
Mercantilism and Economic Nationalism

The central focus of mercantilism is the problem of security and the role of state and the market in providing and maintaining a nation’s security in all its forms.

Mercantilism is a theoretical perspective that accounts for one of the basic compulsions of all nation-states: to create and sustain wealth and power in order to preserve and protect their national security and independence. Mercantilism is defined somewhat narrowly in terms of state efforts to promote exports and limit imports, thereby generating trade surpluses to create wealth and power.

A nation’s security can be threatened in many ways: by foreign armies, but also by foreign firms and their products, by foreign influence over international laws and institutions, and even by foreign movies, magazines, and television shows; thus mercantilist thought sees globalization as a threat.

Three Aspects of Mercantilism: Mercantilism as a History, Philosophy, and State Policy

The classical mercantilist period of history is linked to the rise of nation states in Europe during the 15th through 18th centuries. This was a period where the idea of state building and intervention in the economy for the sake of making the nation-state secure dominated political economic thought. A nation is a collection of people who, on the basis of ethnic background, language, and history—or some other set of factors—define themselves as members of an extended political community. The state is viewed as a legal entity, theoretically free from interference by other nations, which monopolizes the means of physical force of its society and exercises sovereignty (final political authority) over the people of a well-defined territory.

From a mercantilist perspective, the new nation-states had many needs that could be secured through either violent or peaceful means. These nation states needed security from external threats but security was costly. Armies and navies were expensive to raise, equip, and maintain. Along with weapons and other instruments of power, wealth came to be regarded as one of the essential keys to achieving and preserving national security. Power and wealth creates a virtuous and a vicious cycle such that power generates wealth which leads to more power leading more wealth making a nation more prosperous and thus more secure; and at the same time the policies adopted by a
monarch or a group of officials to generate and protect national wealth and security often at the expense of another state.

For mercantilists, like the realists, gains in economic wealth by one state, which were often perceived as losses by compensating states, conferred on mercantilism a zero-sum (nobody wins) worldview. Dependency on other states would supposedly weaken a nation-state if imported provisions were cut off. The dependent state might also be vulnerable to the influence and power of the providing state. Therefore, states were motivated to generate wealth aggressively, especially through international trade and specifically by generating surpluses, limiting imports, and acquiring gold and silver bullion, much of it from colonies in the new world.

**Colonialism.** supplemented by state military power, was viewed as another important instrument in mercantilist efforts to control trade. Mercantilism has often been cited as one of the main driving forces behind colonialism and imperialism in developing regions of the world. Mercantilists established colonies to be exclusive markets for the goods of the mother country, a source of raw materials or goods bought from a competitive country, or a source of cheap labor.

Classical mercantilism then refers to a period of history when newly emerging nation-states faced the problem of using their economies as a means to achieve wealth and power for the sake of national security. The political philosophy of mercantilism suggested how national leaders could create a virtuous cycle of power and wealth that would allow them to prosper while making them more powerful. Mercantilist policies included the use of subsidies to generate exports and restrictions on imports, along with the development of colonial empires.

**Economic Nationalism**

Economic nationalism is a form of mercantilism in the late 18th and 19th centuries. Nationalism is often defined as an identification or strong loyal sentiment toward a certain country that is shared with the people of that country.

Where as classical mercantilism focused on gaining wealth and power through unequal foreign trade, economic nationalism focused on the internal development of the national economy. Economic nationalism was a reaction to economic liberalism, which had gained a good deal of popularity by the 1840s. As Great Britain grew more rich and powerful, other nations such as the United States and the German principalities grew concerned about their independence and adopted economic nationalist policies as a way to protect themselves from what they perceived as Britain’s economic liberal politics.
Contributing to the rise of economic nationalism were improvements in production technology and transportation that gradually created economies that were truly national in scope (as opposed to local or regionally based).

The idea that the economic interest of the nation should be put ahead of the economic interests of the individual and fostered through strong state action, then, is the dominant theme of economic nationalism; and its most famous proponents were American Alexander Hamilton and German Friedrich List.

**Neomercantilism**

‘After the establishment of trade organizations such as WTO which promotes free trade states couldn’t adopt aggressive mercantilist policies. However total free trade may create discrepancies between the power balance of the states so to counter this many states tried to protect their own economies while abiding the international trade agreements.’ Especially in the 1970s many states found themselves in this dilemma.

Neomercantilism is a more subtle form of protection that accounts for what are essentially mercantilist-defensive-oriented policies many individual nations feel compelled to adopt as a result of domestic pressure to protect certain industries from overseas competition and international economic integration, for instance by giving subsidies.

For most modern neomercantilists, the capacity of nation-state to generate wealth is as important as its capacity to produce military weapons. Many industrial policies that affect defense industries are viewed as neomercantilist in nature and benefit the state in at least two ways. First, they generate military weapons and defense related technologies and products. Second, the effects of industrial production spill over into other parts of the national political economy, generating jobs and stimulating the production of consumer goods such as computers and lasers.

Below notes are taken from internet source:

https://eprints.mdx.ac.uk/9744/3/ChapterIPEFINAL.pdf

**Mercantilism**

Mercantilism refers to the traditional, and still significant, approach to International Political Economy to which Economic Liberalism emerged as a challenge. Although it reached its height in the late Middle Ages, as for a back as Ancient Greece Plato advocated a self-serving strategy of favouring exports over imports so that wealth could be accumulated. Since then the Romans and other Empires have tried to put systems in place ensuring such an imbalanced pattern of trade which, of course, cannot be pursued by all states.
the government should involve itself in international trade

In direct contrast to Economic Liberals, Mercantilists advocate that governments should involve themselves in matters of international commerce in order to protect the interests of the state and their citizens. Mercantilism in IPE shares the same Conservative logic as Realism that the world is anarchic and states are, by necessity, self-serving and inward looking entities. If this mindset is adopted, you cannot trust other states to fulfil their part of the comparative advantage bargain since they could easily switch their trade to another country or take an opportunity to plunder your resources if it suited them. A states’ economic resources are a key source of its power and should not be subjected to the vagaries of the international marketplace. A government should look to secure as many resources as it can and protect them. Hence Mercantilism advocates limiting imports to those absolutely necessary (important goods you cannot produce yourself) whilst exporting what you can in order to profit from it.

international economics is competitive not cooperative

Mercantilists reject the notion of comparative advantage due to their more pessimistic take on human nature and the behaviour of governments. In the fiercely competitive arena that is the international political system ‘collective goods’ will never be acquired and there will be losers as well as winners. Governments thus should ‘beggar thy neighbour’ and just concentrate on ensuring that they are not one of the losers. Whilst the logic that free trade leads to more trade and more goods can scarcely be denied, it is far from certain that all participants in the global economy will gain from this increase. Some states risk seeing their domestic industries decimated by being undercut by cheaper imports, as in the ‘bra wars’ dispute highlighted at the start of the chapter. Weak states could be weakened further by not being able to compete with the ‘big boys’, the big boys themselves could be weakened by finding themselves unable to compete with lower priced goods from poorer states with lower wages and slacker working conditions. This sort of gamble is one that many governments will be unwilling to take. Telling recently laid-off steelworkers that importing cheaper steel from the other side of the world is better for the country and the world in the long run is unlikely to be a wise political move for a democratic government seeking re-election in the short term.

Self sufficiency

The pessimistic assumptions of human nature and state behaviour that underpin Mercantilism also mean that they advocate governments hording what they have and trying to reduce reliance on other states. An extreme manifestation of self-sufficiency is the policy known as autarky which is the pursuit of total self-reliance. This would, of
course, be straightforward for governments of countries blessed with all the natural resources they could want but, in practise, this has never been achieved. Attempts at achieving autarky have thus tended to be associated with states driven by ultra-nationalist ideologies. On the one hand this can take the form of simply stealing resources from others. Hence Imperial conquests, the rise of Fascism and Nazism and, Iraqi expansionist ambitions in the 1980s and ‘90s, which sought to enhance national power through the acquisition of other countries’ resources, can be seen in this context. On the other hand, autarky has occasionally been pursued by states through isolationist strategies in order to jealously guard their own resources. Burma and Albania in the second half of the twentieth century pursued such a strategy and North Korea have continued to do so, in the guise of their state ideology of Juche (which seeks development as a communist country but without reliance on external support). The poverty that accompanied such strategies in these three states, however, is indicative of the poverty of such a strategy in the modern world. Hence, Mercantilist strategies today tend not to be as purist as autarky and aim, instead, for the accumulation of resources allied to the implementation of measures to protect domestic industries.

• Protectionism
The most prominent form of Mercantilism in the contemporary world is protectionism, which refers to a variety of economic policies employed by governments to insulate their domestic industries from foreign competition

Economic Liberalism
Economic Liberalism emerged in the era of industrialization and the enlightenment as a branch of the wider political and philosophical Liberal movement that swept through Western Europe and North America. The approach is underpinned by the core Liberal tenet that people are naturally inclined to cooperate with each other and can be trusted by governments to control their own destiny without this producing disorder and problems in society. This logic applied to the economic sphere manifests itself in a belief in the following key principles:

• free trade
Economic Liberalism is at its fundament the belief in free trade. This is the minimization of government involvement in the affairs of international trade so that businesses are not restricted from exporting their goods and imports from other countries are not restricted by protectionist measures.
• **invisible hand**

Adam Smith illustrated his thesis that freeing up international trade benefited all with the metaphor of the ‘invisible hand’. The invisible hand refers to what is more commonly today known as ‘market forces’, meaning the way business and trade operates in the absence of governmental interference. In a direct riposte to Conservative (and Mercantilist) fears that an unregulated economy leads to anarchy and exploitation as greedy individuals enrich themselves without regard to the suffering this may inflict on others, the invisible hand posits that society would be better off without government interference because it is this that distorts the natural inclination of people to work together, exchange goods and make money. Governmental interference in the economy, rather than protecting its citizens, actually serves to impoverish them by stifling their potential to enrich themselves and their fellow citizens. Cautious governments reluctant to allow imports into their country, for fear of exposing their domestic industries to cheaper competition and preferring to strive for self-sufficiency, serve to reduce the overall volume of international trade. As a consequence of this, citizens are left to pay more than they otherwise would for goods that were traded on the open world market and suffer from the overall amount of money that could be generated from commerce being artificially restricted. In an example of what is known as the collective goods problem selfserving governments, in the name of protecting their own citizens, actually disadvantage them with their caution.

• **comparative advantage**

The English protégé of Adam Smith David Ricardo built on his work by developing a further rebuttal to the Mercantilist approaches which had up until now dominated the policy of Britain and other great powers, commonly known as the theory of comparative advantage. The theory lends support to the notion of the invisible hand by offering an economic rationale for why free trade produces more trade and more wealth for all nations. For reasons of climate, terrain and the abundance of natural resources it stands to reason that some countries have an advantage over others in the growth of particular crops or production of particular goods. This advantage can be to the benefit of all if allowed to flourish and not stifled by government interference in commerce. In a system of unrestricted international trade states can concentrate on what they are good at producing rather than trying to do a bit of everything since they can freely import goods that are produced more efficiently elsewhere. More particularly, comparative advantage ensures that even the relatively disadvantaged countries gain from specialization. For example, in a situation in which the economies’ of two countries are based on the
production of cars and corn but State A produces both more cheaply than State B, State B can, nonetheless, still prosper because the relative costs of producing the two goods will differ and give an incentive to trade. If State B, although less efficient in the production of both corn and cars than State A, produces cars more efficiently than it produces corn this will make it advantageous for both states to trade. Even though it appears cheaper for State A to produce its own corn and cars it is cheaper still to produce more cars instead and trade for State B’s corn. Ricardo’s work was a major influence on the British government’s decision to pass the Repeal of the Corn Laws Act and trade with countries producing goods cheaper than they were and so usher in an era of much freer trade.

· trade brings peace

In addition to the economic rationale for free trade, Economic Liberalism, in line with Liberal political thought, sees that there are political gains to be had from throwing off the shackles of government protectionism. Though it tends to be best known for its advocacy of democracy, the notion of Kantian peace also advocated tying states together through commerce and so giving an economic incentive for peace (see Chapter 25). A motivation for the British and French politicians who designed the 1860 Cobden-Chevalier Treaty, in addition to the opportunities for increased trade revenues, was to bind these two traditional political rivals together with mutually beneficial economic ties. Concerns had begun to rise on the possibility of another in a long line of wars between them due to rival interests in Italy. In more recent times World War Two was the catalyst for the binding together of Western European states into the economic bloc that has now evolved to the European Union.

Marxist approaches

Given the fall of the Soviet empire and the fact that Communist states which have persisted since the end of the Cold War, like China and Vietnam, have embraced capitalism in their international policies one might be given to conclude that Marxism was on the wane as an approach to International Political Economy. However, whilst very few states take a Marxist or Maoist approach in their dealings with other countries, structuralist perspectives on the global economy as a whole have actually become more prominent in academia as the sorts of exploitative working conditions Marx wrote about in regards to industrialized countries have become more apparent at the global level. Concerns over sweat shop labour in the urban slums of 19th Century Europe mirror the anxieties many express today about sweat shop labour in the industrializing world. Marxist approaches to International Relations, assume that global economic structures
are the chief determinants of international political behavior and events and, hence, see IPE as being synonymous with IR, rather than a mere subset of the discipline. Marxists agree with Mercantilists that capitalist economics is a zero-sum game of losers and winners rather than the Liberal’s sum-sum game of comparative advantage. Hence Dependency Theorists have advocated that governments of the ‘zero’ (i.e. loser) countries adopt protectionist measures to save themselves from exploitation. However, as Neo-Marxist approaches have evolved and economic globalization has intensified, the emphasis has shifted to seeing the competition in the global economy as not being between states but between transnational classes of ‘haves’ and ‘have-nots’. Neo-Marxists see IPE as based on a global bourgeoisie systematically exploiting a global proletariat. Some of that bourgeoisie is composed of small elites in poorer states who operate in ‘enclave economies’ profiting from the proceeds of exporting their country’s resources to the richer states. Some of the exploited transnational class reside in the richer states as underpaid workers or unemployed beggars also short-changed by the global system.

http://www.people.vcu.edu/~wnewmann/IPETheory.365.htm

**Economic Structuralism**

The reason why Marxism and dependency are placed together under the heading of structuralism is that both are concerned with the international division of labor created by capitalism. Both theories see that division of labor as unfair, creating categories of rich and poor people and rich and poor nations. The Marxist approach is to reject capitalism completely. The Dependency approach is to reform it.

**Marxism**

Karl Marx and Friedrich Engels were two German economists who created a huge body of literature outlining a theoretical critique of capitalism. The developed these theories in the mid-19th century. The best place to look for details would be in The Communist Manifesto (1848) or The German Ideology (1845). There is so much on Marxism that this essay can only scratch the surface. Remember this is an ideology that spawned political movements and revolutions that shook the world for roughly 150 years. So, this will be the short version.

Marx and Engels examined advanced capitalist nations, particularly England and Prussia. These were nations in the midst of the industrial revolution – manufacturing was booming; people were working in factories; rapid urbanization had begun. To Marx and Engels this advanced capitalism divided people into several classes. For our purposes two classes are important: owners and workers, or rich and poor or haves and
have-nots. Owners own everything, and have all the power, and all the money. Workers do all the work, and have no power, and no money. Marx and Engels hypothesized that one day the workers would realize that they were being exploited by the owners and rise up to overthrow the owners’ control of society. This would include overthrowing the government of the country because the government’s main purpose was to enforce owner control of society. Marx and Engels felt that this revolution – workers’ revolution or proletarian revolution – was a natural phenomenon, something that would occur naturally in any nation that reached an advanced capitalist stage. So they predicted it would happen first in England or Prussia and would not happen in more agricultural societies such as France or Russia until much later in those nations’ histories.

After the revolution, the theory gets a bit uncertain. There would be several phases of evolution until the development of Communism, a society which would have these characteristics:

- A system in which there is no private property; all property is owned by everyone and everyone shares
- There is no exploitation since workers are the owners
- Everyone gets what they need from the society as a whole
- Everyone contributes based on what they can contribute
- Capitalist ideas such as the idea that people work to gain reward are outmoded; people work to contribute and do not care if there is no relationship between what they give to society and what they receive in return. So a young healthy person who works like an ox, but has no family, contributes a great deal to society, but receives very little. The lazy person with a large family receives a great deal even though he/she contributes little.

The next big theorist was Lenin, a Russian intellectual. He wrote Imperialism in 1917 and in it he developed a theory that applied Marxism to international affairs. Essentially, he said wealthy capitalist nations exploit poor nations. They force people into slave labor; they steal resources; they dominate and impoverish these nations. He was talking about imperialism or colonialism. At this point in world history European nations had control of just about the entire rest of the world. Almost everything but the Western hemisphere was under European control. Lenin said that the poor nations would one day overthrow their colonial masters, reject capitalism because of its linkage to colonialism, and develop Communist societies.
Lenin also said, in other works and through his deeds, that the workers revolution can be created by a clever and committed leadership. Nations don’t have to wait for the revolution to happen naturally. A vanguard of the revolution can begin the revolution in any nation. Lenin did just that. In 1917 his Bolshevik movement seized power in Russia and led the first Marxist revolution. In 1949 Mao Zedong led the second big Marxist revolution. Dozens of nations followed their examples from the 1940s to the 1970s. This was the Communist or Soviet Bloc during the Cold War.

Now what were these nations like? What was Marxism like when actually put into practice in the USSR and the People’s Republic of China?

- Marx and Engels thought that after the revolution the government would wither away. Once having created the proper economic relationships, a government would not be necessary. However, in every Marxist state, the government became more powerful; power became more centralized; and the nation was ruled by one person or a handful of dictators, who ruled in a totalitarian manner through a Communist Party apparatus that penetrated every aspect of the society. The goal was total control over every individual. Their word was law and you risked your life if you questioned that word – imprisonment, torture, execution of the person who challenged the government his/her friends and family. It was not unusual for a dissident (someone who challenges the totalitarian state) to wind up in prison, his wife may end up being given to a Communist party leader to do with as he pleased, and their children would be given to a Communist Party leader’s family that didn’t have children.

- In all these nations the revolution was rammed down the peoples’ throats. Those who disagreed were considered enemies of the state. In Russia, Lenin killed millions who opposed the revolution. He would have been seen as a huge mass murderer except his successor, Stalin, killed more. Roughly 20 million people were killed by Stalin’s regime from the 1920s to the early 1950s because they opposed his government and/or its policies. Mao in China was worse. The number of deaths may be as high as 100 million from 1949 to 1976, many from starvation; many from execution, torture, and the long-term effects of imprisonment.

- Ideological purity was a necessity to the leaders. One party was allowed to exist and any ideas not approved by the Communist Party were treasonous. People were executed for thinking the wrong thing. So in most Marxist states, the government tried to control what people thought.

- Economically these nations closed themselves off to trade with other nations. There were no economic freedoms. Every aspect of economic life was controlled by the
government, decided by the government, regulated by the government. These economies are called command economies and every single one, even those that may have prospered for a bit, ran itself into the ground – people became poorer than they were before; the states became technologically backward; and many had severe problems even feeding their people. China, Russia, Viet Nam, North Korea, Ethiopia all had famines.

· Importantly, Marx and Engels never said: Kill everyone who disagrees with you. Marxism as implemented was very different from Marxism the theory. The vagueness and paradoxes of Marxist theory were interpreted by dictators to mean absolute power, death, and destruction. That doesn't necessarily mean that Marxism would have worked if its implementation hadn't been accompanied by dictatorship and slaughter. Marxism does give huge amounts of power to revolutionary leaders and that much power usually leads to corruption at best and carnage at its most typical. Also Marxism considers human nature to be one in which people will be willing to share in ways that are counterintuitive – where the person who works extremely hard is willing to receive less and willing to allow the person who doesn't work hard to receive much more if it is judged that he needs more. Capitalism is based on a less optimistic version of human nature – people will only work hard if they are rewarded. It’s not pretty, but as we'll see in the class no communist system has ever sustained economic growth for more than a generation. In fact, all command economies have led to economic collapse. Currently, one of the last communist command economies is North Korea, a nation where roughly 5 million people starved to death in the 1990s. South Korea has a capitalist economy and has accepted globalization. It has a growing economy and corporations that are building factories in Europe to find cheaper labor.