

Doing Economic Nationalism the Right Way

di Dani Rodrik

Not every departure from economic liberalism is as ill-advised as its advocates would have us believe. East Asia's experience suggests that if America's latest foray into economic nationalism remains focused on creating a strong, inclusive domestic economy, it will do much good for the rest of the world.

CAMBRIDGE – With the United States leading the way, the world seems to be entering a new era of economic nationalism, as many countries prioritize their domestic social, economic, and environmental agendas over free trade and multilateralism. While President [Joe Biden](#)'s approach is more measured and open to international cooperation than Donald Trump's was, it nonetheless raises [concerns](#) among economic liberals, who see echoes of a 1930s-style return to protectionism and autarky.

But “economic nationalism” is one of those scare terms that economic liberals use to discredit practices they don't like. As with any ideologically loaded label, it hides more than it reveals. After all, economic nationalism comes in many different forms, some harmful and some beneficial. Moreover, some of the leading theorists of economic nationalism, such as Alexander Hamilton and Friedrich List, were political liberals.

Though economic nationalism can backfire when taken to extremes, so can economic liberalism. When applied judiciously in pursuit of legitimate domestic goals – such as building economic strength and reinforcing a sense of national purpose – it can be beneficial without necessarily harming other countries.

Economic nationalism frames the economy primarily in terms of the nation, much like political nationalism does with the polity. The economy exists primarily to serve the nation, just as the nation-state pursues the national interest.

Neither formulation has much content until we start to define what “serving the nation” or the “national interest” means. Focusing on the national economy can be perfectly benign, as well as compatible with significant degrees of openness to international trade and finance. According to conventional economic theory, it is in a country’s own interest to adopt free trade. A government that pursues autarky will forsake the benefits of specialization, miss out on frontier technologies, and lose access to foreign capital.

As the economic historian Marvin Suesse [argues](#), economic nationalism therefore wavers between two somewhat contradictory impulses: the temptation to restrict economic exchange with other countries in order to advance national independence; and the desire to expand and leverage international links in the service of national economic growth and development.

In recent times, no one has done a better job of combining these impulses than the “developmental” states of East Asia. Japan, South Korea, Taiwan, and, most spectacularly, China have all relied on a mix of policies that both encourage global economic integration and selectively protect key industries. Each shaped its own economic future through a wide range of industrial policies – directed credit, subsidies, tariff and non-tariff barriers, and local-content and other requirements for foreign investors – that helped it develop new areas of economic competence.

These were not just economic programs. They were national projects of renewal, aimed at catching up with the West. As political scientist Elizabeth Thurbon of the University of New South Wales and her co-authors [put it](#), policymakers with a developmental mindset “view local manufacturing capacity, technological autonomy, and export competitiveness as the essential foundations of domestic political legitimacy, national security, and international status and prestige, and embrace a central role for the state in advancing these goals through strategic interventions in the market.”

No one can deny these countries’ success. Their rapid economic growth lifted hundreds of millions of people from abject poverty, and elevated some of them to

the status of advanced economies in less than two generations. China became not only an economic powerhouse but the West's main geopolitical rival.

Each country's dramatic rise met with charges that it was not being open enough, and not providing sufficient market access. Widespread government subsidies – for steel, autos, solar cells, and so on – often undermined foreign firms' competitive positions and drew their governments' ire. Yet, on balance, East Asia's economic nationalism was a boon for the rest of the world. Even with trade barriers here and there, the booming markets that it created for trade partners were much larger than any alternative economic strategy would likely have produced. Moreover, the subsidies – according to economic liberals' own logic – were a gift to other countries, because they helped lower prices for their consumers.

To be sure, China's rapid expansion of exports did create some important difficulties for advanced economies. The "[China shock](#)" led to long-term job losses in the regions most exposed to competition from Chinese imports, thereby increasing political support for authoritarian, right-wing populists in both the [US](#) and [Western Europe](#). But if anyone bears more of the blame, it is Western governments, for failing to manage trade with China appropriately (by not liberalizing their trade more slowly, for example). While China was achieving exceptionally strong export performance, these governments were clinging to an excessive faith in economic liberalism.

Economic nationalism has not turned out well everywhere, of course. Too many governments have engaged in excessive dirigisme (state ownership or control), propped up inefficient firms for too long, and closed their economies off too indiscriminately. When governments make these mistakes, it is primarily their own people who pay the price. Economic nationalism gone wrong is a beggar-thyself policy, not a beggar-thy-neighbor one.

East Asian developmentalism offers an important lesson for today's world. If economic nationalism in the US focuses on creating a strong, [inclusive domestic economy](#), it will do much good – even when it violates some of the tenets of economic liberalism. In fact, such a strategy would revive [an earlier tradition](#) of developmentalism in US history. Other countries will ultimately benefit from a

healthier US economy and more cohesive society, and should have little to complain about.

As Suesse [shows](#), economic nationalism is typically a response to being left behind by other countries. Here, the current US experience is a bit different. Though others – China especially – have been catching up, the US remains technologically and militarily the world's most powerful country.

The risk, then, is that American economic nationalism will go beyond building a better society and finding purpose at home. If the US acts like a bully, imposing its policy preferences on others and seeking to undermine its rivals' technological development, it will do much harm to the rest of the world and little good for itself.