Economic Nationalism and Its Future Prospects: An Opinion

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Abstract

This article tries to make an empirical and analytical contribution to understand economic nationalism and subsequently try to unwind the relevance and prospects of the same. While understanding the definition of the economic nationalism it suggests that, it means a practice to protect, further and create strong national economies in the context of the competition from the world market. If one sees it historically, there was a rise in late 19th century. After the crisis of 1929, there was an impetus to the term and in 1945 and so forth, the institutionalization of the term took place. The rising external markets and pressures from the globalization, national economies tend to be overlooked. After September 2008 financial crisis, it was opined by major political scientists and economists that economic nationalism will bounce back in its full capacity. But globalization has already made the borders porous, nationalities inter-related, interdependence and integration of the markets as an indispensable feature of the world economy. Various different models of economic nationalism seem to be redundant. There has been no ‘return of economic nationalism’ despite the fact that the countries faced debt crisis after financial crash of 2011. The lessons learnt after Second World War must not be forgotten. At the global level, the significance of regulation, planning and respect for models of economic nationalism are needed to enhance global trade.

Introduction

This paper investigates the validity of the argument that economic nationalism, understood as a generalised protectionism will bounce back as an aftermath of serious economic crisis like that of October 2008. Will it be justified to say that economic nationalism is taken just as knee jerk political response to the financial meltdown pronounced from the mid 2008. In the words of Harold James “free trade will witness
an imminent death in the 21st century[1]. Another important analytical question is can we equate policy of bail outs with the return to ‘Keynesism’? The Economist kept on proclaiming that economic nationalism may make its way over and above globalisation. But financial meltdown was not seen as a self evident failure of financial markets to regulate themselves and hence the prediction that globalisation will be shunned down by the affected nations seems to be quite puzzling.

Economic Nationalism: Broader Definition and Understanding
Within the study of nationalism there has been very less reference to the economic matters in the writings over the last 20 years. Many recent authors who have been writing about the past, present and future of nationalism foresee a transformation of classic notion of ‘nation state under the globalisation’. Many commentators believe that there will be a rapid decrease in nationalist sentiments in the coming years. The major contributors to this debate are Eric Hobsbawn and Ernest Gellner. Eric Hobsbawn, in his Nations and Nationalism since 1780, argues that “nationalism is simply no longer the historical force it may adopts an overall negative view of the future for states in the age of globalisation[2]”. For Hobsbawn international association, trade organisations and transnational corporations are usurping economic powers from nations and replacing them as the major building blocks of the world system. On the other hand in the view of Ernest Gellner, “in order for nations to remain politically relevant the relationship between ‘class’ and ‘nation’ must be maintained in the minds of the elite and population at large of modern nation state[3]”. Gellner also said that late industrial society can be expected to be one in which nationalism persists but in less virulent forms. He also said that differing nationalities have to identify themselves to be the subordinate classes which a state and thus violent confrontation among the ethnicities will start diminishing. This feature will also be then a model for the world order. He also said “Nationalism may thus resurge as a result of unfulfilled economic expectations. Also if state feel inferior to exploited by or dominated by advanced powers new forms of nationalism may appear to combat this perceived threat and will foster a politically divisive and tense environment[4]”. In the writings of recent scholarships ‘Nationalism’ and ‘Economic Development’ are two interdependent forces. The historic link between national identity and growth makes the foundation for the contemporary articulation, usage and implementation of economic nationalism.

In The Spirit of Capitalism, Liah Greenfield asserts the centrality of nationalism in industrialisation and advancing the major world powers in the 19th and 20th century. Nationalism necessarily promotes the type of social structure which the modern economy needs in order to develop. Nationalism allows for social mobility, makes
labour free and dramatically expands the sphere of operation of market forces. Greenfield thus connects the needs of Capitalism with the origin of Nationalism. Once a strong sense of national purpose support economic development, a nation state must appeal to popular sentiments in order to organise collective efforts. Takeshi Nakano writes in *Theorizing Economic Nationalism* that “in order to mobilise economic resource create an integrated international market and effectively implement economic policies, state elites must draw upon shared cultural resources and national allegiances”.

According to Nakano a large part of national market is historically shaped by the state through the monetary system, legal system and system of education, transportation and information networks, trades policies and so on. Rawi Abdelal in his article *Nationalism and International Political Economy in Eurasia* states that economic nationalism should be defined as “a set of policies that results from a shared national identity or from the predominance of a specific nationalism in the politics of a state”.

In other words economic nationalism prioritises national interest above private property and profit motives. Robert Gilpin described economic nationalism as its central idea is that its economic activities are and should be subordinated to the goal of state building and the interest of the state. Analytical core of economic nationalism is same as that of ‘state centric nationalism’. According to Schulman and Friedrich List economic nationalism is much beyond trade protectionism and industrial policy. Schulman shows that in the age of increasing economic integration many nationalist policy makers have come to see liberalising policies as serving to enhance the competitiveness and financial capital. For this reason he argues that economic globalisation will not ever eliminate economic nationalism as an ideology but rather change the techniques that nationalist use to achieve the same ends of Bolstering power, prestige, or the prosperity of the nation.

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**Economic Nationalism: History and Evolution**

Economic nationalism is an emotional and value loaded concept. Although the basic elements of a thorough-going policy structure of economic nationalism emerged in the mercantilist system of the 17th and 18th centuries, the use of the term is of recent origin. References to economic nationalism appeared initially in the years following World War I when the international economy was subjected to high stress arising out of the economic and political dislocation inherited from the war. The governments who seeks to insulate from external constraints on their freedom to make decisions, sought to prevent their economies from external forces in order to exercise greater control and autonomy in stimulating internal economic activity and expansion. The most important phase of extensive use of the term economic nationalism came into the
era of mid-1930s. The term in the mid-1930s used to describe the power-oriented systems of fascist Italy and Nazi Germany.10

The first element associated with the term is the uniform agreement that economic nationalism refers to a system of policies and institutions created to promote national economic development and, by doing so, to ensure that progress towards the goals of material welfare, power, and sovereignty takes place. The second common element to the concept of economic nationalism is the mercantile system which regulates and control economic relations between a country and the external world. Such a control was necessary to produce a surplus in the export of goods and services which would add to the nation’s stock of precious metals. It was also misunderstood as the policy of the ‘colonial laissez-faire’ which offer little assurance of accelerated economic growth or industrialization.

A similar explanation of the term followed after the Second World War. In this period of bilateralism and strict controls over external relations, economic protectionism was seen as an alternative to revive damaged economies after the world war. The role and status of the ‘state’ emerged to be essentially important in managing economic affairs. The Soviet Union presented a model where state planning was central. Under this model where the state has been the prime facilitator of, means of production and distribution, the public as well as the private sector grew at the same rate. This model consolidated the idea of economic nationalism against that of western inherited capitalism.

Economic nationalism connotes not only controls of external relations, but also to mobilize internal resources. In the industrial west it means, progress towards material welfare and social integration and in the underdeveloped world it aims at economic modernization. Industrialization is central to less developed societies. Economic nationalism talks of a preference for directly productive public enterprise and government controlled industrialization. This feature may take a negative connotation. For Heilperin, economic nationalism is an unmitigated evil associated with growing collectivism and under the sinful influence of Keynes, it is leading world to irrationally sacrificing the bounties of economic liberalism. ‘Autarky’ is the result of economic nationalism, not for its own sake, but because autarky offers escape from the ‘disturbing effects’ of international economic interdependence. For Myrdal, on the other hand a system of economic nationalism is necessary to insulate economies not only from uncertainty but from ‘cumulative casual relationships inherent in specialisation and trade in world of economic inequality. Economic nationalism also ensures/ownership of enterprises to provide “employment for the educate directly in the central control system and give the government social control over the allocation of jobs to nationals”. Economic nationalism in under developed world has been coloured by the struggle for independence and by the nature of colonial economic development. A new consensus emerged that national development can be achieved
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by state intervention to correct inherent structural weaknesses born because of over reliance on agriculture and raw material. By the 1960s government in Latin America almost discourage the entry of new foreign private capital and restricted the FDI in certain fields. South Korean, Brazil and Mexico economy exhibits in 1960-70s the export promotion policies and import substitution policies. This phase of economic nationalism lasted until the 1980s. Developing countries in Asia, Africa and Latin America became more and more closed for international trade and the richest economies also maintained very high tariff rates. The General Agreement on Trade and Tariffs (GATT) achieved in 1960s was virtually insignificant till 1973. Politically and intellectually the 1980s saw a revival and disillusionment from the ideas associated with Keynes in the developed world. Instead a new wing of intellectuals exemplified Margaret Thatcher in Britain and Ronald Reagan in America attempted to liberalise markets. The 1990s was the decade in which the term globalisation became a indispensable policy package for the market integration. By the end of 1990s the disintegration of Soviet Union came as a big blow to the policy of economic nationalism which eventually paved the way for triumph of neo liberal policies followed by capitalism. Till the financial crisis of 2008, globalisation was almost an acceptable way of economic governance but to say that economic globalisation has completely achieved itself by October 2008 is false. As Wolf introspected in 2004 that, “globalisation in not Rampant. It remains remarkably modest". Economic globalisation is still uneven, leaving aside the impact of the subsequent recession it is limited by the extend of the integration of national economies. The rising tariff barriers national and regional respect to the countries of European Union, the international reach and benefits are still questionable. This will give us the back drop to analyse and examine the up search and revival of economic nationalism at the present and future conjuncture.

Future Prospects: Introspections

Followed by the discussion, it can be interpreted that there can be a return to the policy of economic nationalism. After Asian Crisis of 1997-98, it was opined that nationalist reaction will come up. IMF and World Bank pressurised to open up the protected Asian countries. At this time, some key countries of Malaysia, Indonesia and Thailand revealed that the IMF and World Bank forcibly tried to pull out protectionism and prohibits state intervention into the domestic economies. But the threat to economic globalisation after crisis of 2008-09 was of a different order. Mortgage markets of the U.S collapsed in 2007, in October 2008 banks were crashed and thus failures of financial deregulation came to the fore front. “‘Market Fundamentalism’ was thought to be the governing rule of the global market which means that markets are self regulating units and are self correcting. Global trade faced a dramatic fall after 2008. European countries and U.S witnessed the fall in the trade which was more severe than the fall after 1930’s. The BRIC countries especially
China and India have suffered less in comparison to rest of the world. After 2008-09, some countries introduced protectionist measures for instance tariffs had been increased in many developing countries like India, Russia and Brazil. Many governments faced political criticism to keep money inflow in domestic companies but this could not increase the import tariff. Since 2009, many trade restricting measures introduced by governments has decreased. In this scenario WTO warned the governments that the financial crisis is not a long term crisis thus to question the sanctity of economic globalisation is out of question and there is evidently no need for too much government’s protectionist policies.

The pertinent question about relevance of economic nationalism and returning back to era of 1930s is still profound. Many politicians, economists and capitalists termed this process of returning to protectionism as rhetorical rather than analytical. The truth remains that there has been no real attempts by the governments to withdraw their economies from the global world markets.

There could have been various reasons for this ‘No Return to Economic Nationalism’. Firstly there had been already lot of interdependence of domestic economies through trade and investment and thus to withdraw from this complex interdependence was out of question. Economic Nationalism could have been incapable to answer questions of How to deal with the expansion of FDI and major domestic work forces working in MNC’s and TNC’s. Secondly the interwoven nexus of MNCs, TNCs and Banks made a situation very difficult as the national government when, try to bail out money for suffering sectors the major chunk of bail out would go to the banks. For example in 2009 when German government tried to minimise the job losses in General Motors and Opel- German Brands, the rival car companies like Fiat, Magna and RHJ came into direct confrontation with government. Thirdly as David Held had opined that, “greater regional trade territories and large scale investments were very different from decade of 1930s also prohibits the national government to act protectionist”. However within the interregional businesses there was no scope left for the national governments to divide and separate out the ‘regional’ from the ‘foreign’. For example trade between U.S and China and Europe were quite intensified. When Brazil and China joined BRIC in 2009 there objective was to make a stronger trading block. After the financial crisis 2008 the European Union could not sustain economies of member states and thus countries like Germany started with domestic bailout packages on its own. Last but not the least the various models of economic nationalism failed to earn any strong credit. Since 1930s economic nationalism tend to undermine the basis of economic liberalism. This, together with an ideological shift away from free market capitalism was common across the political spectrum and ideological supporters of free market were academically isolated after 1945. The relationship between the state and the market again came to the forefront in 2009. The ‘state’ has been neglected and undermined but private
capitalism got survived under its premises. The large scale deficits revived the state’s central role in market. The states tried to regulate the bank in its own way but this does not lead to proper economic nationalism. Despite many efforts by the domestic governments neo liberalism became much stronger than what its critics had visualised. Economic nationalism in its full capacity can never be realised because even if the domestic economies following enormous bank bail outs, tried there level best to revive the increasing deficits; the political will to withdraw the economy from the global economic web was never realised incompleteness. No European country including Republic of Ireland (most hard hit country by the crisis) tried to withdraw from the Europe. Greece remained politically uncertain about withdrawing from the EU but the domestic social breakdown extended the Greek dilemma. Finally the efforts by G20 organisation especially after 2008 were remarkable as it could lessen down the emerging frictions among the world economies.

**Conclusion**

This article has tried to define precisely, map historically and analyse the relevance of economic nationalism. The global financial crisis of 2007-08 presents a timely moment for evaluating economic nationalism. The financial crash of 2008 and the following recession have not seen a subsequent rise in the policy of economic nationalism. This article has tried to separate economic nationalism with pure economic protectionism. Many recent scholarships on the topic have painted a gloomy picture about the survival and relevance of economic nationalism. Many categorise it as anti thesis of Neo Liberalism. After the financial crisis of 2008-09 many economists called for an enlarged and broader definition of economic nationalism. It was suggested that economic nationalism is not just about state policies like tariffs, bail outs and resistance to integration; rather it is more concerned with the nationalist motivation of economic policy. The back drop of the recent financial crisis proved that economic nationalism need to be understood as the attempt to create, protect and flourish the domestic economies constructively in the context of global markets.

This article witnessed the trajectory of the growth of economic nationalism since 19th century and how it became central to state economic organisations in the mid 20th century. But the period after world war second witnessed growth of market, complex interdependence through trade and finance and hegemony of new liberal practice. This undermined the relevance of economic nationalism. The financial crises of 2007-08 saw a massive support in favour of economic nationalism when states came in open support to the suffering units. But this support can never be tamed to revert capitalistic ideology in complete favour of economic nationalism. Economic nationalism and economic globalization has to walk hand- in- hand atleast for the time being.
References


