

Neo-Mercantilism: What's in a Word?

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1. Introduction: mercantilism as the pursuit of stateness

What shall we mean by neo-mercantilism? Obviously this depends on what we mean by mercantilism¹. A long debate with many diverging views complicates this matter (Coleman, 1969). While economic historians tend to prefer a historically specific definition with a rather precise meaning, the social sciences prefer a general definition which can link different historical periods and provide a perspective which brings out the basic similarities between different historical situations.

If mercantilism primarily refers to a particular economic doctrine, its relevance as a general concept is limited, but if instead it is associated with the state as an active economic actor, the specific type of economic policy may differ according to historical context. Thus the early obsession with balance of trade is one expression of mercantilism, the drive for industrialisation, or the support for manufactures, another. In both cases there should be a distinct state interest (a project to expand the power base of the nation-state) involved.

Mercantilism is similar to socialism in its 'illiberal' character, and sometimes indistinguishable from socialist praxis, but in the case of socialism there should be a clear class perspective involved, and the welfare dimension would take precedence over the power dimension. In 'really existing socialism' this distinction may not be very clear, but it nevertheless serves the theoretical purpose of clarifying the ideological difference between the two state-centered doctrines of socialism and mercantilism.

¹ The definition in the UNESCO Dictionary of the Social Sciences gives one minimalist and one maximalist alternative (Coleman, 1969: 1): The term 'mercantilism' denotes the principles of the mercantilist system, sometimes understood as the identification of wealth with money: but more generally, the belief that the economic welfare of the state can only be secured by government regulation of a nationalist character.

If we by mercantilism mean a certain economic doctrine existing at a particular period in time, the question of the meaning of neomercantilism hardly arises. This is the reason why the concept of neo-mercantilism often has been used pejoratively and within quotation marks:

The word 'neo-mercantilism' is already appearing with ominous frequency in serious discussions.

(A.V. Judges writing in 1939, quoted from Coleman, 1969:59)

This chapter takes the view that mercantilism can be understood as an articulation of the nation-state logic vis-à-vis the free play of market forces. Essentially the two logics—of the state and of the market—are incompatible:

The logic of the market is to locate economic activities where they are most productive and profitable; the logic of the state is to capture and control the process of economic growth and capital accumulation.

(Gilpin, 1987 p. 11, quoting Heilbroner, 1985 pp 94-95)

To discuss the nation-state logic versus the logic of the market necessitates a political economy theoretical framework, where one logic does not exclude or define away the other, but, rather, where they interact in a more or less conflictive way.

There is a certain consensus about what constitutes the fundamental concern of political economy, namely the interaction of state and market:

Without both state and market there would be no political economy. In the absence of the state, the price mechanism and market forces would determine the outcome of economic activities; this would be the pure world of the economist. In the absence of the market, the state or its equivalent would allocate economic resources; this would be the pure world of the political scientist.

(Gilpin, 1987, p. 8)

There are, however, different views on the relative importance of the state vis-à-vis the market. Neither of them should be seen as primary; their relationships are interactive and even cyclical, as shown in Karl Polanyi's important contribution to this field (Polanyi, 1957). According to him, modern society must be under-

stood both as a result of the expansion of the market mechanism and the self-protection of society against the destructive consequences of the way the market mechanism operates. The latter response is complex and includes the need for political control as well as social protection. Thus a sort of balance between state and market is created through the so called 'double movement'. This historical and dialectic approach makes it difficult to place Polanyi in any of the theoretical boxes of political economy, but the legacy of his work is obviously a deep suspicion about the role of the market as a self-regulating system and the need for it to be balanced by a different logic.

To the followers of this tradition, the political, redistributive logic stands out as less destructive and less threatening than the anarchistic logic of the market itself. The protection of the state, as far as economic processes are concerned, is the essence of mercantilism. Autarky is thus the extreme mercantilist position. The extreme position is always dysfunctional, but "the artificial promotion of some degree of autarky is a necessary condition of orderly social existence" (Carr, 1981:121).

The precise content of mercantilist policy can, consequently, not be derived from a 'mercantilist doctrine'. It depends on the historical situation. However, it should be emphasized that the mercantilist logic is fundamentally political. The point is not the maximization of economic development but the optimization of political control, i.e. optimization in the sense that the marginal utility of administrative controls must not fall below zero. The focus is, however, on the institution of the state. A mercantilist would probably concede that state intervention not necessarily is the best way to promote development, but that it nevertheless is needed because of other concerns related to state interest.

The 'role of the state problem' contains two issues which, albeit empirically related, must be kept analytically apart. One is the instrumentality of the state as a politico-bureaucratic organization, in particular its role in the development process. Another is the viability of the state as a politico-territorial organization, usually called 'nation state'. This latter concept is contested because of its deterministic quality, but can nevertheless be useful as long as it is

made clear that the nation state is yet to be realized; it is a project rather than a given.

Thus, we shall distinguish the instrumental strength of the central state, or statism, from the integrative strength of the nation state, or stateness. Economic development is a necessary ingredient in the process of increasing stateness, but cannot be the only concern. Mercantilism should be distinguished from developmentalism. Thus mercantilism can be defined as the pursuit of stateness, whereas the market logic is quite unconcerned about this particular problem. It is apolitical. Statism, on the other hand, can be related to different goals and objectives, for instance the promotion of particular class interests. Socialism, for instance, is statist. It is the combination of statism with stateness which gives mercantilism its peculiar quality.

The contemporary context of the struggle between the two logics is no longer the nation-state but the international political economy, in which the political logic refers to a transnational framework of economic transactions, in brief, a world order. This situation is qualitatively different from the classical articulation of mercantilism as the nation state logic, or the pursuit of stateness. Hence the concept 'neo-mercantilism', to which this discussion is primarily addressed.

Why 'neo' ? By adding 'neo' to the old ideology's name, my point is to emphasize continuities as well as discontinuities. A simple revival of an old idea is not sufficient reason to give it the epithet 'neo'. The question is how new the new elements are, how much the quality of the phenomenon changes. The old and the new forms should be similar enough to go by the same name, but there must be a distinct new element in the neologism. Other examples of this are neo-liberalism, neo-keynesianism, and neopopulism (Hettne, 1990:214 ff). Whereas the old ideologies in these cases were articulated within a national space and took the national interest more or less for granted, the neologisms relate to a global space, i.e. the overall shape of the international political economy. They represent various perspectives on the process of transcending the nation state logic. This is the crucial new element. This is particularly troublesome for neomercantilism, due to its historical

association with the nation-state and the economic pursuit of stateness. The solution of this dilemma is the region-state.

However, in order to understand the neo-mercantilist logic in its concrete manifestations, we shall first locate the concept of mercantilism in the historical political economy discourse. After that we shall discuss a number of additional dimensions which have subsequently changed the nature of mercantilism in a more or less fundamental way.

2. Mercantilism in the political economy discourse

Political Economy, when it first appeared as a comprehensive doctrine, argued in favour of a market-oriented economy, liberated from the statist praxis which marked the 17th and 18th centuries and later was given the label 'mercantilism'. This ideological conflict gave birth to the first tradition of political economy: liberalism. Anti-mercantilism was thus the way liberalism was articulated.

The historical context was the early process of state-formation and, more particularly, the emergence of the Absolute State. Mercantilism can thus best be understood as the political economy of state formation. The essence of 'liberalism' (also in this case the label was invented later and had a rather pejorative flavour) is not only the critique of autocratic government but even, as in 'liberal anarchism', the state as such. Market solutions to the problem of allocation are seen as inherently 'natural' in this tradition. Mercantilism has thus from the beginning been defined as 'unnatural'.

The classical study of historical mercantilism, central albeit controversial, is by the Swedish economic historian Eli F Heckscher (Coleman, 1969). His *Mercantilism* first appeared in Swedish (1931), and in English a couple of years later (1935). Heckscher tried to make a synthesis of the contrasting approaches of British Political Economy and the German Historical School, which also meant an expansion of the notion of mercantilism from its earlier association with trade, money and bullion. Heckscher recognized the logic in the German tradition (in its view of mercantilism as state-making), but criticized it from the point of view of the British. Thus

mercantilism did not stand out as the systematic absurdity portrayed in Smith's *Wealth of Nations* (book IV), but it was nevertheless described as immoral, a 'system of power' inclined towards war and destruction. This confusion of normative and positive views on mercantilism has haunted the debate all the time. The second tradition in political economy in many ways relates to the mercantilist praxis, but in a new and qualitatively different historical context: the modernization imperative, i.e. the felt need among rising nations to catch up with more advanced industrial countries in order to avoid being eaten, or, in dependency terms, being 'peripheralised'. The classic conflict is the one between Great Britain and Germany, or as expressed in terms of political economy, "cosmopolitical political economy" versus "national political economy". These labels were used by F. List, the founder of national political economy, which also has been called 'mercantilist' or 'realist' political economy. The concept of mercantilism, as expanded by Heckscher, thus covers protectionist policies to promote national economic development. One could debate whether the concept of neo-mercantilism might not be appropriate here.

The third tradition of political economy is Marxism, which also took shape as a "Critique of Political Economy", i.e. the liberal political economy tradition. It can only be understood in that context. Without a Ricardo, there would have been no Marx. The specific Marxist contribution to political economy was the class perspective. The proletariat would ultimately liberate itself from capitalism, but as long as this system lasted, the Marxist description of reality was closer to realism (mercantilism) than to liberalism. In the concept of 'the welfare state' there is a kind of synthesis between mercantilist and socialist ideas. The pursuit of stateness is understood as including distributional justice. This is particularly clear in the Swedish social democratic ideal: 'Folkhemmet' (the People's Home). With growing interdependence and complexity of the world, different theoretical traditions converge in their attempts at analysing global dynamics. International political economy (IPE) deals with the problem of non-coincidence between the way in which the world is organized politically and the way in which it functions economically, or, in brief, the connection between politics and economics in international relations.

The realist/mercantilist assumption is, that no economic system can exist without a political framework of some sort. Thus the world economy and the international political system cannot be usefully analysed in separation from each other, but must be dealt with within one single theoretical framework.

Neo-mercantilism focuses in particular on the nation-state system and the role of international political relations in the organization and management of the world economy. The eclectic and pragmatic approach of neo-mercantilism makes it the dynamic core in the current development of IPE, but also the vaguest of the three traditions of political economy (Jones 1988: 163).

3. The state capitalist strategy: Northern experiences in retrospect

In the context of the industrial revolution, the mercantilist logic became less preoccupied with trade and more with industrial strength, which was seen as essential for national survival. This is usually referred to as 'the modernization imperative'. Britain as the workshop of the world stood out as a threat to aspiring nations in Europe as well as across the Atlantic. In the USA, Alexander Hamilton (in 1791) expressed the mercantilist logic in a way that has become classic: "Not only the wealth but the independence and security of a country appear to be materially connected to the prosperity of manufactures" (quoted from Carr: 122)

The state capitalist strategy thus belongs to an early phase of industrial development in the USA and continental Europe. In the USA the free market ideology became increasingly dominant as the economy developed.

The state capitalist strategy was typically an attempt at enforced development in primarily agrarian economies, the prime example being the policies of Count Witte in tsarist Russia. Witte was influenced by the German economist Friedrich List who saw industrialization as necessary for nationalist and security reasons (von Laue, 1963). As soon as state-fostered industrialization had been carried through it was, according to List, beneficial to participate in the international division of labour, but not before. The same function of modernization as a nationalistic reaction to a threat from industrially more advanced countries (rather than being

endogenous and immanent) applies not only to Germany and Russia but also to non-Western countries, like Japan after the Meiji restoration. Japan is perhaps the mercantilist economy par preference. It has retained an illiberal (mercantilist) quality in spite of formally adhering to free trade principles. Some western observers have described the Japanese economic system as "economic totalitarianism":

"a government-directed enterprise in which all the energies of Japan have been mobilized to overwhelm the world competition"
(Wolf, 1983)

It makes a lot of sense to compare historical development strategies from the point of view of their way of tackling the external environment. As Dieter Senghaas has demonstrated, the European experience is significant from this perspective (Senghaas, 1985). His classification of European development strategies departs from the question how the more or less successful countries dealt with the autonomy v. integration issue in the context of England's overwhelming economic dominance.

- Dissociative development based on the dynamics of the domestic market (Germany)
- Associative export-led development (Switzerland)
- Associative–dissociative development (the Scandinavian Model)
- Dissociative state-capitalist development (Russia)
- Dissociative state-socialist development (the Soviet Union)

The order of the cases is roughly chronological. One conclusion to be drawn is therefore that delayed development became increasingly difficult to achieve and that it depended on a strong interventionist state (op. cit., p. 38).

One underlying dimension behind this particular classification is the issue of inward v. outward-oriented development, or what Senghaas calls dissociation v. association. One striking point is that very few European countries actually developed in accordance with the way the World Bank and the IMF now recommend the underdeveloped countries to develop. Rather they followed, in varying degrees, the old Listian formula, i.e. they were essentially mercantilist.

The contemporary issue of declining industrial regions (reindustrialisation) is basically similar to the industrialisation problem in general, although the question is to prevent deindustrialisation rather than to promote industrialisation. For Europe and the USA the challenge, which in some respects could be compared to the old modernization imperative, is to compete with Japan. What is the role of the state in this respect? Even today the legitimizing argument for industrial policy in the USA is by reference to Hamilton's 1791 report on manufactures (Grant, in Jones, 1988:79).

4. Mercantilism and Keynesianism

Keynes is sometimes referred to as a neomercantilist. His theoretical contribution meant that macroeconomic problems returned as a key issue in economics. In times of economic depression, the problem was to employ existent, but poorly utilized factors of production. Keynes held that the aggregate demand, and its various components, e.g. consumption and investment, were of strategic importance. An increase in expenditures which, in turn, multiplied aggregate demand, would eventually lead to an increase in the level of economic activity and a decrease in unemployment. This was the task for the state, or as in the social democratic interpretation, the welfare state.

Thus, Keynes was primarily interested in short term problems of stabilization. Since the problems of underdevelopment are radically different from those of the depression he did not directly contribute to the theory of economic development. As a matter of fact he was not very interested in long-term economics and held the opinion that countries which had reached a certain income level should stop being too concerned about economic growth (Singer, 1978, p. 24).

Keynesianism, in contrast to the state capitalist strategy, is a manifestation of mature capitalism. Its departure from the basic liberal model consisted in granting the state a responsibility for the stability and continuous growth of capitalist systems. Although it is not correct to speak about Keynesian theory as a development theory, there were elements in the Keynesian theoretical revolution

that could be incorporated in a more long-term growth strategy, characterized by state intervention and planned investment.

Since the 1930s and up to the 1970s, Keynesianism was the dominant development ideology in the industrialized capitalist world, particularly in countries with strong social-democratic parties, eager to replace their original socialist doctrine with the supposedly more 'scientific' Keynesianism. In the aftermath of the world economic crisis in the 1970s, the ideology of Keynesianism suffered many setbacks and lost influence at least as a national strategy.

Today state-fostered growth is consequently less popular and Keynesian orthodoxy challenged by a neoliberal wave in the industrial countries, looking for ways out of the impasse. All over the industrialized capitalist world, 'liberalizing' economic experiments have been started, in some countries with great enthusiasm, in others more reluctantly. Mercantilism is again a pejorative concept, and so is, even more, neo-mercantilism.

5. Mercantilism in the Third World: Structuralism and dependency

Structuralism as a school of development theory can be seen as the Listian approach to the contemporary problem of underdevelopment. The late Raúl Prebisch was the most prominent critic of outward-oriented development and his ideas concerning industrialization through the strategy of import-substitution can be traced back to his writings on Argentina in the 30s and 40s which were reminiscent of the European tradition of economic nationalism (Love, 1980).

The Latin American structuralist discussion on underdevelopment reflected specific economic experiences in various countries, particularly terms of trade problems. The depression of the 1930s dramatized the dimensions of Latin American dependence, it initiated more systematic economic research, and it led to a policy of import substitution. This policy was given further impetus by the disruption of world trade, and it was later systematized into a development strategy by the Economic Commission for Latin America (ECLA) under the leadership of Raul Prebisch.

Dependency theory, a socialist application of the Listian approach in the Third World context, originated in the Latin American debate on economic development in the 1960s. Its background is in the Marxist and neo-Marxist, as well as the essentially mercantilist Latin American structuralist tradition. This debate took place against a background of political radicalization. The nationalist element is common to both structuralists and 'reformist dependentistas' (Kay, 1989: 127).

Due to the complex intellectual origins of the notion of dependency, there are several conceptualizations, differing in style, emphasis, and disciplinary orientation, but sharing the basic idea about development and underdevelopment as interrelated structural processes. This position should be contrasted with the modernization paradigm, which was a basically endogenist view of development with little significance given to distortions resulting from the international division of labour. This can be compared to the mercantilist emphasis on the specificity of the national interest vis-à-vis the liberal universalist view.

Dependency theory was a new point of departure rather than a new theory (Blomström-Hettne, 1984). It contained different lines of thought, while at the same time expressing a number of common ideas:

- The most important obstacles to development were not lack of capital or entrepreneurial skills, but were to be found in the international division of labour.
- The international division of labour was analysed in terms of relations between centre and periphery, and a transfer of surplus took place from the latter to the former.
- The periphery was deprived of its surplus, whereas the centre instead could utilize it for development purposes. Development in the centre implied underdevelopment in the periphery. The two were aspects of a single global process.
- Since the periphery was doomed to underdevelopment because of its linkage to the centre, it was necessary to delink from

the world market, to break the chains of surplus extraction, and to strive for national self-reliance.

The kinship between these principles and the old European mercantilism as interpreted by the German Historical School can be seen in this quotation from Schmoller (quoted from Coleman:102):

The ideals of Mercantilism ... meant the shaking off of a commercial dependence on foreigners which was continually becoming more oppressive, and the education of the country in the direction of economic autarky.

As a distinct school of development theory, dependency theory no longer exists. Its analysis of the external barriers to development was essentially mercantilist. The possibilities for independent development were overly simplistic. The response has been attempts towards more global approaches, incorporating the complex relationships between both central and peripheral development, and stressing the strategic room for manouvre for the developing country, in consideration of internal as well as external constraints. Theoretically they link up with international political economy, and in terms of policy implication they would support regional approaches to the control of market forces

6. Contemporary state capitalism: the NIC experience

The successful experience of the NICs (Newly Industrialized Countries) has been use as the case for the refutation of dependency theory and held up as the model to imitate in the 1980s. It therefore deserves close scrutiny. The literature on this issue is becoming quite large. (See Lamb, 1981; Cline, 1982; Harris, 1987; Datta, 1987; Haggard, 1986 and 1990; and Bienefeld, 1987 for overviews.)

First of all—what is a NIC? Is it a mercantilist animal? Or is it, as often is claimed, a result of liberal economic policies? We probably violate reality by using terms such as NICs or the NIC model. The concept summarizes the most recent wave of industrialization which has taken place in a limited number of countries in different

regions: Latin America, South East Asia and Southern Europe². This could be compared to the industrial wave in Europe in the 19th century.

The cases of Taiwan and South Korea are the most impressive cases. They are also more easy to generalize from than the atypical city states: Hong Kong and Singapore. The reasons for their successful transformation are more or less unique: their Confucian work ethic, their radical land reforms (externally forced upon them), their geopolitical importance (explaining why they had to succeed), their closeness to the Japanese giant (of whose economic expansion they formed part), and the world-economy context for their takeoff (which is not likely to be often repeated). One cannot avoid the impression that in spite of their statist character these miracles were encouraged by the capitalist world order, while countries pursuing socialist-oriented self-reliance strategies were discouraged or even destabilised. The NICs accept and fortify the old international economic order. What they want to change is their place within it with the help of a state committed to development: a developmentalist state.

The emulators are found in South East Asia (the ASEAN countries), and to some extent in South Asia (Sri Lanka). Few of these second generation NICs have been equally successful. Without going into details we could attribute this to domestic (ethnic) political factors, a lack of necessary degree of stateness to start with. Secondly, the later international economic conjuncture is much less favourable for the emulators compared to the prototypes.

What can be said about common denominators is possibly that their success was a matter of correct timing in switching from one development strategy to another, that the development strategy was consistent and based on a certain degree of national cohesion, and, finally, that the strategy considered both internal and external

²The OECD list includes ten countries: Singapore, South Korea, Hongkong, Taiwan, Brazil, Mexico, Spain, Portugal, Yugoslavia and Greece. The World Bank list adds Malaysia, Argentina, Turkey, the Philippines, Columbia and South Africa. It is important to underline the uniqueness of the NICs (more particularly the Asian, or the 'gang of four') as well as the great diversity of the rest of the underdeveloped world. In the case of the city states, Hongkong and Singapore, this is too obvious to deserve comment, which leaves us with two countries, Taiwan and South Korea, as far as Asia is concerned. The Latin American NICs, Brazil and Mexico, belong to a different category altogether. So do, of course, the European NICs, which, however, will be left out of this discussion.

constraints, as well as opportunities. The NIC phenomenon underlines the old saying 'nothing succeeds like success', but this has never been a very helpful recipe for those who tend to fail.

Few of them have sufficient social and political coherence to implement a NIC strategy, which in any case would have to depart from orthodoxy. *Laissez-faire* is for the very strong or (imposed upon) the very weak. Countries which successfully change the structure of comparative advantage and their place in the international division of labour (the NICs) are in between. They follow the policy of authoritarian developmentalism: to take advantage of world market forces with the help of whatever dose of interventionism they deem necessary. To the extent that the pursuit of stateness is a central concern in these attempts, the label 'mercantilism' may be applied, but this issue must be explored from case to case. It does not define the NIC phenomenon as such.

7. Global Mercantilism and the North South divide

Most Third World states are not NICs but, on the contrary, weak and vulnerable. They cannot create international institutions but depend on existing institutions. Rather than being in position of benefiting from world trade, they are the victims of unequal exchange. This undermines their coherence as nation-states and erodes the legitimacy of their ruling elites. Thus, in contradistinction to the industrial countries in the North, the South has a general inclination towards authoritative resource allocation rather than market allocation (Krasner, 1985). This was evident in the debate on the New International Economic Order in the 1970s, a phenomenon which can be referred to as 'global mercantilism': a collective representation of the mercantilist logic of the weak states in a liberal interstate system. Its ideological expression was 'Third Worldism', assuming more or less identical interests among the developing countries. Authoritative regimes are supposed to provide more stable and predictable transaction flows (*ibid.*, p.5). In this perspective UNCTAD is an institutional expression of 'global mercantilism', whereas GATT is an expression of 'global liberalism'. The structural opportunity for 'global mercantilism' seems to be gone, and the mercantilist logic is finding other manifestations which we will return to below.

NIEO thus was a political rather than an economic strategy, aiming at establishing a trade regime based on authoritative allocation³. The economic demands included price stabilization, indexation, increased aid volumes, changes in the monetary system, technology transfer and food security on the lines of a rather conventional view of development as modernization.

The means to achieve this were nevertheless illiberal international regimes. The result was declining support from the North for international organizations in which the Third World had a strong voice, and a more central role for institutions where economic strength counted. This was the end of global mercantilism.

8. Neo-mercantilism and 'the new regionalism'

Neomercantilism transcends the nation-state logic in arguing for a segmented world system, consisting of self-sufficient blocs. There is a qualitative difference between this new form of protectionism and the traditional mercantilist concern with state-building and national power, i.e. the pursuit of stateness. As was pointed out above neomercantilism is a transnational phenomenon. Its spokesmen do not believe in the viability of closed national economies in the present stage of the development of the world economy. On the other hand they do not believe in the viability of an unregulated world economy either. Nor do they—in contrast with the Trilateralists—put much faith in the possibility of managing such a world economy. Rather the neomercantilists believe in the regionalisation of the world into more or less self-sufficient blocs where political stability and social welfare are major concerns. Ultimately, this will lead to region-states replacing nation-states.

This is the 'benign' view of mercantilism contrasted to a 'malevolent' view by Buzan (1984, p. 608) as follows:

The benign view sees a mercantilist system of large, inward-looking blocs, where protectionism is predominantly motivated by considerations of domestic welfare and internal political stability.

³This was early recognized by unsympathetic observers, for example Wall Street Journal (17 July 1975): In truth, this new cold war is not really about economics at all, but about politics. What the Third World is saying is not that it needs our help but that their poverty is the fault of our capitalism.

Such a system potentially avoids many of the organizational problems of trying to run a global or quasi-global liberal economy in the absence of political institutions on a similar scale. The malevolent view sees a rerun of the mercantilist dynamic of the past, in which protectionism is motivated primarily by considerations of state power.

Thus the 'benign view' is essentially the same as what I here call The New Regionalism. It must be emphasized that even this 'neomercantilist' vision faces serious problems of acceptance, due to the strong historical association of mercantilist thinking with extremist nationalism, and because of its periodical revivals (in the terms of protectionism) in connection with economic crises. The conventional wisdom even blames protectionism for the economic crises. This 'guilt by association' argument can be rejected, since no real efforts have in fact been done to construct a world order on the basis of neo-mercantilist ideas.

On the other hand, such options will appear only in periods of 'structural openings'. Karl Polanyi, the critic of the market utopia, spoke of the 'hazards of planetary interdependence' associated with free trade (Polanyi, 1957, p. 181). This skeptical view corresponds to the one taken by contemporary neomercantilists who conceive a market system as basically a political, and therefore fragile, arrangement. The postwar world economy is seen as a historic compromise between international economic laissez-faire and a certain level of domestic control.

This Keynesian approach was gradually abandoned during the crisis of the 1970s, and in the subsequent decade purist liberal principles were becoming increasingly dominant, a trend that culminated when the socialist world began to disintegrate towards the end of the decade. The conclusion of the Cold War led to a hegemonic position for the market, which would indicate that the stage is set for the second phase of Polanyi's famous double movement, i.e. when the self-protection of society is activated.

From this neomercantilist point of view, the future of interdependence should by no means be taken for granted. Free trade necessitates an appropriate international political regime, and

it is far from clear what this political regime will be in a post-Cold War world.

This leads up to the argument for a regionalised world system as the form that today's protectionism could take. It is qualitatively different from the classical Listian argument in favour of a coherent national economy. John Maynard Keynes essentially repeated this argument when he in a now classical article written before the war somewhat unexpectedly questioned the value of free trade (Keynes, 1933). The reason for this rethinking was his concern for peace, and he saw a certain degree of national self-sufficiency as a precondition for international political stability. Keynes denounced what he called the 'decadent international capitalism' of his time. His discussion of what today is called Self-Reliance focused upon the options of the single state and this—as the 'neo-Keynesians' have found out—is the limitation in the interdependent world economy of today. One should add, however, that Britain, at that time still in possession of an empire, was a rather atypical nation. It was more like a region-state.

A decade later, when international peace had been fundamentally disturbed, Karl Polanyi developed a regionalist scenario, posed against what he at the time feared was going to be a new fruitless attempt to reshape the liberal hegemonic world order or 'universal capitalism', this time under the leadership of the USA. This was written with the hindsight of the Second World War, but it is nevertheless interesting to compare with Keynes' argument. Both were concerned with the crucial question in International Political Economy: what kind of international economic structure and pattern of development was most conducive to peace and long term stability. Both warned against an unregulated liberal world order, but while Keynes emphasized the need for national self-sufficiency, Polanyi saw the solution to the world order problem in the end of universalism and in an emerging pattern of regionalism (Polanyi, 1945). The 'regions' explicitly discussed were the British Commonwealth and the Soviet Union, which illustrates the importance of finding a viable region.

Polanyi underestimated the hegemonic ambitions of the United States, calling it "an attempt doomed to failure", and overestimated the viability of the Commonwealth. The Commonwealth was left to

disintegrate, and instead Britain joined the US in creating the Atlantic Project, which provided the framework for the postwar period. The Soviet Union did not become a 'region-state', but a centralized nation-state project bound to fail, partly because of the external pressure which formed part of the Cold War order. Today, the CIS is making another attempt under enormous difficulties.

The postwar hegemonic world order is now in a process of transformation towards some kind of 'post-post war', 'post-hegemonic', or 'post-Cold War' world order. Hence the concept of region again assumes a new importance as a possible mode of organizing the world. There are varieties on the regionalist theme. The most discussed scenario is the three competing megamarkets: North America (dollar), the Pacific (yen) and Europe (ECU or deutschmark?). They are not regions in the multidimensional sense, but simply as trading blocs united through a common trade policy. The US, of course, is a political unit, but the link to Canada is based on a free trade agreement only, and Mexico is moving into this complex primarily as a desperate move to get out of its own economic mess. The Pacific lacks regional self-consciousness and can hardly be seen as a region in the more comprehensive sense of the term. Japan is still looked upon with great suspicion by most countries in the area. There are many unresolved conflicts and numerous trouble spots which may initiate regional arms races. Europe has until recently been politically—and consequently also economically—divided, and is only now groping for a new security-cum-economic order.

Thus the three megamarkets show different levels of regional integration and display varying degrees of interests in a distinct regionalist in contradistinction to an interdependence option. The countries in the Pacific are on the whole in favour of the latter. The world system logic is, however, pointing towards further regionalisation.

A regionalised world is not inherently peaceful, even if some dangers which are specific to the present world order would be eliminated. Just consider the scenario in Orwell's '1984', with three regions in different combinations continuously at war. It is, however, the nature of the regional subsystems in terms of their

internal organization which will determine the interregional relations.

9. Experiences of regionalism from below

A political transformation of dormant world regions into active subjects with more symmetric forms of interaction implies substantial change within the regions. A question which therefore must be addressed here is the meaning of 'world region'.

There are different ways of conceiving a world region (as distinct from a subnational region) in the more empirical sense. They can be ordered in terms of complexity:

- The first level of complexity is the simple geographical concept of region, delimited by natural barriers like mountains, deserts, oceans, etc.—'Europe from the Atlantic to Ural', 'Africa south of Sahara', the Indian subcontinent, the Caribbean basin etc. This concept of region is devoid of social content.
- Secondly, 'region' may connote a group of countries which have entered some kind of cooperative organization, economic, military or political—ASEAN, CACM, ECOWAS, SADCC, SAARC, CARICOM, etc. In this case the region is defined by the membership of the regional organization. This organizational aspect is important since it signifies a step towards multilateralism in a regional context.
- The third level of complexity is to see the region as a historical formation with a distinct economic, cultural and political quality, expressed in a regional consciousness as well as a regional power structure. The region in this perspective is a dynamic concept—regions are evolving and shaped by specific historical, including geopolitical, experiences.

The New Regionalism may be conceived as an 'extended nationalism' (Seers, 1983). It is spontaneous and from below. It could be compared to traditional nation building, with the difference that the coercive political/administrative centre is lacking. Rather its emergence is related both to new opportunity structures and to imperatives in the international political economy. The new imperatives include ecological concerns.

The regionalisation process evolves by its own internal logic, unevenly in different regions. Far in advance is Europe, where the trend now is toward a regional state, albeit with a rather unknown political orientation. There are several competing 'social projects', some with an inward-looking bias, others with the clear intention of reestablishing European hegemony. Linked to this is the increasingly controversial issue of deepening vs enlarging the Community. The ongoing Yugoslavian conflict represents the real test for a regional order: the capacity of internal conflict resolution. Other regions may want, or become forced, to follow the European example of internalizing the sources of growth and make use of a 'domestic' regional market, although there may be a long step to security cooperation. A brief survey shows a very uneven picture:

- Latin America has traditionally been characterized by its 'open veins'. Import substitution in the 50s and 60s was generally carried out as a national strategy in spite of futile efforts to create a regional framework for industrialization. A new inward orientation, this time on the regional level, in combination with a diversification of dependence, is an alternative to a 'Fortress America' with a subordinate Latin-American role. However, different Latin American states will probably chose different routes. Mexico and Central America/Caribbean are becoming 'North Americanized' while the Cone is developing a Latin alternative. The possibilities for a regional peace order are, nevertheless, relatively good.
- The most inward-looking world region is South Asia, where geopolitical changes at present increase the leverage of India, which leads to an intensification of the conflict with Pakistan and suspicions among the smaller countries. The regional great power has in this case traditionally emphasized self-reliance, while the small countries for the same security reasons encourage external links. However, there is also a potential homogenization, also reflecting the shared indic civilization. The elimination of the traumatic Indo-Pakistan conflict makes all the difference as far as further regionalisation is concerned.
- In Southeast Asia, ASEAN has, because of the strong export-orientation of the individual countries, a high stake in free trade, multilateralism, and interdependence. However, the new situation

in the world economy makes it necessary to develop regional complementarities and also to expand the organization to cover the whole region. The resolution of the Cambodian conflict is here crucial.

- In the East Asian region, the NICs have a similar strong commitment to multilateralism. The Pacific 'region' is in fact becoming a centre for a new pattern of global interdependence, whereas the regional identity, i.e. the new regionalism, is rather weak. The main reason is the aloofness of the major power, and the suspicions its expansion creates within the region. Here the established interests in 'interdependence' are the strongest.
- The Middle East has, in spite of numerous subnational identities, a certain regional identity, but is probably too much a part of the world economy to be left to itself. More economic differentiation within the region and less Western dependence on oil are thus necessary prerequisites for Middle East regionalism which, anyhow, is bound to emerge in different manifestations. Democratization would be a factor contributing to the elimination of cynical power politics and struggles among the (more than one) despots. Of major importance is, of course, the resolution of the Palestine problem.
- Africa is special, since there is so little to integrate. Rather, the issue is to initiate a process of regionally integrated development. Judging from the recent OAU meeting this is now widely recognized. Democratization is on the agenda. The political climate today does not favour 'petty despotism', of which there has been too much since the decline of the first generation of highly visionary but too impatient leaders, victims of the Western concept of quick modernization. Thus, in spite of the pathetic state of Africa today, there are reasons for some optimism in the longer run.

10. Conclusions

What conclusions can be drawn from a comparative overview of regionalization throughout the world regarding the dynamics of the process? First of all, there are three major levels of change, making the dynamics exceedingly intricate: the structure of the world system, the interregional relations, and the process of

transformation within each region. It is not possible to state which of these levels comes first or which is most important, since changes on the three levels interact, and the relative importance of them differs from one region to another.

Second, the process itself is multidimensional. The security system influences the economic relations between the political units and vice versa, although it may be said that the impact of economic changes on the security system is of a more long run nature. The political change within the constituent units also has a combined effect on the overall change of the region. To this should be added the cultural dimension which should be seen as a key factor in the development of a regional civil society.

Third, the actual process is triggered by events whose significance can be understood only in retrospect. One such type of events which now seem to be turning up regularly is the security crises caused by the disintegration of states, what we can call the 'black hole syndrome': Yugoslavia in Europe, Sri Lanka in South Asia, Liberia in West Africa, Cambodia in larger South East Asia, Nagorno-Karabach in the CIS. The outcome is by no means uniform in these cases. Rather it would be correct to say that incidents of national disintegration can make or break regional organizations. Although the preconditions for 'extended nationalism' thus differ substantially between regions, this 'neomercantilist' scenario of 'constructive fragmentation' may be the best 'new world order' the world can hope for. Many probably feel uneasy about this concept. Mercantilism is the ideological expression of the nation-state logic, operating on the economic arena and violating the liberal principle that free trade in the long run is for the benefit of all. Neomercantilism retains the same suspicion which the old mercantilists harboured against free trade. It transcends the nation-state logic in arguing for a segmented world system, consisting of self-sufficient blocs large enough to provide 'domestic' markets and make use of economies of scale and specialization in production, on the one hand, without falling prey to the anarchy of the world market, on the other.

Such a regionalised world system would probably be more stable and peaceful than a liberal world order, which historically has revealed an inherent tendency towards collapse. The regions in a

regionalized world system should be large enough to have a reasonable degree of economic efficiency, in accordance with the principles of comparative costs, economies of scale and other conventional economic efficiency arguments. On the other hand perversions generated by excessive specialization and an overly elaborated and therefore vulnerable division of labour could be avoided. Interregional trade will of course continue to take place, but subordinated to the 'territorial' principle of the New Regionalism, rather than the 'functional' principle of the world market.

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