

the balance of power. While international obligations and liberal (or international society) constructs impact the nation state the realist response and the maintenance of state survival is the first response of states to external and domestic stimuli. Liberal market forces are therefore managed and adapted by the frameworks of various competitive state entities.

For realists in the pursuit to accrete military and political power liberal market forces must be managed. Realist use of military power is predicated upon a selectively liberal and strong economic base. In PPP terms the countries with the largest GDP ranking also possess the world's most powerful military forces in terms of men and technological assets as well as potential international power projection. Such policies inform the Anglo-Saxon nations to a greater extent than the more statist regimes found in the EU and Canada, which do not believe in military power projection but international dialogue to defuse disputes. Though on paper the statist nations may have imposing militaries, they are unable to project international power to the degree that the USA and UK can due to deficits in technology, logistics and information.

**FIGURE 2: SYMMETRY BETWEEN POWERFUL ECONOMIES AND MILITARY PROJECTION<sup>71</sup>**

GDP in US \$			GDP using Purchase Power Parity and Military Ranking				
Rank In GDP	State	GDP US\$Billion In 000's	Rank GDP using PPP	State	PPP[a], GDP US\$Billion In 000's	Military Forces - 000's	Rank in World
1	United States	9152	1	United States	8878	1372	2
2	Japan	4347	2	China	4452	2820	1
3	Germany	2112	3	Japan	3186	236	24
4	UK	1433	4	India	2226	1173	3
5	France	1442	5	Germany	1930	333	16
6	Italy	1171	6	France	1349	317	18
7	China	990	7	UK	1322	212	27
8	Brazil	752	8	Italy	1268	266	23
9	Canada	635	9	Brazil	1163	291	22
10	Spain	596	10	Russia	1022	1004	5

[a = Purchase Power Parity based on IMF and World Bank calculations 2002-2003]

## WEAKNESSES OF REALISM

For some realists the nationalization of industry and the establishment of economic self-sufficiency are equated with political autonomy and as such liberal economic measures are eschewed. Some more 'extreme' realists feel that the less exposed a domestic economy is to world trade fluctuations the better. In this view the control of industry by the state is important since it is the basis of military power and national security.<sup>72</sup> However within this doctrine we encounter three problems:

1. Protectionism does not guarantee economic strength;
2. It does not provide a model to understand changing domestic or international interests;
3. Such a model ignores the moral, political and institutional power of non-state actors and international organisations both governmental and non-governmental. Soft power while no replacement for hard power, may affect international cooperation and relations.

First, the pursuit of power through wealth accumulation means in realist theory the accretion of state control over economic resources. This means using protectionist devices to insulate domestic industry from foreign competition. Political control of national resources is deemed to be a prime function of government leading to widespread economic intervention, subsidies, regulation, taxation and enforced redistribution. Mercantilists believe that industry has spill over effects within the domestic economy, which will lead to development of economic strength. Especially important is the national control and development of key industrial segments and technologies which can directly accrete national power and prestige. The establishment of domestically owned and operated industrial firms is deemed to be of vital national economic and security interest.

However these policies do not necessarily lead to the development of a viable industrial structure. Many analysts and economists have

empirically proven that when implemented protectionism has actually retarded the development of an efficient industrial base.<sup>73</sup> The consequences of protecting industry through either high external tariffs, direct subsidies or both, is to redistribute income from consumers to suppliers. The state creates economic rents or taxes on society that benefit suppliers.<sup>74</sup> In such an environment protected businesses can be inefficient and uncompetitive but still survive due to the direct tax levied on consumers. Such a policy does not guarantee that a business will be efficiently run or managed to produce profits and return to society a proper return on investment, which covers the costs of direct or indirect subsidisation.<sup>75</sup> In effect economic nationalism sacrifices the welfare of the state for particular interest groups and ignores the location of capital to productive industries and enterprises. It also harms poorer nations.

Though nefarious, mercantilism is still very much a preferred trade policy in the modern IPE. If such economic policies are combined with a pursuit of power, prestige and high international ranking through military investments and the creation of industrial champions the national economy will come under extreme strain. Such investments are an indirect displacement of market allocated capital as private capital is replaced with government investment. If a state ignores real wealth creation by suppressing or obstructing productivity increases in industry and the efficient allocation of capital to wealth generating enterprises it will actually experience a loss of wealth.

In this regard the development of industries without regard to market considerations and comparative advantage will weaken a society economically.<sup>76</sup> It certainly hits taxpayers and consumers hard, who must fund the assortment of privileged subsidies and tariff barriers as the domestic economy rigidifies. Liberal economics and free exchange of goods and services implicitly do not discriminate against certain societal groups and do result in lowered cost and tax structures. For mercantilists however, this is not the point. The point is the accretion of resource control and industrial capacity. Tariffs and discrimination are seen as valid tools.<sup>77</sup> What is at issue is the maintenance of a nation's relative