Flash Economics

N° 27
March 10th, 2026

Why are countries reverting to a mercantilist strategy?

Mercantilism is an economic theory that:

- bases wealth on the presence of trade surpluses;
- employs protectionism, export promotion, and industrial policy to achieve trade surpluses;
- assumes the economy is a zero-sum game: what one country gains, another loses.

Today, we see that the United States and China are adopting a mercantilist strategy: use of tariffs (United States), protectionism (United States and China), undervalued currency and development of all export industries (China), efforts to attract industrial investment (United States), with the aim of achieving a large trade surplus (China) or eliminating the trade deficit (United States).

Why this return to mercantilism?

- In China, demographic aging and the inherent weakness of domestic demand likely play an important role;
- In the United States, the gains from trade (increased household purchasing power) are likely perceived as smaller than the losses (skilled jobs, income) resulting from deindustrialization.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The United States and China are currently adopting a mercantilist strategy.

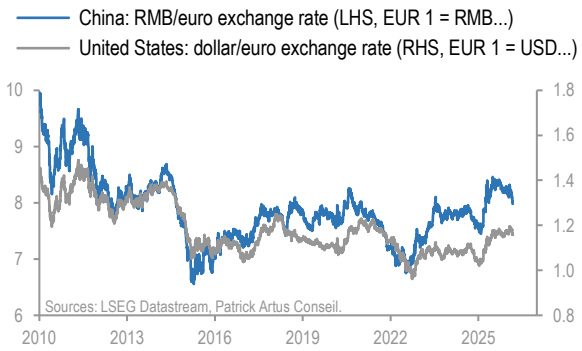
Mercantilism is a theory that:

- bases wealth on the presence of **trade surpluses** (in the era of gold payments, trade surpluses allowed the accumulation of gold reserves, perceived as the true enrichment of the state);
- uses **protectionism, promotion of industrial production, and exports** to achieve trade surpluses;
- assumes **the economy is a zero-sum game**: what one country gains, another loses. According to this theory, to become wealthier, a country must run trade surpluses and thereby impoverish other countries.

Today, we see that **the United States and China are pursuing a mercantilist strategy** through:

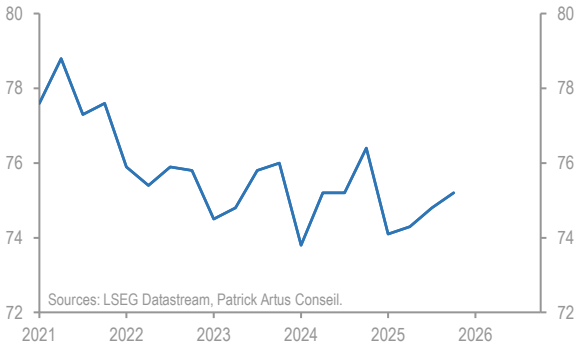
- **the use of tariffs** to discourage imports;
- **protectionism** and the assertion of national preference;
- **efforts to undervalue their currency**, which is assumed to support exports and discourage imports (**Chart 1**);

Chart 1
Euro exchange rate against US dollar and RMB



- efforts to **attract industrial investment** (United States), public subsidies, and acceptance of overinvestment relative to domestic demand, resulting in **underutilized production capacity** and the creation of an exportable production surplus (China, **Chart 2**);

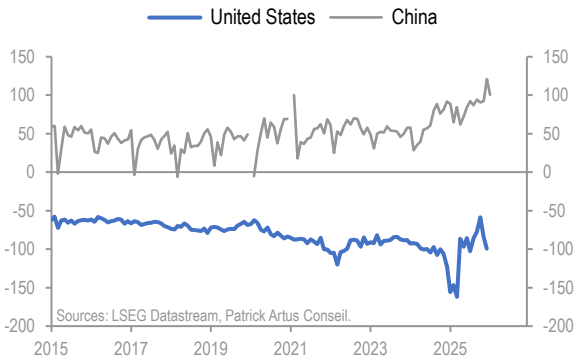
Chart 2
China: Capacity utilization for manufacturing (as %)



- efforts to secure additional orders from other countries for energy, military equipment, and aircraft (United States).

All these policies aim to **eliminate the trade deficit in goods** (United States) **or achieve a massive trade surplus** (China, **Chart 3**), which aligns closely with mercantilist doctrine.

Chart 3
Trade balance in goods (monthly, USD bn)



Why adopt a mercantilist strategy in the United States and China?

In the United States, the **gains from trade** (supporting household purchasing power through increased imports from low-wage countries, particularly China, **Chart 4**) **are likely perceived as smaller than the losses** (skilled jobs and associated income, **Chart 5**) **caused by deindustrialization** (**Chart 6**).

Chart 4
United States : Imports from China (monthly, USD bn)

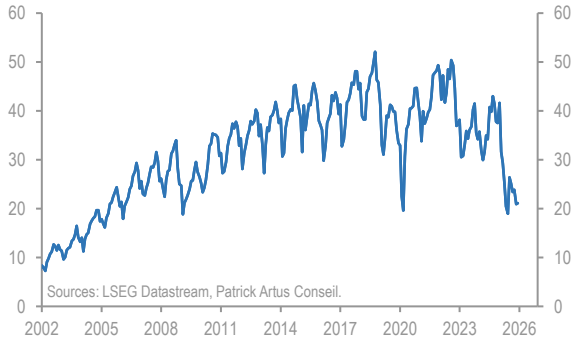


Chart 5
United States: Employment in manufacturing
(millions of persons)

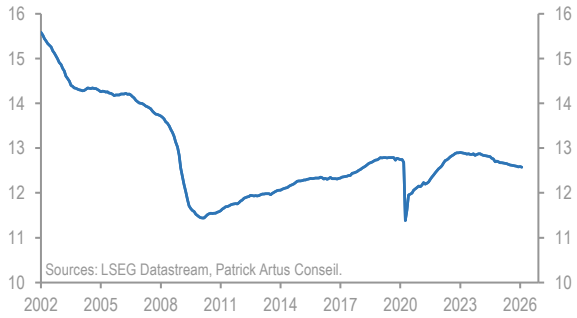
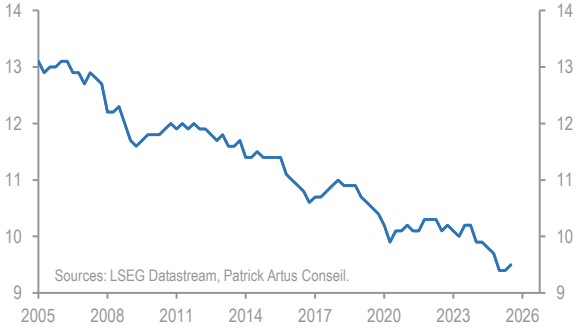


Chart 6
United States: Real value added in manufacturing
(as % of real GDP)



In China, demographic aging (**Charts 7 and 8**) weakens domestic demand, particularly household consumption (**Chart 9**), **leading to a choice of export-led growth** and, consequently, a mercantilist strategy (**Chart 10**). Investments are supported by the creation of export-oriented production capacity.

Chart 7
China: Fertility rate (biths per woman)

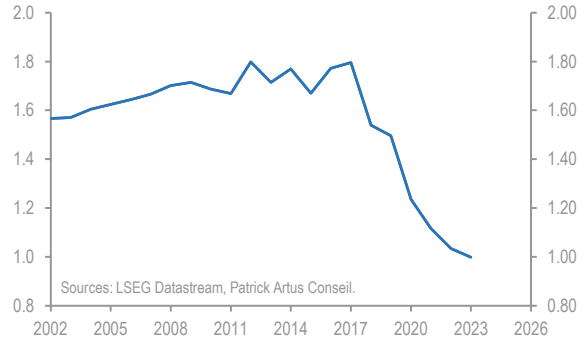


Chart 8
China: Population (in millions of inhabitants)

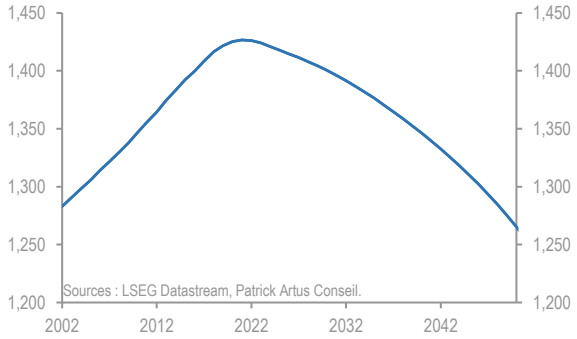


Chart 9
China : Retail sales (in value terms, Y/Y as %)

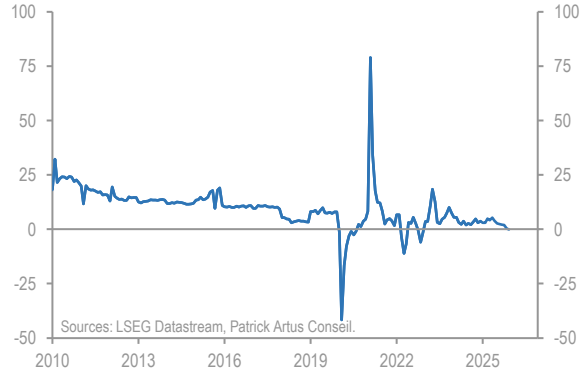
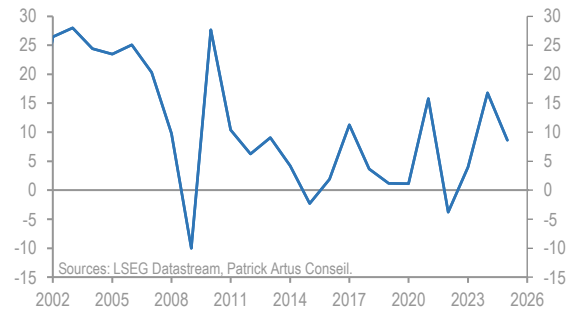


Chart 10
China : Exports of goods and services
(in volume terms, Y/Y as %)

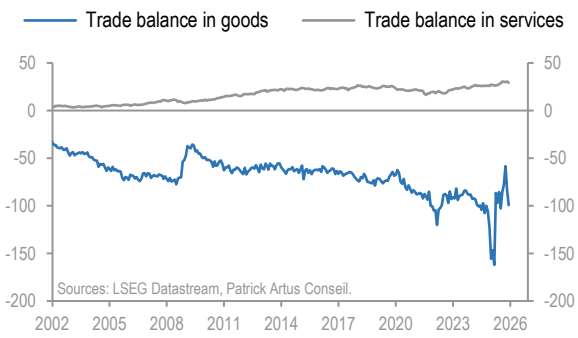


Summary: an inevitable choice for China, an unreasonable choice for the United States.

Demographic aging will strongly and persistently slow domestic demand growth in China. If the Chinese government wants to maintain growth, it can only rely on export growth, which naturally leads to a mercantilist strategy (support for investment and production, currency undervaluation, protectionism).

The United States, by contrast, could tolerate a goods trade deficit offset by a surplus in services trade (**Chart 11**), meaning it could remain in free trade to benefit from its comparative advantage in digital services production.

Chart 11
United States: Trade balance in goods and services
(monthly, USD bn)



A strong currency would not harm their service exports, where they hold a near-monopoly position, and would reduce the price of imported goods, benefiting American consumers.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.