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The Economic Cost of Nationalism

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Nationalism has re-emerged as a defining force in global affairs, influencing economic decisions and international relations at an unprecedented scale. In this expanded INFER Brief, we delve into the comprehensive research of Tao and Saadaoui (2025), exploring how nationalism's resurgence is shaping economies, altering environmental outcomes, and challenging established paradigms of global cooperation. Building on their study of 193 countries between 1979 and 2013, we expand the discussion with historical context, detailed mechanisms, real-world case studies, and practical recommendations for a sustainable and inclusive future.

Introduction

While nationalism has been a recurring theme in modern history, its current resurgence stands out for its global reach and multifaceted impacts. The contemporary wave of nationalism is not confined to any single region or political ideology; instead, it has taken root in both advanced and developing economies, democracies and authoritarian states alike.

- **Historical Roots:** Nationalism's origins trace back to the 18th and 19th centuries, when emerging nation-states sought unity and independence from imperial rule. Over time, nationalism has been both a driver of

liberation and, at times, a catalyst for exclusionary or protectionist policies.

- **The Modern Revival:** In the past decade, several factors have contributed to the renewed emphasis on national sovereignty and self-reliance, as countries respond to external shocks and internal anxieties.

Forces Fueling Today's Nationalism

- **Economic Dislocation:** The fallout from the 2008 global financial crisis revealed vulnerabilities in interconnected financial systems, leading to widespread distrust of international markets. Subsequent events, notably the COVID-19 pandemic, further

exposed the risks of global supply chains. These crises have prompted demands for reshoring industries, protecting local jobs, and reducing dependency on foreign partners.

- **Technological Disruption:** Advances in automation, artificial intelligence, and digitization have transformed labor markets. While these shifts offer new opportunities, they have also led to job displacement, wage stagnation, and heightened inequality—frequently blamed on globalization rather than automation itself.
- **Political Realignment:** The rise of populist and anti-globalist parties in countries such as the United States, United Kingdom, Italy, and Brazil reflects deeper anxieties about immigration, economic insecurity, and erosion of national identity. These movements often use nationalist rhetoric to galvanize support, promising to “take back control” or “put the nation first.”
- **Geopolitical Rivalries:** Strategic competition between major powers—most notably the United States and China—has rekindled protectionist tendencies. Trade conflicts, investment restrictions, and technological decoupling are now common features of the international landscape.

Nationalism’s revival has materialized in tangible policy actions: tariffs and trade barriers, border controls, withdrawal from multinational agreements, and support for domestic industries at the expense of international competitors. Such measures, while politically appealing, carry significant economic and environmental consequences.

The resurgence of nationalism is far more than a political trend; it is a force with profound implications for global prosperity, environmental sustainability, and the international order.

- **Threat to Global Growth:** Decades of economic research have demonstrated the benefits of globalization: increased trade, technological diffusion, productivity growth, and poverty reduction. Nationalist policies threaten to reverse these gains, resulting in slower innovation, diminished competitiveness, and reduced job creation.
- **Climate Change at a Crossroads:** Addressing climate change requires coordinated global action. Nationalist retrenchment not only fragments international consensus but also reduces the ability to share green technologies, mobilize climate finance, and enforce environmental standards.
- **Exacerbation of Global Inequality:** Developing economies, which have leveraged open markets and foreign investment to advance industrialization and reduce poverty, are disproportionately harmed by restricted trade and investment flows.

Data and Method in Brief

Tao and Saadaoui’s empirical analysis stands out for its innovative use of the Global Database of Events, Language, and Tone (GDELT)—a vast repository of international news and event records. By systematically coding verbal conflict events and nationalist rhetoric across nearly every country and year from 1979 to 2013, the study offers rare insights into the intensity and consequences of nationalism over time.

Key Evidence

- **Economic Growth Penalty:** The research reveals that nations with high levels of nationalist rhetoric experienced, on average, a 12% lower increase in GDP growth over a 35-year period compared to countries more open to global integration. This effect was observed across both advanced and emerging markets and is robust to a range of controls.
- **Short-Term Environmental Relief:** Nationalist policies tend to slow industrial production, trade, and resource extraction, leading to a temporary reduction in carbon emissions—primarily in lower- and middle-income economies with heavy manufacturing sectors.
- **Diminishing Environmental Gains:** In wealthier nations with diversified economies and advanced clean technologies, the marginal environmental benefit of nationalist slowdowns was limited. The reduction in emissions is largely a byproduct of economic contraction rather than a deliberate climate policy.
- **Global Impact:** The negative economic consequences of nationalism are not isolated. Both advanced and developing economies see slower growth, while the environmental “dividend” is short-lived and concentrated in particular sectors.

Effect	Nationalist Economies	Globalist Economies
GDP Growth (1979–2013)	12% lower	Baseline
CO ₂ Emissions Change	Short-term decrease (esp. emerging markets)	No short-term reduction

Economic Mechanisms

Nationalist economic strategies are typically characterized by:

- **Tariffs and Trade Barriers:** Protective tariffs and quotas are designed to shield domestic producers from foreign competition. While this may protect a subset of jobs in the short term, it often leads to higher prices for consumers, reduced export markets for local businesses, and retaliatory measures from trade partners.
- **Capital Controls and Foreign Investment Restrictions:** By limiting foreign direct investment and capital flows, nationalist policies can stifle innovation, reduce access to technology, and undermine long-term economic growth.
- **“Buy Local” Mandates:** Preferences for domestic goods or suppliers can distort markets, reduce efficiency, and stifle competition.

Over time, these policies result in lower economic dynamism, fewer job opportunities, and slower wage growth. Economies that close themselves off risk falling behind more open, innovative peers.

Environmental Mechanisms

The environmental effects of nationalism are complex:

- **Reduced Economic Activity:** When trade and industrial production slow, so do emissions—particularly in countries reliant on coal, oil, and heavy industry.
- **Missed Opportunities for Green Growth:** Nationalist retrenchment can impede the cross-border diffusion of clean technologies, hinder climate finance, and fragment environmental governance.

The decline in emissions is largely an unintended consequence of the economic slowdown. Without deliberate environmental policy, these gains are unsustainable, and global climate goals remain out of reach.

Case Study 1: United States and the Era of “America First”

In recent years, the United States has implemented a suite of nationalist policies under the banner of “America First.” These include withdrawal from the Trans-Pacific Partnership (TPP), renegotiation of NAFTA (now USMCA), the imposition of tariffs on Chinese goods, and efforts to restrict immigration and foreign investment.

Impact:

- Short-term support for certain domestic industries (e.g., steel, aluminum) but higher costs for manufacturers and consumers.
- Retaliatory tariffs that hurt American exporters, particularly in agriculture and technology.
- No sustained reduction in carbon emissions, as economic activity shifted rather than declined.

Case Study 2: United Kingdom and Brexit

The United Kingdom’s departure from the European Union exemplifies the nationalist turn in advanced economies. Brexit was driven by a desire to “regain sovereignty” over trade, borders, and immigration.

Impact:

- Disruption to trade flows and investment, with some sectors (e.g., finance, automotive) experiencing significant uncertainty.
- Short-term supply chain disruptions and labor shortages in key industries.
- Questionable environmental outcomes, such as regulatory divergence from the EU could weaken standards.

Case Study 3: India’s Economic Nationalism

India has recently adopted policies intended to boost domestic manufacturing and reduce reliance on imports (“Make in India”). These include tariff increases, local content requirements, and restrictions on Chinese technology firms.

Impact:

- Growth in some local industries but challenges for exporters and higher input costs.
- Potential risks to environmental progress, as domestic coal and resource extraction are prioritized.

Globalism, Green Nationalism, and Hybrid Approaches

Given the evidence, a return to unbridled globalization is unlikely—and perhaps undesirable if it ignores social, environmental, and security concerns. Instead, a new hybrid approach is needed, one that balances national interests with the benefits of international cooperation.

- Return to Globalism: Dismantle barriers, restore trust in multilateral organizations, and reinvigorate international agreements to unlock the gains of open markets and shared innovation.
- Hybrid Approach (Recommended): Integrate global economic participation with robust environmental and social safeguards. This might include conditional trade agreements, joint investments in clean technology, and coordinated efforts on tax and labor standards.

References

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