

## Neomercantalism Theory: National Currency and IMF

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**Abstract:** Global GDP was 13 trillion dollars in 1990. Globalization concept started practicing by global economies in 1990s. GDP increased up to 60 trillion dollars in global economy in 2013, i.e., it is fourfold from 13 to 60 trillion dollars. The reason might be globalization. This study suggests applying “neomercantalism” in global economy. There are three variables in neomercantalism theory. They are open trade, open currency, and open monetary control. It is believed that application of neomercantalism will increase amount of international trade between countries. Therefore, neomercantalism may increase global GDP from 60 trillion to over 100 trillion dollars.

**Key words:** open trade, open currency; IMF; neomercantalism; international trade

**JEL codes:** A12, E13, E52, F10

### 1. Introduction

Globalization started in 1990s. International trade was amount of 13 trillion dollars before globalization starts. Amount of international trade increased 60 trillion dollars today in 2013. The reason for this increase might be globalization. Propositions of this study is that neomercantalism theory increases amount of international trade over 100 trillion dollars.

It is important because each country has 6% or 7% economic growth during the 2000s due to increase in international trade from 13 to 60 trillion dollars. Therefore, if global economies apply neomercantalism theory, recession stops, and global economy may experience 10% economic growth.

This study discusses neomercantalism theory with use of national currency in international trade.

### 2. Dimensions of Neomercantalism Theory

Neomercantalism theory contains three dimensions. They are:

- (1) open trade
- (2) open currency and
- (3) open monetary system

Open trade is to facilitate international trade between countries. Open currency is to use national currency in international trade. In neomercantalism theory IMF implements open monetary control in cash flow among countries.

It is believed that use of national currency facilitate international trade between countries.

### 3. National Currency

Neomercantalism is to use national currency in international trade. This is named as “open currency” in this study. For example, Turkey uses Lira in its bilateral trade with Iran, Iraq, Syria, Bulgaria, Romania, Ukraine, Russia and others. Vice versa Iran and others use their national currency in their bilateral trade with Turkey. It is believed that neomercantalism is appropriate for trade with neighbor countries. Further, China uses yuan in its bilateral trade with India, Japan, Korea, Thailand, Russia and others; Brazil uses real in international trade with EU and other Latin American countries and vice versa.

For example, when Turkey buys Fiat automobile from Italy, it pays with Lira; or Turkey buys natural gas or golden from Iran, it pays with Lira. Vice versa, Iran buys agri-products from Turkey, and it pays with Iran Riyals. Italy buys machines from Turkey, Italy pays the charge with Euro or Liret.

It is believed that use of national currency (open currency) facilitates open trade between countries, and it increases amount of international trade between countries. Therefore, it assumes that, application of neomercantalism theory may increase amount of international trade up to 100 trillion dollars. That means more GDP and more earnings for each country in global economy.

### 4. IMF

IMF's role is important in neomercantalism theory. Because country's central banks have various foreign currency in their cash portfolio. For example, Turkish Central Bank keeps Ruble, Euro, Riyal, Syria Lira, dollars, and other currencies. In addition, Iran and other economies possess various foreign currencies in their Central Banks.

National Central Banks have to exchange these reserves in time and IMF are to audit and regulate this exchange between national central banks.

Secondly, there will be cash flow between economies in neomercantalism. Today's global economy uses dollars in international trade as exchange currency. IMF is to audit and control cash flow among countries.

Thirdly, economies may overprint their national currency in central bank to do more bilateral trade. Because they can do more import with their national currency. Overprint of national currencies may increase inflation trade in global economies. Therefore, IMF will audit print-rate of national currency in global economy.

### 5. Conclusion

To conclude, neomercantalism is suitable for big countries such as Brazil, USA, China, Russia. Because big countries produce big amount of national products. And neighbor countries can become supplier of big country's firms. Secondly, neomercantalism is suitable for in trade between neighbor countries.

Neomercantalism consists of three variables. They are: open trade, open currency, and IMF. It is believed that neomercantalism in global trade will increase amount of total export between countries. Because countries use their currency in import and export. This is called as open currency in neomercantalism. It is expected that open currency will have a positive impacts on global export. For example, Guetemala will use its currency in bilateral trade with El Salvador, Costarica, Panama, Colombia, Barbados, Haiti, USA and others. This national currency use will increase export of and production of Guetemala. That means more GDP and more earnings for Guetemala. Therefore, this theory may be applied to other countries worldwide.

Neomercantalism aims to increase amount of global trade by open currency. Global trade was 13 trillion

dollars in 1990 (this equals to GDP of USA today). Globalization started in 1990s, and it has an impact on global trade. Global trade increased up to 60 trillion dollars today in 2013 due to globalization impacts. It is believed that neomercantalism will increase global trade over 100 trillion dollars. This is more GDP and more earnings for each country in global economy. Because neomercantalism facilitate international trade by using national currency in bilateral trade.

Finally, mercantalism theory in economic history is exist in 15th century in Silk Road. Traders were using national currency and golden in Silk Road. Neomercantalism aims to refresh mercantalism with open currency and IMF's involvement. Mercantalism has open trade and open currency to facilitate international trade between and among countries. And neomercantalism adds IMF dimensions to mercantalism in today's global economy.

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