficiency-seeking, as opposed to market-seeking foreign subsidiaries. Furthermore, this paper extends the international nonmarket strategy and subsidiary survival literatures by generally contributing to the debate surrounding the pros and cons of globalization, while investigating the nonlinear relationship between levels of host country political stability and subsidiary survival in the primary sector, particularly when considering the investment motives of MNEs in institutionally weak environments.

The fourth and final paper in our special issue, by Izzet Darendeli, T.L. Hill, Tazeeb Rajwani and Yunlin Cheng, and entitled “Surviving the Arab spring: socially beneficial product portfolios and resilience to political shock”, examines how social legitimacy serves as a hedge against political risk in highly uncertain and hazardous contexts. This includes an investigation of how the perceived social value of MNEs enhances resilience against exogenous political shock. The authors employ novel data of international construction firms operating across the Middle East and North Africa (MENA) region. In applying the



legitimacy-based view of the firm, they found that international construction firms that focus on a higher proportion of socially beneficial (i.e., pro-social) projects such as water, transportation, and telecommunication projects, were more resilient to political shock in highly uncertain environments. In essence, their findings show that MNEs with portfolios of socially beneficial products will be more resilient when exposed to disruptions related to political shock, such as those associated with the Arab Spring. These findings further extend the international nonmarket strategy literature around the influence of political ties and social legitimacy as they relate to enhancing resilience against political shock.

The four papers in our special issue vary in several important ways. This includes application and extension of theory, research questions explored, context, findings, and contributions to different streams of literature within international business research. When taken together, as a compilation of state-of-the-art research, they collectively offer a better understanding of how MNEs manage nonmarket strategy in times of populism and geopolitical uncertainty (see Table 1 for a summary of key aspects).

**Table 1.** Managing MNE nonmarket strategy and geopolitical risk

		MNE Strategy			
		Resilience and legitimacy	Diversification	Market and nonmarket integration	Institutional arbitrage
Geopolitical risk	Populism	Darendeli, Hill, Rajwani and Cheng			
	Wars		Yeo and Lee		
	Political animosity			Liou, Brown and Hasija	
	Institutional weakness				Lupton, Behnam and Jimenez

### Future research trajectories

As seen from the four papers in this special issue, the challenge for MNEs is to acculturate to the new norms and adopt new principles and practices, as the reverberations and rhetoric of the pandemic, populism, and protectionism have profound implications for globalization. Thus, how do MNEs remain open for business in what many perceive as an increasingly fractured, if not closed or closing world economy? Business and political leaders are revisiting the efficiency and security of disaggregated transnational supply chains and international trade agreements, whilst supranational institutions like the EU and the UN are being challenged and undermined from within and without, and the world moves inexorably back to the future as geopolitical blocks and hegemonic spheres of influence take shape.

Drawing on the papers from the special issue, we introduce Table 2, offering a summary of future trajectories available for scholars interested in exploring the impact of populism and geopolitics on MNE nonmarket strategy. We focus on MNE strategies, with an emphasis on theory, questions and methods.

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**Table 2.** Future research avenues in MNE nonmarket strategy during times of populism and geopolitical uncertainty

	<b>Future research avenue #1: Resilience and legitimacy</b>	<b>Future research avenue #2: Diversification</b>	<b>Future research avenue #3: Integration of market and nonmarket strategy</b>	<b>Future research avenue #4: Institutional arbitrage</b>
<b>Theoretical linkages</b>	Legitimacy-based view  Resilience	Real options  Risk diversification	Legitimacy theory	Institutional theory
<b>Research question</b>	How do MNE executives use legitimacy to build resilience at the global, regional, and local level?	How do MNEs leverage different options for operational flexibility?	How does political animosity between home and host country impact market and nonmarket interactions?	How do MNEs hedge risks in politically uncertain countries?
<b>Key methodological approaches</b>	Experiment	Bivariate Probit Model	Regression Analysis	Parametric Survival Analysis

**Future research #1: Resilience and legitimacy**

Nonmarket strategy scholarship explores how firms proactively and optimally configure and manage political and social actors and issues that impact on MNE strategic objectives.

Several important studies have explored nonmarket risks in international business (Kobrin, 1979; Henisz and Zelner, 2003; John and Lawton, 2018; Oh *et al.*, 2020). These studies have also identified important nonmarket strategies to reduce risks using a range of different approaches. However, we argue that there needs to be a further broadening and deepening of our conceptual lenses and greater empirical investigation of these avenues of research to remain relevant and contribute to today’s discourse in international business and management

research. For instance, the nature of how firms managed the Arab spring, captured in this special issue by Darendeli *et al.* (2021), paves the way for future research trajectories on employing nonmarket strategies to defend competitive advantage. Specifically, how can legitimacy and resilience be employed within nonmarket strategies to mitigate populism and related political risk? Hence, the implications are still unclear as to how MNEs can organize nonmarket activities and execute strategy to engage populist governments and political movements, and society in general, to mitigate exogenous political shocks.

The legitimacy-based view is an important and useful theory to study how MNE NMS can manage populism and geopolitics. Established international business theories such as internationalization process theory, the OLI framework, and others, have been surprisingly lacking in understanding these distinct nonmarket risks. However, the legitimacy-based view and theories from political science and other social sciences, such as social network and social movement theory, have not yet been fully applied to MNE NMS research (Sun *et al.*, 2021). Thus, the application of these theories might be useful for NMS scholars to better explain how resilience and other recovery strategies for anti-globalization can be deployed by MNE subsidiaries, particularly when considering emerging market environmental contexts? These questions associated with stakeholder types (e.g., different types of left-wing and right-wing populist networks or movements), are important to better understand such effects on MNEs across host and home markets.

### **Future research #2: Diversification**

International business research has a long history of exploring the interplay between MNE headquarters and national or regional subsidiaries (Bouquet and Birkinshaw, 2008; White *et al.*, 2018), yet little of the research we have reviewed has focused on the configuration of nonmarket strategies at the global, regional, and local level (see Lawton *et al.*, 2014 as an

exception). In building on Miller's (1992) framework of integrated risk management in international business, NMS research should consider new state-of-the-art frameworks and how nascent theories can be better integrated with, for example, the real options perspective of the MNE to better explain these phenomena. This research can help us better understand how MNEs leverage operational flexibility by managing a portfolio of foreign subsidiaries to hedge against political risk in uncertain operating environments (see Yeo and Lee in this special issue). With this notion in mind, NMS is especially subject to *both* global pressures and the necessity to be locally responsive, given significant differences in lobbying laws and differentiation in social norms (such as corrupt practices) across regions. This results in varying social expectations of MNEs operating in different cultural contexts, as well as the increasing ability of social movement organizations to exert pressures on MNEs across their global footprint.

### **Future research #3: Market and nonmarket integration**

Lawton, Doh and Rajwani (2014) found that the growing breadth and alignment of market and nonmarket strategy constitutes a mechanism to compete, as well as a means to manage a broader set of stakeholders and the range of external demands they place upon the firm. Yet, little is still known about how the interaction of market and nonmarket mechanisms drive MNE strategic behavior. MNE market and nonmarket strategies are inter-reliant. Thus, as suggested by White, Hemphill, Joplin, and Marsh (2014), further research may include a comparative perspective in better understanding how MNEs (and their foreign subsidiaries) combine (and even reconfigure) market-based and nonmarket based embedded assets to enhance specific financial performance outcomes in environments in politically stable versus risky environments. Also, as eluded to in Liou *et al.* in this special issue, how might these mechanisms influence strategic CSR activities, not only for legitimacy concerns but

particularly since MNEs are under increasing scrutiny by various stakeholders, activist organizations, and NGOs, to increase sustainability practices. The integration of theories such as social network and stakeholder theory, as well as more qualitative micro-foundation oriented research, can help to better examine and explain this phenomenon. In summary, more research is needed to explore the combinative effects of market and nonmarket strategy, the potential of investment in and attention to one to spill over into the other, and the need for MNEs to shift attention from one to the other over time, given evolving pressures, opportunities, and conditions.

#### **Future research #4: Institutional arbitrage**

In relation to MNE diversification (Future Research #2), institutional arbitrage also plays an important role in MNE organizational control and resource commitment across country contexts (Gaur and Lu, 2007). While MNE entry mode choice and corporate structure research are well-established areas in the international business literature, there is room for consideration of how NMS impacts the aforementioned phenomenon, particularly from an EMNE perspective (see Boisot and Meyer, 2008). Also, more work is needed in the area of MNE international arbitrage at the crossroads of NMS and the impact of populist or anti-globalization movements. One question to consider along these lines is how does the convergence of factors such as corruption and de-institutionalization within countries undergoing ultra-populist movements influence MNE strategies? Further, more micro-level research relating to how regulatory agencies and legal authorities, among others, play a role in driving MNE institutional arbitrage would benefit this line of research, since this is a rather under-researched area of NMS. For example, Lupton, Behnam, and Jimenez's article in this special issue argues that MNEs may employ institutional arbitrage to take advantages of institutional weaknesses which are "partially attributed to the higher scrutiny that home

country regulators, such as the Securities Exchange Surveillance Commission in Japan, as well as NGOs, are applying to reduce behaviors that take advantage of weak institutions”. This is an important line of inquiry that could be comparatively applied across EMNE home and host country contexts. Greater survey-based and qualitative field research would offer much needed fine-grained, and more nuanced, insight into these phenomena at the crossroads of NMS and institutional arbitrage research.

## Conclusion

Populism and geopolitical risk have been gaining momentum globally. These global phenomena have led international business scholars to suggest that we are entering a period of non-ergodic change (Cantwell *et al.*, 2010), in which the future cannot be extrapolated from the past (Lawton *et al.*, 2020). Given this context, international business scholars have called for greater integration across theories, topics, and methods (Buckley, 2002; Sun *et al.*, 2021). Our special issue attempts to provide new theoretical perspectives and approaches by bringing attention to the relatively under-researched realm of MNE nonmarket strategy, particularly in populist contexts and during periods of geopolitical uncertainty. More importantly, we identify four promising domains – resilience and legitimacy, diversification, market and nonmarket strategy integration, and institutional arbitrage – for IB scholars investigating MNE nonmarket strategies to further consider. We hope that this paper, as well as the other papers in this special issue, help to create interest and momentum in this burgeoning area of research.



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## Endnotes

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<sup>1</sup> This discussion is based in part on David Griffin and Justin Denholm, “This isn’t the first global pandemic, and it won’t be the last. Here’s what we’ve learned from 4 others throughout history”, *The Conversation*, April 16, 2020, <https://theconversation.com/this-isnt-the-first-global-pandemic-and-it-wont-be-the-last-heres-what-weve-learned-from-4-others-throughout-history-136231>; and Jenny Howard, “Plague was one of history’s deadliest diseases – then we found a cure”, *National Geographic*, July 6, 2020, <https://www.nationalgeographic.com/science/health-and-human-body/human-diseases/the-plague/>