The Global Resurgence of Economic Nationalism

Geo-Economic Implications for Europe and Greater Eurasia

Glenn Diesen

Abstract

Economic nationalism advocates state intervention in the market to create favorable symmetry in economic interdependence with other powers. All major economies have ascended to greatness with state interventions, and economic liberalism becomes a mere covert economic nationalism by hegemons. Once in control over the levers of the global economy it is in the interest of the hegemon to propagate economic liberalism to integrate other powers into asymmetrical interdependent partnerships. The Trump administration's embrace of overt economic nationalism indicates the unravelling of the U.S. privileged geo-economic position. Relative decline is evident by a crumbling U.S. manufacturing base and narrowing superiority in innovations, the creation of alternative trade corridors outside U.S. control, and nascent rivals to the Bretton Wood institutions and the U.S. dollar. As geo-economic power shifts from the West to the East and invokes a global resurgence of economic nationalism, opportunities arise for Russia to develop more symmetry in the interdependent global economy.

Key words: Economic nationalism, global economy, asymmetrical interdependence, geo-economics, Greater Eurasia

---

Glenn Diesen is an Adjunct Research Fellow at Western Sydney University, Visiting Scholar at the National Research University–Higher School of Economics, Moscow, Russia.
gdiesen@gmail.com

This article is an abridged and revised version of the paper written for the Valdai International Discussion Club. The original copy is available at: http://valdaiclub.com/a/valdai-papers/the-global-resurgence-of-economic-nationalism/

DOI: 10.31278/1810-6374-2018-16-2-150-163

HISTORICAL BACKGROUND

The key tenet of realist theory suggests that mutually beneficial cooperation can only exist when there is a balance of power. Sustainable economic integration is therefore contingent on developing symmetry in interdependence to reduce the ability of one actor to extract intolerable political concessions. Chinese and Russian efforts to challenge the collective geo-economic hegemony of the West under U.S. leadership largely replicates the economic nationalist policies embraced by the U.S. and Germany in the 19th century to replace "free-trade" under a British-dominated system with more balanced "fair trade."

Contrary to the expectations of liberal theories, interdependence is about relative economic gain to convert asymmetrical economic dependence into political influence (List, 1885; Hirschman, 1945; Luttwak, 1990). Power and security is contingent on skewing the symmetry in interdependent partnerships. Reliance on others decreases through self-reliance and/or diversifying partnerships, while the dependence of others increases by asserting control or even monopoly over strategic industries, transportation corridors and mechanisms for cooperation such as financial institutions and regulatory regimes for trade. Albert Hirschman, the leading theorist on asymmetries in interdependence, argued: The power to interrupt commercial or financial regulations with any country, considered as an attribute of national sovereignty, is the root cause of the influence or power position which a county acquires in other countries, just as it is the root cause of the "dependence on trade" (Hirschman, 1945: 16).

While the West largely monopolized economic statecraft during the Cold War, the return of China and Russia to capitalism compels geopolitics to give way to geo-economics.

In 1990, Edward Luttwak splendidly outlined the transition to geo-economics: "Everyone, it appears, now agrees that the methods of commerce are displacing military methods—with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases" (Luttwak, 1990: 17). Former German Chancellor Helmut Schmidt similarly expected economic regions to proliferate and replicate bloc-politics as competitiveness through collective advantage was required in "the struggle for the world product" (Gilpin, 2011: 9). The systemic pressures for developing economic regions such as the EU, NAFTA, TPP or TTIP for collective bargaining power would replicate the balance of power logic.

Economic nationalism encapsulates the required and rational policies to skew the symmetry in interdependent economic relationships. Friedrich List outlined the development theory of economic nationalism in *The National System of Political Economy* in 1841, as a critique and revision of economic liberalism. Economic nationalism advocates a greater role for government intervention due to the competition between states. List argued: "As long as the division of the human race into independent nations exists, political economy will as often be at variance with cosmopolitan principles… a nation would act unwisely to endeavor to promote the welfare of the whole human race at the expense of its particular strength, welfare and independence" (List, 1827: 30). Yet, List recognized the benefits of free trade, and therefore cautioned about the dangers of excessive government interference and protectionism. Tariffs and subsidies were advocated as temporary investments to protect infant industry until becoming competitive in international markets: "It is bad policy to regulate everything and to promote everything by employing social powers, where things may better regulate themselves and can be better promoted by private exertions; but it is no less bad policy to let those things alone which can only be promoted by interfering social power" (List, F, 1885: 85).

Three distinct categories of economic nationalism can skew the symmetry in economic interdependence. First, tariffs and subsidies should be utilized to protect infant domestic industries until they are competitive in international markets. Traditionally this has principally referred to growing a robust manufacturing base, while in the contemporary economic climate it is more important to provide stimulus for innovation and technological leaps. Second, states must ensure control over physical infrastructure to obtain reliable access to vital resources and safe transportation corridors. Third, states must establish mechanisms for cooperation that maximizes both autonomy and influence by fashioning economic unions for collective bargaining power, trade regimes establishing standards, development banks, and a strong trade/ reserve currency.

Economic nationalism is a development strategy to "climb the ladder" in the global economy, which List advocated for the U.S. and Germany to benefit from international trade without succumbing to British dominance. Britain itself ascended to greatness with the mercantilist policies advocated by James Steuart (James Steuart, 1770; Angell, 1915; Levy and Thompson, 2010: 18). Heavy tariffs contributed to a potent manufacturing base, while a powerful navy ensured access to resources and control over transportation corridors. Favorable mechanisms for cooperation ensued as British banks and British currency became prominent around the world. Following its rise with economic nationalism, Britain became a leading proponent of economic liberalism to integrate the world into a British-led international system.

Leading naval powers have historically promoted free trade due to their competitive advantage by controlling maritime trade corridors (List, 1885: 18). List referred to British advocacy of free trade and vilification of economic nationalism as a strategy to "kick away the ladder." "It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations" (List, 1885: 295-296).

THE GEO-ECONOMIC RISE OF THE UNITED STATES AND GERMANY

During his time in the U.S., List became an active proponent of economic nationalism for state-building. Alexander Hamilton, the first U.S. Secretary of the Treasury between 1789 and 1795, eventually convinced President Jefferson to abandon the vision of a free-market agrarian society with minimal state intervention (Szlajfer, 2012: 51). Hamilton was concerned about asymmetrical interdependence as the U.S. was excessively reliant on European manufactured goods, while there was less dependence on the U.S. Political independence required economic autonomy and influence, which was unattainable as "free trade" equated to "unfair trade" under a British-led international system (Mott, 1997: 22).

Economic nationalism eventually culminated in the three-pillar "American System" to construct competitiveness with industrial, transportation, and financial infrastructure. Various strands of the economic nationalism and the "American System" of Alexander Hamilton and Henry Clay resurfaced in the administrations of James Madison, James Monroe, John Quincy Adams, Abraham Lincoln, William McKinley, Theodore Roosevelt, and Franklin Roosevelt. Subsequently, U.S. geo-economic power flourished: first, a competitive manufacturing base evolved. Second, physical infrastructure developed domestically, and the U.S. emerged as a dominant maritime power in the Pacific Ocean by embracing the naval strategies of Alfred Thayer Mahan from the 1890s. Third, competitive banks and a reliable currency developed with state support, and eventually attained global primacy at Bretton Woods. Last, the morality of economic nationalist policies was internalized as evident by Theodore Roosevelt's writing in 1895: "Thank God I am not a free-trader. In this country pernicious indulgence in the doctrine of free trade seems inevitably to produce fatty degeneration of the moral fiber" (Eckes, 1999: 30).

Yet, once becoming the dominant geo-economic power, the U.S. successfully internalized and promoted abroad the virtues of free trade under U.S. administration. Sergei Lavrov argued that following the breakup of the Soviet Union and demise of communism, Washington believed U.S. dominance would perpetuate as the developed Western countries and large corporations would freely spread their influence around the world and that the liberal-democratic system would be the only beacon for all peoples "lagging behind" (Lavrov, 2012). With the "rise of the Rest," especially China, the primacy of the U.S. is challenged and consequently the commitment to free trade is waning.

Economic nationalism is resurgent under the new administration as Trump frequently cites the economic philosophy of Henry Clay, while his Chief Strategist, Steve Bannon, proudly describes himself as an "economic nationalist."

Germany's simultaneous embrace of economic nationalist policies was largely successful in state-building, yet unfortunate geography produced confrontational region-building. List labelled the railways and economic union as the "Siamese twins" to develop a powerful German state (Earle, EM, 1943: 442). Germany had initially prospered in Napoleon's Continental System that aimed to de-couple the continent from British trade, which Germany later aimed to recreate with collective bargaining power in the Zollrverein (German Customs Union) that would also include non-German territories. Physical infrastructure produced similar zero-sum considerations as developing naval power led to an arms race with Britain, while the Berlin-Baghdad Railway set Germany on collision course with France, Britain, and Russia. Germany eventually achieved victory in defeat following the Second World War, as the Atlantic and Western European integration project accommodated German power in opposition to the Soviet Union. European integration became an imperative tool for German power. German Chancellor Helmut Schmidt argued already in 1978 for the need to "clothe ourselves in this European mantle… we need it also to cover these ever-increasing relative strengths, economic, political, military, of the German Federal Republic within the West" (EMS, 1978).

Following the demise of the Soviet Union and the reunification of Germany, there has been an incremental return to history as Germany's aptitude to harmonize state-building with region-building falters. The EU initially demonstrated great geo-economic potential by utilizing collective bargaining power to protect the strategic industries of its member states, while compelling external trading partners to open their markets. The Europe 2020 initiative intends to augment the capacity of the EU to intervene in the market to support the businesses of member-states, empowering Brussels with "powerful tools to hand in the shape of new economic governance" (Europe-2020, 2010).

However, the adoption of the euro and EU enlargements undermined the balance of power within the EU and subsequently imperiled internal cohesion. Successive EU eastern enlargements disproportionately benefitted Germany, while the euro provided Germany with a severely undervalued currency that transferred production power from the Mediterranean member states to Germany. Following Brexit and the relative weakening of the French economy, Berlin has strengthened its role as the unofficial capital of the German-dominated EU.

As the EU subsequently becomes unworkable, Germany has the dilemma of either becoming more assertive to force through federalist policies or see the Union unravel. Physical access to resources and transportation corridors is yet again emerging as a security concern. In May 2010, Horst Köhler, then-President of Germany, argued: "A country of our size, with such an export orientation, that in an emergency, military deployments are necessary in order to protect our interests, for example, securing free trade routes or preventing regional instabilities, which would definitely negatively influence our trade, jobs, and incomes" (Szabo, 2015:7).

While Köhler resigned over criticisms for the aforementioned statement, the following year Germany's Defense Policy Guidelines of 2011 outlined: "Free trade routes and a secure supply of raw materials are crucial for the future of Germany and Europe. Around the globe, changes are taking place in markets, channels of distribution, and the ways in which natural resources are developed, secured, and accessed. The scarcity of energy sources and other commodities required for highly developed products will have implications for the international community. Restricted access can trigger conflicts. Disruptions of transport routes and the flow of raw materials and commodities, e.g. by piracy or the sabotage of air transport, pose a threat to security and prosperity. This is why transport and energy security and related issues will play an increasingly important role for our security" (Defense Policy Guidelines, 2011).

The failure to accommodate Russia adequately in Europe has made "European integration" an expansionist zero-sum geostrategic project. Both the EU and Russia fear unfavorable asymmetry in the future, especially in the sphere of energy. Rather than harmonizing interests for mutual benefit, Germany and the EU supported toppling Victor Yanukovich to pull Ukraine into the EU's orbit, which spelled the end of Russia's "Greater Europe" initiative (Krickovic, 2015: 3-26). As the ability of the EU to provide stability decreases and the preparedness to confront Russia increases, systemic pressures are growing for Moscow to welcome and even encourage the demise of the Union. While Moscow tends to express support for the EU, the demise of the Union would eliminate collective bargaining power for asymmetrical interdependence and instead make Germany more reliant on cordial relations with Russia. Germany's foreign policy considerations and political allegiances are already under pressure to be revised as intra-EU trade is in relative decline and Germany's economic interests shift to the East (Szabo, SF, 2015: 69).

CHINA: THE MAIN PROTAGONIST TO CHALLENGE U.S. GEO-ECONOMIC DOMINANCE

Chinese economic nationalism represents the greatest challenge to the geo-economic foundations for Western collective hegemony under U.S. leadership. First, China emulated the economic development model of the Asian Tigers by embracing state-led industrialization from the late 1970s. Wage suppression, currency manipulation, reverse engineering, and other intrusive state intervention supported the creation of a strong manufacturing base, and indispensable innovations. Second, China drastically escalated its efforts to assert control over access to resources and transportation corridors by launching the ambitious "Belt and Road Initiative' (BRI) in 2013. Restoring the ancient Silk Road connectivity between Eurasian land powers for both transportation and energy supply signifies an ambitious endeavor to reverse the competitive advantage that has underpinned the dominance of Western maritime powers for the past 500 years. Furthermore, asserting Beijing's sovereignty over the South China Sea, acquiring ports around the world, and developing a formidable navy has set the stage for China to expand its control over maritime transportation corridors. Third, Beijing asserts greater administrative powers over the mechanisms for cooperation in the global economy by promoting alternative trade regimes, Chinese-led development banks, and internationalizing the yuan as a trade currency.

China's economic nationalist policies are "rational" as they maximize security by acting in accordance with the balance of power logic. Realist theory posits that a de-centralized and balanced economic system will have greater symmetry and therefore will be more stable, rather than fragmenting and destabilizing the global economy. Following several years of failed attempts to encourage the U.S. to reform the International Monetary Fund (IMF) and to devote greater representation to China, Beijing launched the rival Asian Infrastructure Investment Bank (AIIB) in 2014. While Washington lobbied its allies to snub Beijing's efforts, almost every major U.S. ally eventually became founding members. Madeleine Albright, a former U.S. Secretary of State, recognized that Washington has "screwed it up" by isolating itself rather than China as "all of a sudden everybody was in" (Dong and Lia, 2015). Rather than fragmenting the international system, the U.S. was compelled to make the IMF more attractive to China by accepting the yuan into the currency basket of the IMF's Special Drawing Rights (SDR).

A similar process of cooperation through balancing was evident with China's willingness to de-couple from the U.S. controlled international banking transaction system, the Society for Worldwide Interbank Financial Telecommunication (SWIFT). In response to Washington's use of its administrative role over SWIFT to sanction other states, China developed the rival China Interbank Payment System (CIPS) at the end of 2015. By March 2016, SWIFT and CIPS signed a memorandum of understanding to assist with development and harmonize operations (SWIFT, 2016).

RUSSIA AND THE GEO-ECONOMICS OF GREATER EURASIA

China's rise presents both opportunities and challenges for Moscow as Russian economic nationalism inevitably denotes embracing Greater Eurasia. Beijing is an indispensable partner to transition to a multipolar post-Western world order and to construct a Greater

Eurasia, which represents a more feasible and favorable economic region that can replace the failed project for a Greater Europe. Yet the disproportionate economic power of China challenges Russia's objective to establish itself at the heart of Eurasia as the geo-economic successor of the Mongol Empire. In other words, a mutually beneficial and durable Greater Eurasia requires more symmetry in economic interdependence to ensure an internal Eurasian balance of power. Russia must diversify its own partnerships, while developing influence over strategic industries, transportation corridors, and financial institutions.

Russian history with economic nationalism intertwines with the U.S., German and Chinese experiences. Sergei Witte, the Russian Finance Minister from 1892 to 1903, published a paper in 1889 citing the economic theories of Friedrich List. Russia then imposed tariffs to protect infant industries, culminating in rapid industrialization that made Russia the fastest growing major economy in the world. The second category of economic nationalism entailed physical infrastructure by laying more rail than any other state in the world to connect vast communities and as a source of economic stimulus. By accelerating the construction of the Trans-Siberian Railway, Witte hoped to elevate Russia's geo-economic power as the chief intermediary between Europe and East Asia. Yet reliance on foreign banks and loans made Russia vulnerable to international instability in Europe and Asia. The ability to link morality and economic interests became the principal trial due to strong opposition to rapid industrialization by agricultural interests, while the growing unequal distribution of wealth and poor living conditions caused a mass influx into Russia's cities.

Furthermore, Russia did not adequately harmonize its interests with competing powers. The Trans-Siberian Railway strengthened the Tsar's growing presence in East Asia, especially the tightening grip on Manchuria and Korea. Reluctance to reach a compromise to mitigate Japan's concerns over Russia's presence eventually led to Tokyo's declaration of war in 1904 and the costly defeat for Russia. Following the dismissal of Witte, Pyotr Stolypin implemented successful agrarian reforms that enhanced the rights of peasants, including acquisition of private ownership with the intention of creating a class of private landowners among peasants. However, lingering failure to address the uneven distribution of wealth and the hardship of war produced a growing opposition to capitalism.

Following decades of absent economic statecraft under communism, Russia returned to capitalism in 1991. Boris Yeltsin erroneously believed that economic liberalism and unambiguous commitment to the West would produce prosperity and a Greater Europe. Instead, the domestic disunity engulfed Russia, while asymmetrical interdependence translated into the "new Europe" being facilitated by institutions maximizing collective bargaining power over Russia.

Vladimir Putin's administration immediately embraced economic nationalist principles that were successful for state-building, yet unsuccessful for region-building in terms of constructing the Greater Europe. Following the nationalization of natural resources, the intrusive influence of oligarchs courted by the West decreased and the wealth instead gave rise to the middle class. The development of large corporations within the energy sphere made Russia capable of competing in international markets. Yet Russia succumbed to the energy curse as easy revenue from the energy sector discouraged painful reforms as it became too easy to import manufactured goods.

Economic nationalism is required to reverse the energy curse by using energy revenue to fund temporary subsidies and tariffs to grow infant industries. Slowly, Russia has begun to embrace such policies by funding Skolkovo and adopting import substitution. Nine out of ten new cars sold in Russia are produced domestically, and similar policies are extended to other parts of the economy such as the aircraft manufacturing. State-supported agricultural developments were especially successful in 2014. Beyond manufacturing and agriculture, the state also supports innovation and technological leaps. Russian security is contingent on the ability to catch up technologically, especially as a new industrial revolution looms with robotics and automation. The success of the National Technology Initiative of

2014 depends on the aptitude to improve both existing technologies and develop new high-technological innovations, and to provide necessary state-support without disrupting conducive market forces. While Russia can point to innovations, broader state-supported systemic changes are necessary as, for example, Russian technology is frequently sold to foreign corporations in the absence of domestic infrastructure.

Russia's physical infrastructure projects and financial institutions have been disproportionately Western-centric due to the Greater Europe initiative. Efforts have mostly focused on controlling energy sources and transit infrastructure to obtain material influence on the continent. While Russia has achieved greater symmetry, the zero-sum regional architecture has perpetuated because the EU does not need to compromise unless Russia has alternative partners. A durable Greater Eurasia with a balance of power requires Russia to reduce its dependence on the industry, transport and financial infrastructure of any one state or region, and to cement a privileged position in Eurasian transportation and energy corridors to enhance the reliance of others. The ESPO oil pipeline and the Power of Siberia gas pipeline signify important diversification to the East. Russian efforts to develop an East-West and a North-South physical transportation corridors is complemented by alternative economic unions such as the Eurasian Economic Union, the BRICS Development Bank, and the pending geo-economic potential of an expanded Shanghai Cooperation Organization. The stagnation of these initiatives threatens to obstruct Russia from obtaining a seat at the table where the mechanisms for economic cooperation are developed.

* * *

Economic nationalism has unjustly become a naughty word and its revival in political discourse therefore is denounced ominously as fragmenting the international system. Economic nationalism should instead be conceptualized as a development strategy by rising powers to establish symmetry in economic interdependent relations, a balance required for mutually beneficial cooperation. A Greater

Europe did not materialize as Russia's inability to diversify its relations made Moscow vulnerable to asymmetrical interdependence. A multipolar Greater Eurasia establishes symmetry with Europe and balances Europe's economic coercion. Rather than fragmenting the continent, it would incentivize harmonization of interests in the shared neighborhood and reaching a mutually acceptable post-Cold War political settlement in Europe. Invoking optimism about the future of Eurasian geo-economics, Putin has argued that "Greater Eurasia is not an abstract geopolitical arrangement but, without exaggeration, a truly civilization-wide project looking towards the future" (Putin, 2017).

References

Angell, N., 1915. *The world's highway: Some notes on America's relation to sea power and non-military sanctions for the Law of Nations.* New York: George H. Doran Company.

Defence Policy Guidelines, 2011. Defence Policy Guidelines: Safeguarding national interests – assuming international responsibility – shaping security together. *German Ministry of Defence,* 27 May, Berlin, p.3.

Dong, L. and Lia, Z., 2015. U.S. "miscalculated" on AIIB: Albright. *China Daily,* 4 January.

Earle, E.M., 1943. Friedrich List, forerunner of pan-Germanism. *The American Scholar,* Vol.12, No.4, pp.430–443.

Eckes, A.E., 1999. *Opening America's market: U.S. foreign trade policy since 1776.* North Carolina: University of North Carolina Press.

EMS, 1978. EMS: Bundesbank Council meeting with Chancellor Schmidt (assurances on operation of EMS) [declassified 2008]. *Bundesbank Archives,* N2/267, 30 November.

Europe-2020, 2010. Europe 2020: A strategy for smart, sustainable and inclusive growth. *European Commission,* 3 March, Brussels.

Gilpin, R., 2011. *Global political economy: Understanding the international economic order.* Princeton: Princeton University Press.

Hirschman, A., 1945. *National power and the structure of foreign trade.* Berkeley: University of California Press.

Krickovic, A., 2015. When interdependence produces conflict: EU–Russia energy relations as a security dilemma. *Contemporary Security Policy,* Vol. 36, No.1, p.3–26.

Lavrov, S., 2012. Russia in the 21st-century world of power. *Russia in Global Affairs,* 27 December.

Levy, J.S. and Thompson, W.R., 2010. Balancing on land and at sea: Do states ally against the leading global power? *International Security,* Vol. 35, no. 1, 7–43, p. 18.

List, F., 1827. *Outlines of American political economy.* Philadelphia: Samuel Parker

List, F., 1885. *The National system of political economy.* London: Longmans, Green and Company.

Luttwak, E.N., 1990. From geopolitics to geo-economics: Logic of conflict, grammar of commerce. *National Interest,* No. 20, 19–23.

Mott, W.H., 1997. *The economic basis of peace: Linkages between economic growth and international conflict.* Westport: Greenwood Publishing Group, p.22.

Putin, V, 2017. *Belt and Road International Forum.* Official site of the President of Russia, 14 May. Available at: http://en.kremlin.ru/events/president/news/54491

Steuart, J., 1770. An inquiry into the principles of political economy. Dublin: J.J. Tourneisen.

SWIFT, 2016. SWIFT offers secure financial messaging services to CIPS. *SWIFT,* 25 March.

Szabo, S.F., 2015. *Germany, Russia, and the rise of geo-economics.* London: Bloomsbury Publishing.

Szlajfer, A., 2012. *Economic nationalism and globalization: Lessons from Latin America and Central Europe.* Leiden: Brill.

Szabo, SF, 2015, 'Germany, Russia, and the rise of Geo-Economics', Bloomsbury Publishing, London.