

## ECONOMIC NATIONALISM'S VIABILITY UNDER GLOBALIZATION

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### **Abstract**

*The path undertaken by the world economy is irreversible - the world economic system is a system based on interdependencies, cooperation and multilateralism but economic openness is not full. Each country, in order to protect their national interest call, in different proportion, depending on the circumstances and of the economic-social and political interests, for different forms of the economic nationalism, forms that have adapted continuously to the demands required for integrating on the foreign markets. The recent global economic crisis intensified the rhetoric and the economic nationalism's practices but it is not about rebirth, but of renewal, of remodeling the nationalist policies, globalization being a premise of the new economic nationalism. The scope of this paper is to emphasize using empirical data the fact that nationalism and globalization, from an economical point of view, are not antagonistic policies, they coexist and influence each other, both generating contradictory effects, in terms of provided opportunities and risks.*

**Keywords:** globalization, economic nationalism, protectionism, national economy, neo-nationalism

### **Introduction**

**The feeling of economic insecurity instilled by the global economic crisis triggered in 2008 generated strong reactions against free movement of economic goods, labor force, technology and capital. This conjuncture represented the ideal ground for the economic and political nationalism's rise as a leverage to defend the national interest.**

Moreover, the resurgence of nationalism, according to the experts from the Global Economic Forum in Davos, represents one of the 10 greatest challenges of humankind for 2015.

However, since most states have enrolled on the globalization and capitalism path, this concern seems unfounded from an economical point of view. The politician Clare Short, who stated that: "People have accused me of being in favor of globalization. This is equivalent to accusing me of being in favor of the sun rising in the morning" suggestively highlights the globalization process irreversibility.

Because of this, in many countries, considering the strategic importance of integration on the global market, the economic nationalism was reassessed, remaining thus an important aspect in economic theory and practice. It means that economic nationalism never disappears, but during economic growth, it is dimmed, disguised.

It has been noted that, in time of economic crisis, there is an increase in the nationalist economic policies of the states, as a defensive method against fierce foreign competition. On consequence, national economies, although actors on the global economy's stage, continue to protect their internal markets. This is because, to cope with the harsh conditions caused by the integration with foreign markets.

Although, protectionism through custom barriers was decreased together with the decrease and even elimination of duties, currently other levers are being used, non-tariff, like encouraging domestic businesses, anti-immigration measures, resources nationalism, invoking some causes such as population health, environmental protection, national culture, etc. For example, in industry, some economic goods are produced within the national boundaries under the pretext of ensuring national security, avoiding thus the reliance on exports (France protects the agricultural sector, USA protects the defense sector). The argument for protection national industry is invoked also when foreign investments are restricted and the local investors' rights are supported. Nationalists, who value the national values, also support the production of cultural goods.

These practices derived from the belief of decision makers that a focus on domestic markets will lead to a faster and lasting economic recovery. In this case, to support the objectives feasibility, a historical one accompanies the nationalist discourse also. However, a long-term comprehensive approach of the nationalist slogans such as "by ourselves" or "we do not sell our country" is not possible in terms of the interconnection arising from economic globalization in all its aspects - commerce, production, finance and technology. Moreover, reality has shown that during the periods in which the protectionist measures have been reduced, economic growth was recorded.

Consequently, we can say that the two approaches of the international economic relations (unilateralism / nationalism, or multilateralism / globalization) are ubiquitous and indispensable but the intensity and forms under which they manifest differs from country to country, depending on the historical period, the socio-economic and political context.

It means that theory and especially practice cannot fit constantly in the proverbial bed of Procrustes, since they are volatile and constantly adaptable.

That is why, in order to be able to evaluate the advantages and risks of the economic nationalism's different approaches, the analysis ought to be comparatively addressed, from a historical perspective.

## *2. Brief review on the conceptual approaches regarding the economic nationalism*

Nationalism, secular ideology, relies on creating a common identity, satisfying the humankind need of belonging, from a psychological, organizational, economic standpoint.

We speak of nationalism, considering as reference point the forming of the national sovereign state. States' sovereignty recognition and enactment was made by the Treaty of Westphalia in 1684, along with three other fundamental principles: equality between nation states, respecting the treaties and prohibition of interference in other countries' internal affairs.

From this perspective, the economic nationalism is based on “the economic and political independence policy, the reason for defending national sovereignty, progress and prosperity of its own nation and state”.

Regardless of the period to which we refer, the economic nationalism refers to a set national policies, that regulate a country’s economic relations with "the rest of the world", in order to protect their domestic economy.

The use of the "economic nationalism" concept is relatively recent although in practice the phenomenon is quite old (sec. XV). According to Polish economist Michael A. Heilperin’s studies, the concept itself was first used “in the title of a book by Leo Pasvolsky, published by the Brookings Institution in Washington in 1928: Economic Nationalism of the Danubian States”.

However, the historical roots start from the mercantilist economic doctrine embraced in Europe, in sec. XV - XVIII, whose representatives (Frederick List, Alexander Hamilton, Thomas Mun, William Petty, etc.) argued that a nation is stronger if the value of exports is greater than the value of imports. The mercantilists were followers of statism, of state interventionism with the purpose of defending the national interests.

Subsequently, at the beginning of the XIX century, the concept of protectionism was introduced, so that in the XX th century to implement the term- economic nationalism. Currently, protectionism is considered the economic nationalism traditional form of manifestation.

Throughout 19th to 21st century the nationalist economic policies approach has changed, constantly adapting to the historical periods specifics. Thus, the manifestation forms were differentiated by country, under the influence of historical and cultural particularities.

For example, the Western capitalist countries have used the nationalist politics as a shield in the way of the global spread of nationalism - socialism started in the 30s in Germany, in the context of the Great Depression of 1929 - 1930.

It is an exclusionist nationalism, that focuses on nation n not on the individual, on homogeneity, social and economic standardization, imposing limits on terms of ethnicity, language, culture.

The followers of this trend considered that state intervention for defending the branches considered of importance, the national interests, in general represented the only ingredient capable of ensuring the national economies' efficiency and effectiveness, and the international capital was seen as the main factor that triggered the Great Depression. Therefore, the need for a new marketplace, labour force international division and the increase in the international commerce were incompatible with the classical nationalism. This is graphically highlighted in an article published in the journal of Foreign Affairs on April 1934, where Leon Trotsky (writer, Marxist theorist) stated that: " Only twenty years ago all the school books taught that the mightiest factor in producing wealth and culture is the world-wide division of labor, lodged in the natural and historic conditions of the development of mankind. Now it turns out that world exchange is the source of all misfortunes and all dangers. Homeward ho! Back to the national hearth!.... The legend of the bed of Procrustes is being reproduced on a grand scale. Instead of clearing away a suitably large arena for the operations of modern technology, the rulers chop and slice the living organism of economy to pieces."

After the Second World War, the nationalism of the `30s was to blame, and thus considered the source of many conflicts.

Consequently, as the global economic flows intensified, the national policies evolved, the classical nationalism being replaced with liberal nationalist strategies, that focused on opening outwards from a political and economic point of view, based on territorial aspects, on the membership in a particular geographic area and not on social and political homogeneity and thus considered a globalist nationalism (neo-nationalism). Nationalist - globalists accept ethno cultural diversity created by globalization, being emotionally attached to a geographical space but open in relation to "rest of the world".

The global economic agents maximize their results through marketing the differences, peculiarities and traditions.

Moreover, at the European Union level, the introduction of the euro, the existence of the European Parliament and of other integrative practices of the Eurozone, suggests the idea of a regional nationalism, the nationalism sentiment being transferred at a supranational level.

### *3. Succinct description of the manifestation empirical forms of the global economic nationalism*

After 2008, the start year of the global economic crisis, the cross-border capital flows have slowed their growth rate to 1.9% annually, compared to the annual average of 7.9% during 1990-2007, which generated numerous debates, controversies on the appropriateness of nationalist strategies in the globalization context. This is because there is an intensification and diversification of the nationalists' practices, in particular by increasing protectionist measures. The experts even fear a return to the nationalist methods of the '30s and a reduction of globalization. Yet, the high degree of national economies interconnect does not allow this. Of course, we are speaking about a "tamed" form of the economic nationalism, a globalist economic nationalism, adapted to the conditions imposed by the markets and by international institutions.

If during the interwar period, until the mid-70s, customs duties were extensively used as barriers to foreign competition, currently countries use much less this instrument.

Furthermore, the ascension of foreign trade and the involvement of supranational governmental organizations (World Trade Organization, European Union, United Nations) led to a gradual reduction of customs duties and even to their elimination in some cases. Although tariff liberalization was more pronounced before the crisis (between 2002 and 2007 was noted a reduction in the custom duties average, by about 5%) it continued in the post-crisis period, but at a slower pace. Thus, according to data released by United Nations Conference on Trade and Development (UNCTAD) in 2012, the average level of

the custom duties on a global scale was of 2% (less than 1% in developed countries and between 4% and 10% in emerging countries).

In contrast, non-tariff barriers have increased substantially. Thus, the modern economic nationalism appeals to new leverages, diversified so to sustain the national economy before foreign competition:

- increases in trade restrictions under the pretext of environmental standards, national security, protecting national industries, particularly of branches regarded as strategic (quotas, administrative authorizations, health or technical guidelines or ordered marketing arrangements)

- policies of favoring domestic firms;

A relevant example in this sense is represented by France, where, in order to protect domestic industry from foreign investors, in 2005 by a decree signed by the Minister of Economy, have been established 11 sectors regarded as strategic and in which the sale, merger or transfer operations ought to be made only with the state. In 2014, in the context of a possible takeover of the French company Alston by the American company General Electric, the government created the necessary framework for safeguarding the national interest adding other five strategic areas: energy, transport networks, water supply, communications and public health protection.

- resource nationalism;

- the nationalism in consumption - for example, in Romania, the employees of French companies receive cars produced in Hexagon, BRD longer grants reimbursement for the purchase of cars Dacia, Renault, Nissan;

- campaigns "buy local products";

- Subsidy;

- preferential financing

- favoring national suppliers in procurement;

- Influencing the exchange rate through this intervention of the central banks, such as currency devaluation to boost exports, external debt reduction, discouraging the repatriation of foreign investors' profits;

In these circumstances, according to the report „Indirect Tax in 2013: With change comes complexity” drawn up by Ernst & Young, one of the largest financial advisory and audit companies in the world the WTO reported annually the implementation of new measures that restrict trade - for example, between October 2011 and May 2012 there were implemented no more than 182 measures.

Therefore, the US, France, Germany, countries known for their nationalist policies, currently maintain their trajectory. Great Britain after 1800 opened its borders to free trade, but now falls into the European nationalist trend. China and Japan have also adopted nationalist strategies. In these circumstances, the emerging countries and those dependent on the global economy must adapt because the shift towards domestic markets pose a challenge to countries with low economic resources or depend on export.

For example, Germany, the fourth largest economy in the world, is also extremely vulnerable, economy's welfare depending on exports, meaning, the willingness and ability of importers to buy their products.

Given that exports (half remaining in the EU) contribute with more than 50% to the country's GDP, the country's production capacity substantially exceeds the consumption capacity, even if they would have boosted domestic consumption. Germany depends therefore on these exports in order to maintain its economic growth, low unemployment level and social stability.

Economic nationalism represents a challenge for the emerging countries whose economic growth depends on foreign investments and international trade. Such is the case of Romania whose exports are mainly oriented towards the EU states and the products are with a lower degree of added value. Furthermore, 80% of present goods on store shelves are imported.

China has seen a remarkable growth in the recent years but, although it has enjoyed the benefits of an open economy, in order to sustain growth they promoted a nationalist policy, imposing strict conditions for foreign investors, planning thus financing through a 5-year project, etc.

In short, all these practical situations lead to the conclusion that, given the high degree of interdependence in the global economy, the position action of the national states on the international stage is strongly influenced by the economic conjuncture and the socio-political interests on this stage, but also by their degree of development and the dependency to external markets.

Analyzing the economic nationalism phenomena both in terms of theory and especially of reality, I consider to be fully justified its comparison to a game of balls. Where the balls, being of different size, power and beauty collide with each other in order to determine the winner.

#### *4. Conclusions*

The global financial crisis generated a reorientation towards the nationalist policies and reduction of employment in the global economy, the advantages of economic and monetary integration fading in this context.

The evolution of empirical data supports the idea that globalization and nationalism from an economical point of view are not antagonist policies, they coexist, influence each other, generating tensions and conflicts. Nevertheless, since the globalization process is dominant in terms of economic nationalism, according to J.M.Keynes, it requires a "rational and quantitative interventionist policy". Economic agents' pragmatism who aim to maximize their results put a mark on the economic system functioning, at all its levels.

Therefore, although economies openness is not full, each maintaining certain barriers, the path undertaken by the global economy is irreversible- the global economic system is one based on cooperation and multilateralism.

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