

## The new industrial policy race and the changing global political economy

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Activist industrial policies are now growing in popularity in countries across the world. Demonized in the neoliberal era, these policies have suddenly become intellectually respectable in both scholarly and policymaking circles. This trend is even evident in places that used to be lead champions of free market policies, such as the IMF, which published a 2019 staff paper analyzing the merits of what its authors cheekily called “The Return of the Policy That Shall Not be Named”.<sup>1</sup>

An important cause of this intellectual transformation has been the rapid pace of technological change, including the green tech and digital revolutions that are the subject of this workshop. The application of industrial policies to the green tech and digital sectors specifically has, of course, also been driven by the severity of climate change and the new geopolitical and economic centrality of the digital sector to modern societies. However, the pace of technological change, climate change and new importance of digital sector, on their own, would not have generated the sudden degree of interest in industrial policy that exists today. It is their coincidence with several other trends in the global political economy that have driven the new “industrial policy race.”

What are those other trends? One has been the domestic backlash to free trade in the United States and its growing bipartisan influence within American politics since the 2010s. This backlash helped generate the more neomercantilist trade policies of the Trump and Biden administrations that have included activist industrial policy goals. Those policies, in turn, raised questions elsewhere about the future of the multilateral trading order, questions that encouraged greater consideration of neomercantilist alternatives to free trade in other major powers. As one EU diplomat put it in 2019, “we are seeing that the world is becoming more and more protectionist, and we must be prepared”.<sup>2</sup>

Closely intertwined, is the intensification of US-Chinese economic and geopolitical rivalry in this same period. This concurrent trend has fractured the more cooperative “Chimerica” structure that had characterized the US-China relationship since the latter’s entry into the WTO in 2001.<sup>3</sup> The “Chimerica” structure had served as a key political foundation for the integrated global economy in the subsequent decade and half. Its fracturing, and the growing “weaponization” of US-Chinese economic relations on both sides, has further undermined confidence in strength of the liberal, market-and rule-based multilateral trading order.

Reinforcing the disruptive impact of these two trends was the global pandemic, beginning in early 2020. In its initial stages, this health crisis severely disrupted global supply chains and highlighted countries’ economic vulnerabilities to unreliable global markets and the decisions of foreign governments. Reacting to that experience, policymakers everywhere gained one more reason to be wary of unmanaged economic interdependence. They increasingly prioritized the

active cultivation of national economic “resilience” instead of the more efficiency-oriented goals of the neoliberal era.

Soon after, one more crisis arrived with the Russian invasion of Ukraine in early 2022 and the widespread economic sanctions imposed in response. The invasion ushered in what the IMF’s managing director Kristalina Georgieva called “massive disruptions of financial, food, and energy flows across the globe.”<sup>4</sup> These disruptions only further reinforced many policymakers’ distrusts of unfettered economic interdependence. Indeed, in November 2022, the IMF’s first deputy managing director, Gita Gopinath, observed that restrictions on trade in food, energy, and other important commodities had been introduced by more than thirty nations since the start of the war.<sup>5</sup>

Each of these developments has helped to foster the new interest in activist industrial policies throughout countries around the world. These policies are designed not just to gain competitive advantage in the fast-moving digital and green tech revolutions, and/or to address climate change and the new importance of the digital sector to modern life. They are also aimed at reducing national economic and geopolitical vulnerabilities in an increasingly uncertain and unpredictable global political economy. In a context where multilateral economic rules are being undermined, global markets are unstable, and interdependence is being weaponized, policymakers everywhere have become more interested in cultivating greater national self-reliance and managed trade through activist policies.

These motivations for industrial policy echo those in the past. As I have shown elsewhere, neomercantilist industrial policies also gained popularity in earlier eras when states were experiencing heightened economic and/or geopolitical vulnerabilities of various kinds. These kinds of circumstances not only prompted policy innovations, but also helped to generate classic texts of political economy that justified this kind of government economic activism, including those of well-known figures such as Alexander Hamilton and Friedrich List.<sup>6</sup> Unsurprisingly, the ideas of these earlier thinkers are now regaining popularity in scholarly circles and are even cited in prominent policymaking documents.<sup>7</sup>

In another way, the past is prelude. In earlier eras, the implementation of neomercantilist policies often prompted other states to embrace them for defensive reasons. Indeed, one of the rationales for these policies, offered by both Hamilton and List, was the fact that foreign governments were already using them in ways that disadvantaged local sectors.<sup>8</sup> The same dynamic is unfolding today. Not only do the neomercantilist behavior of Chinese and American policymakers reinforce each other, their actions are prompting others to follow suit. The most dramatic recent example has been the foreign response to the 2022 US Inflation Reduction Act, whose green tech subsidies and tax credits are increasingly being emulated by other governments.

For all these reasons, the growing use of industrial policies is a trend that will not be reversed any time soon. In other words, we are likely to living for the time being in a new kind of “neomercantilist moment” in the global political economy. It is important to note, however, that this new global structural context is not a homogenizing one. There are many distinct “varieties of neomercantilism” emerging in jurisdictions across the world, reflecting the distinct political economies in each place. The same was also true in previous global neomercantilist moments. Indeed, diverse legacies, including intellectual ones, of earlier distinctive national neomercantilist policies are helping to shape their counterparts in the contemporary age.<sup>9</sup>

What is the systemic impact of these policies for the future of global economic governance? Many analysts are worried that a neomercantilist world will be one in which multilateral economic cooperation unravels. Indeed, there are many signs already emerging to justify those concerns. The historical record also provides many examples of how neomercantilist ideas encouraged a focus on the boosting of state wealth and power through trade wars and other unilateral, aggressive policies.<sup>10</sup>

But it is also worth noting that some prominent neomercantilist thinkers in the past were advocates of strengthened multilateral cooperation. In 1837, for example, List advanced one of the first-ever proposals for a “world trade congress” to foster multilateral economic cooperation. In his words, the usefulness of this “somewhat daring suggestion” was that such a congress could “consider how the common interests of the various nations can best be served and how opposing interests could be reconciled”.<sup>11</sup> In the early decades of the twentieth century, other neomercantilist thinkers advanced creative ideas about new kinds of multilateral economic cooperation in other areas such as international development.<sup>12</sup> As the new industrial policy race accelerates, the time is ripe for a new generation of thinkers to propose updated forms of multilateral economic cooperation to fit the new global context in which we find ourselves.

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#### References

<sup>1</sup> Reda Cherif and Fuad Hasonov, *The Return of the Policy That Shall Not be Named: Principles of Industrial Policy*, IMF Working Paper WP/19/74 (Washington IMF, 2019).

<sup>2</sup> Quoted in Jakob Hanke, “EU Builds Anti-Trump Trade Bazooka” *Politico*, October 10, 2019, <https://www.politico.eu/article/eu-builds-anti-trump-trade-bazooka/>. Accessed June 14, 2023.

<sup>3</sup> The term “Chimerica” was popularized in Niall Ferguson, *The Ascent of Money* (London: Allen Lane, 2008), ch.6.

<sup>4</sup> Kristalina Georgieva, *Confronting Fragmentation Where It Matters Most: Trade, Debt, and Climate Action*. IMF Blog, January 16, 2023. Accessed June 14, 2023 at: <https://www.imf.org/en/Blogs/Articles/2023/01/16/Confronting-fragmentation-where-it-matters-most-trade-debt-and-climate-action>

<sup>5</sup> Andrea Shalal, “IMF sees rising economic fragmentation risk, urges policymakers fight inflation” *Reuters*, November 10, 2022 . <https://www.reuters.com/markets/imfs-georgieva-biggest-challenge-central-bankers-is-inflation-2022-11-10/>

<sup>6</sup> Eric Helleiner, *The Neomercantilists: A Global Intellectual History* (Ithaca: Cornell University Press, 2021).

<sup>7</sup> See for example the quoting of Hamilton in United States Department of Defense’s 2018 publication, *Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States*, p.7; <https://media.defense.gov/2018/Oct/05/2002048904/-1/-1/1/ASSESSING-AND-STRENGTHENING-THE-MANUFACTURING-AND%20DEFENSE-INDUSTRIAL-BASE-AND-SUPPLY-CHAIN-RESILIENCY.PDF>. Accessed June 14, 2023.

<sup>8</sup> Helleiner, *The Neomercantilists*, p.39, 58.

<sup>9</sup> Helleiner, *The Neomercantilists*, introduction and conclusion.

<sup>10</sup> Helleiner, *The Neomercantilists*.

<sup>11</sup> Friedrich List, *The Natural System of Political Economy*, translated and edited by W.O.Henderson (London: Routledge, [1837]1983). 126-7.

<sup>12</sup> Eric Helleiner, “The Revival of Neomercantilism” *Phenomenal World*, April 27, 2023. Accessed on June 14, 2023 at <https://www.phenomenalworld.org/analysis/neomercantilism/>