Economic Nationalism in a Globalizing World

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Abstract
This paper considers the question of economic nationalism through the lens of globalization. The scope of this paper is to emphasize the fact that economic nationalism and globalization, are not antagonistic policies, rather they coexist and influence each other, both generating contradictory effects, in terms of different opportunities and risks. The main message of the paper is that countries should seek, whenever possible, ‘strategic’ rather than close integration with the international economy. In this sense economic nationalism and globalization are inter-twined. The concept of economic nationalism is evolutionary in character. It has evolved from an anti thesis of globalization to an important ingredient of it.

Keywords: Economic, nationalism, globalization, world, integration.

Introduction
Globalization or complete economic integration, connotes close or total integration of a country with that of the world economy, is the antonym of economic nationalism.

Historically, the underlying idea was that economic nationalism is incompatible with globalization. The last chapter of the book by Bipin Chandra, “Rise and Growth of Economic Nationalism in India” shows how globalization by way of free trade led to the economic exploitation of India by the British. This led to the revival of economic nationalism in India in the form of Swadeshi Movement.

However, in the modern times, economic nationalism and globalization are inter-twined and cannot operate in isolation.

The paper argues that globalization (openness of economy) is a multi-dimensional concept. A country can be open or not so open, in all or some of the following directions: trade, finance, culture, science, migration, education, foreign investment, etc. Given its geographical and economic situation, a country may choose to be open in some areas and partially in others, or not at all.

It has been noted that the feeling of economic insecurity instilled by the global economic
crisis in 2008 generated strong reactions against globalization. This incident represented the ideal ground for the economic nationalism’s rise as a leverage to defend the national interest. Because of this, in many countries, the importance of economic nationalism was reassessed.

Consequently, it has been realized that globalization is ubiquitous and indispensable but the intensity and forms under which it manifests differ from country to country, depending on the historical period, the socio-economic and political context.

Therefore, it is pertinent to study the role of economic nationalism in the globalizing world.

**Defining economic nationalism through the lens of literature**

It was in the 1930s that the term *economic nationalism*, and the concept it covers came into general use as something considerably at variance with what was called "protectionism" during the 19th and the earlier part of the 20th centuries.

Although there may have been earlier uses of the term "economic nationalism", the first instance prominently displayed, is in the title of a book by Leo Pasvolsky, published by the Brookings Institution in Washington in 1928: “Economic Nationalism of the Danubian States.”

In the later 1930s, *autarky* became the most potent and widespread slogan; and since the end of World War II the quest for a revival of an international consciousness in all nations is marred by the propagation of nationalism in general and economic nationalism in particular.

The quotation from the pen of Professor Rappard states:

_Nationalism has been defined as a scheme of moral values in which the nation or the nation state stands supreme._

Professor William E. Rappard is considered to be the most authoritative student of this subject. According to him, “Economic nationalism is the policy of national self-sufficiency.” Professor Rappard then proceeds to show how this definition of economic nationalism as a policy destined to promote national self-sufficiency may be justified. He summarized it as¹:

_First, economic nationalism seeks to limit the nation's consumption to those goods which are the fruit of its own soil and labour. By appeals to patriotism, as well as by the more drastic and effective means of tariffs, quotas, exchange controls, and outright prohibitions, nations are urged to prefer national products and services..._

_Secondly, economic nationalism seeks to promote the domestic production of all those commodities for which the national needs are imperative...._

_Thirdly, economic nationalism is apt to raise the cry for more space, that is, for annexations of neighboring or colonial territories...._

As no measure of restriction of imports, of stimulation of home products, and of territorial expansion can possibly make any state entirely under modern conditions, economic nationalism seeks, fourthly, to secure a favourable balance of payments, and thereby to promote an influx of gold. In this, as all other respects, present-day economic nationalists show themselves to be the legitimate offspring of their mercantilist ancestry.

Therefore, “economic nationalism can be defined as a body of economic policies aimed at the loosening of the organic links between economic processes taking place within the boundaries of a country and those taking place beyond these boundaries.” This definition involves the notion of insulating - though not necessarily isolating - a country from the rest of the world. It involves the notion of a country's seeking more "autonomy" in its economic life than it would have in a well-knit system of globalization. Even though self-sufficiency is not within the reach of most countries, a movement in the direction of greater self-sufficiency is possible for any country. In other words, whereas self-sufficiency is largely unattainable, a quest for self-sufficiency is always possible. This is what is meant by "insulation" as distinct from "isolation".

Throughout 19th to 21st century the economic nationalism approach has changed, constantly adapting to the historical periods specifics. However, its manifestation forms were differentiated by country, under the influence of historical and cultural incidents.

**Economic nationalism in a globalizing world - Issue of contention**

The advent of the term economic nationalism was the result of several simultaneous phenomena, including globalization and economic insecurity and inequality. The immense pace of globalization has been perceived by some, as a threat to cultural identity and national autonomy. Economic inequality and insecurity might also revive nationalist sentiments in a country, which leads to the formation of protectionist economic measures like trade barriers, policies that favor domestic labour and industries, and measures that hamper foreign direct investment.

Sometimes, the failure to solve global economic crisis is accrued to economic instability, which often results in protectionist policies. Income inequality also leads to the fact that only the rich enjoy the benefits of globalization.

All these circumstances make economic nationalism an alluring and popular doctrine for policy makers and constituents alike. It offers to defend national interests and preserve cultural heritage and upholding national autonomy in a globalized world.

However, globalization can be found to have great advantage for an economy:

1. It enables a country to concentrate its specialized resources in areas of production

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where the world demand is highly price and income elastic.

2. It leads to diffusion of knowledge, which results in up gradation of the quality of local factors of production.

3. International trade may result in changes in the distribution of income, which can lead to a greater share of production accumulation in national income.

4. Improvement in the allocative efficiency of resources.

5. Trade may facilitate what Schumpeter has stressed -namely an accelerated process of creative destruction.

6. Globalization carves the way for removing inefficiency in production system. Prolonged protectionism in the absence of globalization makes the production system careless about cost effectiveness.

Therefore, in order to support economic nationalism, economic openness (globalization) is much needed. This can be done in different ways, as per the suitability of a nation’s economic needs. A country can be open or not so open, in all or some of the following directions: trade, finance, culture, science, migration, education, foreign investment, etc. Given its economic and geographical situation, a country may choose to be open in some areas and not at all, or only partially in others.

The level of openness also depends on time-related and conjuncture specific aspects. If timing is important, and if returns to scale are increasing, globalizing by virtue of assuring higher levels of growth rates and external demand may lead to major structural changes in the economy and permit labour productivity and the per capita consumption level to increase over time. On the other hand, if a country is wishing to open up when the conjuncture is adverse, it may have to go through painful processes of adjustment precisely because it is more ‘open’ than otherwise.

So, economic nationalism should be given first priority to suffice nation’s economic needs. The speed and degree of globalization should be tweaked depending on the timing and conjuncture of events.

Generally, it has been seen that openness works positively if a nation is self reliant, has adequate knowledge and ‘learning’ from contacts with the rest of the world is suitably institutionalized, in order to reap the benefits of globalization.

This shows that inter-twinning of economic nationalism and globalization works well for an economy and the countries should seek, ‘strategic’ rather than close integration with the international economy.

Global narrative of the debate
This study of economic nationalism in a globalizing world can be done w.r.t various economies of the world.

1. **Case of Japan**: The economy of Japan operated under rigorous import controls (formal or informal), throughout the 1950s and 1960s. During 1950-70, the Japanese domestic capital markets were highly regulated and completely shut off from the world capital markets. Only the government and its agencies were able to borrow from or lend abroad. Foreign direct investment was strictly controlled. Foreign firms were prohibited either by legal or administrative means from acquiring a majority ownership in Japanese corporations.

Thus, despite the strong export orientation of the Japanese economy; it was far from being open or closely integrated with the world economy during the period of its fast growth.

The government imposed comprehensive import controls and discouraged foreign investment in the car industry. Tariffs and quotas were used to protect the industry. The government controlled all foreign licensing agreements. To make technology agreements more attractive to the licensor, it guaranteed the remittance of royalties from Japan.

More generally, economic nationalism provided the Japanese companies with a captive home market leading to high profits which enabled the firms to undertake higher rates of investment, to learn by doing and to improve the quality of their products. These profits in the protected internal market, not only made possible higher rates of investment but also greatly aided exports. Yamamura (1988) shows how these protective policies gave the Japanese firm ‘a strategic as well as a cost advantage’ over foreign competitors. In other words, protection, export promotion and performance standards were complementary policies.

To sum up, the experience of Japan comprehensively contradicts the central theses of globalization, that the more open the economy, the faster would be its rate of growth. During their periods of rapid growth, instead of a deep or unconditional integration with the world economy, Japan evidently sought a ‘strategic integration’ i.e., it integrated up to the point that it was in their interest to do so as to promote national economic growth.

2. **Case of South Korea**: After Korea’s independence from Japan in 1945, it was impossible to imagine that the Republic of South Korea would become one of the world's most robust economies. However, the nation has recorded an annual average economic growth of 9 percent over the past four decades and, despite suffering

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heavily during the 1997 financial crisis, was the 15th largest economy in the world in 2011 based on gross domestic product (GDP).

One notable characteristic of the country's rapid economic growth was strong economic nationalism, which was stimulated initially by a negative response to earlier interactions with foreign regimes and then by the desperate need for economic survival. Economic nationalism has been a binding force that has given direction to South Korea's modernization policies over the past half-century (Cho 2008; Lopez-Aymes 2010).

If a nation's level of globalization is measured by its openness to the global economy—then South Korea’s consumption level of foreign products, as well as the movement of its capital, trade, investments, labour across borders and the degree of extension into the global markets, certainly demonstrates substantial globalization.

In the four-year period (1997 to 2001), post 1997 Asian financial crisis, South Korea attracted approximately $52 billion inward foreign direct investment (FDI), which was approximately double the entire amount of inward FDI in the previous four decades.

Therefore, South Korea has inter-twined economic nationalism and globalization efficiently, which has become a successful mantra for its economic development.

So, from a comparative perspective, Japan is arguably the single most important country in any discussion about the efficacy of economic nationalism.

3. Case of China: Economic nationalism in China has witnessed certain evolutionary stages when it started engaging with globalization.

Since the late 1970s, economic nationalism in China has undergone three phases. These three phases of economic nationalism share the common nationalist aim of making China a prosperous and dynamic country. The three phases emphasize industrial practices, policies and ideology.


In terms of globalization, China has moved from “inviting” the outside world to participate in its economic development process, to “gearing with the world” in an effort to bring itself at par with the rest of the world. Moreover, the current “going out” strategy reveals an increasingly confident China seeking to participate in international economic activities and undertake greater responsibilities in international affairs (Zheng & Tok, 2007).
4. **Case of India**: Economic nationalism in India is both inter-twined and compatible with the globalization process. In the Indian context, it has moved away from old-style economic nationalism because industrialization after independence altered the business environment. Strategic integration with the international economy became both possible and necessary for India in 1991, and it went on to gain tremendously from this increased integration with the global economy. This was accompanied by a shift from manufacturing to services as the main driver of economic growth.

Economic nationalism has thus has played and influential role w.r.t economic policy making in India, but the forms in which it is expressed have changed.

India’s history (until 1991), made it one of the least obvious cases for adopting liberal economic policies in 1991. It is an extremely large country, which had experienced one of the longest histories of colonial domination by British. This led to the advent of economic nationalism by way of Swadeshi Movement, in India.

After independence, India adopted and sustained for over four decades an industrialization strategy, which made it one of the most statist, autonomous and inward-looking of Third World countries. Industrialization in India however did not produce a transformation of the kind seen in some other East and South East Asian developing countries. India remained one of the most agrarian and poorest countries at the time she made her rather dramatic shift towards globalization.

Integration of India’s economic nationalism with the globalized world has been successful in driving its growth trajectory. Economic nationalism and strategic integration with the globalized world has helped India escape various types of financial crisis that have struck its developing country counterparts.

Economic nationalism under globalization has also reinforced the power of Indian big business. Big Indian business firms have successfully set themselves up as the principal instruments of national economic achievement, winners of ‘national interest’ and the sign of national pride and success.

Therefore, in the Indian context, it can be deduced that economic nationalism was better off after the liberalization policies of 1991.
5. **Case of Russia:** After the fall of the USSR in 1991, the Russian people have seen a series of dramatic social, political and economic changes, including greater integration into the international economy and two economic collapses that caused a lasting feeling of economic insecurity. In a move, the Putin administration adopted aggressive economic nationalist policies.

Putin’s actions assumed the significance of aggressive economic nationalism over integration with the global economy, as a need to defend national interests by primarily economic means.

However, soon he realized that encouraging aggressive economic nationalism can have radical consequences from the international community. As a result, Kremlin has tried to create a strategic integration with the international economy, keeping its economic interests intact, emphasizing the role of globalization in the sentiment of economic nationalism.

6. **Other cases:** *US, France, and Germany* are countries known for their nationalist policies. For example, in case of Germany, its economic growth heavily depends on its exports (as they contribute more than 50% of the country’s GDP). Therefore, its economic nationalist policies, to a greater extent, depend on its degree of globalization.

This shows that economic nationalism represents a challenge for the countries whose economic growth depends on international trade and foreign investment.

**Conclusion**

This paper vividly discussed, how the evolution of the concept of economic nationalism obliterated the historical misconception that globalization marks the demise of economic nationalism and vice-versa. In the modern times, economic nationalism and globalization coexist and are compatible with each other. The speed and degree of globalization differs for various nations, depending on their economic objectives.
Also, economic nationalism need not solely be associated with protectionism, but may be simply the pursuit of national interests through strategic economic means.

It can be deduced that economic nationalism in a globalizing world is most useful when the world economy is growing slowly and has little prospect for dynamic growth (as seen in Japan). If the global economy is growing fast or is expected to grow fast, pursuit of economic nationalism may turn out to be a costly affair (as seen in case of Russia).

Also, it has been observed that malign economic nationalism has a negative impact on the nation’s economy vis-à-vis benign economic nationalism, which fosters growth and collective national interests in a globalizing world.

On a concluding note, economic nationalism remains a useful concept under globalization but its policy application requires a scrutiny of national and international economic trends.

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