

Modern Mercantilism

Economic Power & National Strategy in the 21st Century

The resurgence of state-driven economic policies reshaping global trade, investment, and geopolitical relations. Exploring how governments prioritize national wealth and security over free-market principles.

01

Defining Modern Mercantilism

02

Trends, Examples, &
Historical Context

03

Structural Forces
Driving Mercantilism

04

Five Pillars of
Mercantilism

05

Investment
Implications & Key
Sectors

06

Egypt's Strategic
Position

07

Geopolitical Conflicts &
Mercantilism

08

The Decade of State
Capitalism

09

Strategic Imperatives
for Investors

10

Policy Considerations &
The New Economic
Reality

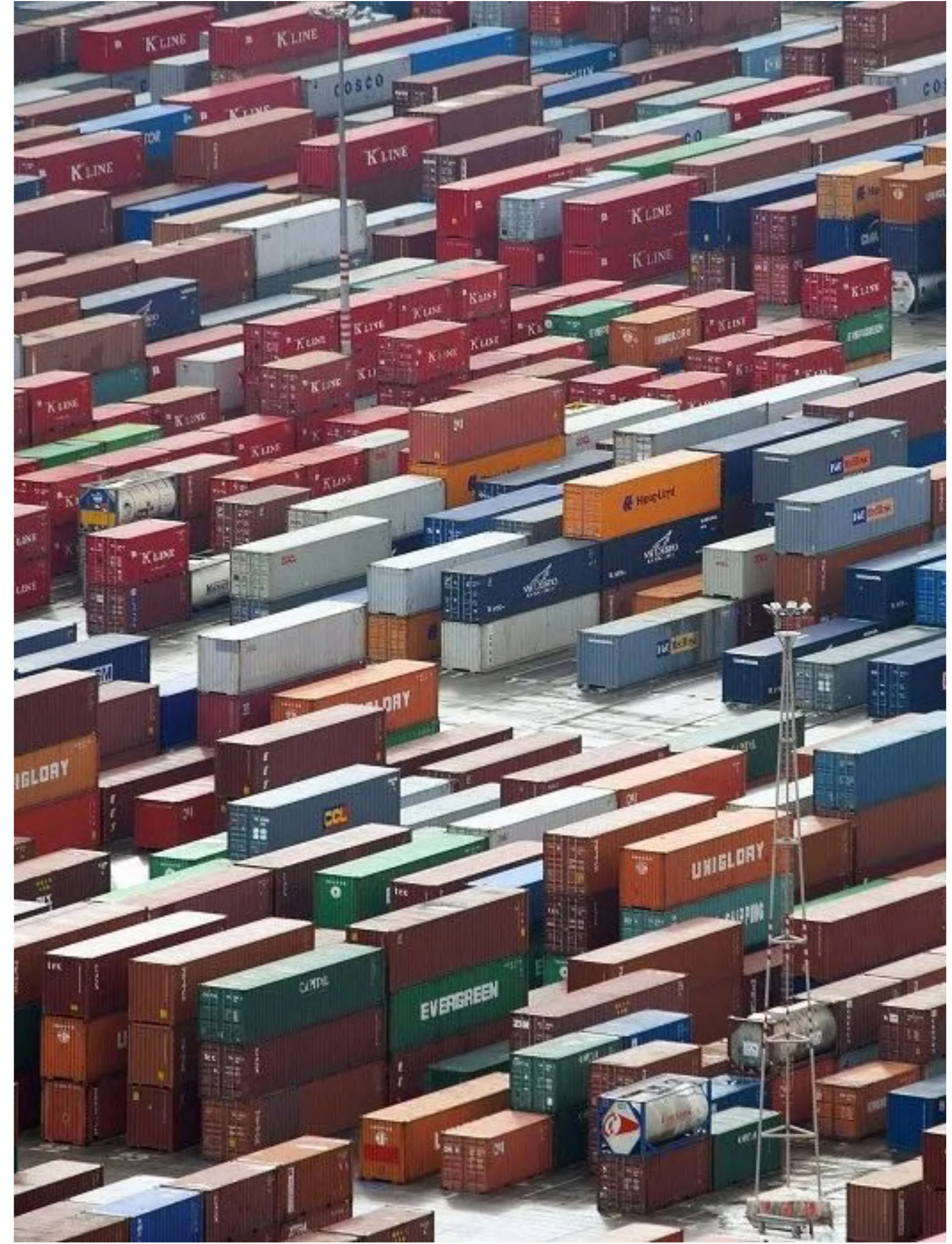
Contents



01. Defining Modern Mercantilism

Defining Modern Mercantilism

- Modern mercantilism, or neo-mercantilism, is a fundamental shift where governments actively use trade, industrial, and technological policies to enhance national wealth, security, and global influence. Governments intervene in markets to promote domestic industries, control technologies and manage currency exposure, often using tariffs, subsidies, and investment screening as tools.
- Unlike classical mercantilism (accumulating gold/silver), modern mercantilism emphasizes strategic trade protectionism, industrial policy, and technological self-sufficiency to achieve energy autonomy, resilient supply chains, and innovation leadership.
- Modern mercantilism affects global trade dynamics, investment flows, and geopolitical relations. Countries pursuing neo-mercantilist policies may reshape supply chains, influence currency markets and prioritize domestic over foreign production, potentially challenging the principles of free trade and globalization.
- The global economic order is undergoing a seismic shift as modern mercantilism replaces postwar free-trade principles. With the U.S., China, and others prioritizing national wealth and state power, policies like tariffs, industrial strategies, and trade protections are redefining markets. This new system, reminiscent of 18th-century mercantilism, challenges investors, companies, and nations to adapt to a world where economic survival increasingly depends on government orchestration.



Key Features of Modern Mercantilism

FIVE CORE MECHANISMS

1

Trade Surpluses

Maximizing exports while limiting imports to strengthen domestic industries and maintain favorable trade balances.

2

Industrial & Technological Policy

Active support for strategic sectors (semiconductors, AI, renewable energy) through subsidies, grants and preferential procurement rules.

3

Currency Management

Diversifying away from dominant currencies like the US dollar to reduce vulnerability and enhance economic sovereignty.

4

Financial Control

Managing investments and capital flows.

5

National Security Integration

Linking economic policies to strategic objectives including defense, critical infrastructure and technological leadership.



02. Trends, Examples, & Historical Context

Trends of Modern Mercantilism

Self Sufficiency

Nations are increasingly focusing on self-sufficiency and safeguarding strategic industries to build resilient supply chains.

Strategic Trade Policies

Countries like the US and China are adopting policies that prioritize national strategic interests over free trade, including tariffs and subsidies for domestic industries.

Government Activism

The state takes an active role in implementing industrial policies, challenging laissez-faire principles of traditional trade liberalism.

Geopolitical Leverage

Control over critical inputs, such as rare earth elements, is seen as a means to exert political influence.

Trends reflect a shift from unfettered globalism toward a more calculated and **strategic economic framework**, where the state plays a significant role in shaping trade and economic policies.

Contemporary Examples of Modern Mercantilism

GLOBAL POWERS IMPLEMENTING STRATEGIC POLICIES

United States

The CHIPS and Science Act provides billions in subsidies to revitalize domestic semiconductor manufacturing, ensuring technological self-sufficiency and reducing reliance on foreign supply chains.

China

Maintains large foreign exchange reserves and uses export-led growth strategies to strengthen industrial capacity and geopolitical leverage.

European Union

Some countries adopt neo-mercantilist policies to protect strategic industries and promote technological innovation while maintaining some free-market principles.



Historical Context & Evolution

CLASSIC VS. MODERN

Classical Mercantilism

- Bullion accumulation (gold/silver)
- Colonial expansion
- Zero-sum trade dynamics
- Direct competition for precious metals and territorial control

Modern Mercantilism

- Subsidies and technology controls
- Supply chain management
- Strategic industrial policy
- Targeting high-value sectors (semiconductors, AI, renewable energy)



The Unchanged Fundamental Principle

Economic power is a national security asset. Economic power translates directly to political and strategic strength, even as the tools have evolved from hoarding commodities and especially precious metals to controlling advanced technologies and supply chain management.



03. Structural Forces Driving Mercantilism

Three Structural Forces

Driving Mercantilism Today

Debt Constraints

Advanced economies carry massive total debt loads: US ~273%, Japan >250%, China ~300% of GDP (total credit, public + private; BIS).

These levels constrain monetary stimulus and force governments toward direct fiscal intervention.

Demographic Divergence

Aging advanced economies (EU median age 44.7) pursue wealth-defense and protectionism.

Young emerging economies (India median age 28) pursue capacity-building and expansion.

Technology Maturation

Leading-edge tech requires capital investment scales that strain private balance sheets.

Governments fill these gaps through state-backed champions and subsidies (e.g., \$20-30B fabs).

Debt Dynamics & Trade Intervention

High Debt Correlates with Protectionism

Analysis of G20 economies reveals that high debt does not merely correlate with protectionism—it causes it. When monetary policy is exhausted, trade policy becomes the last remaining lever.

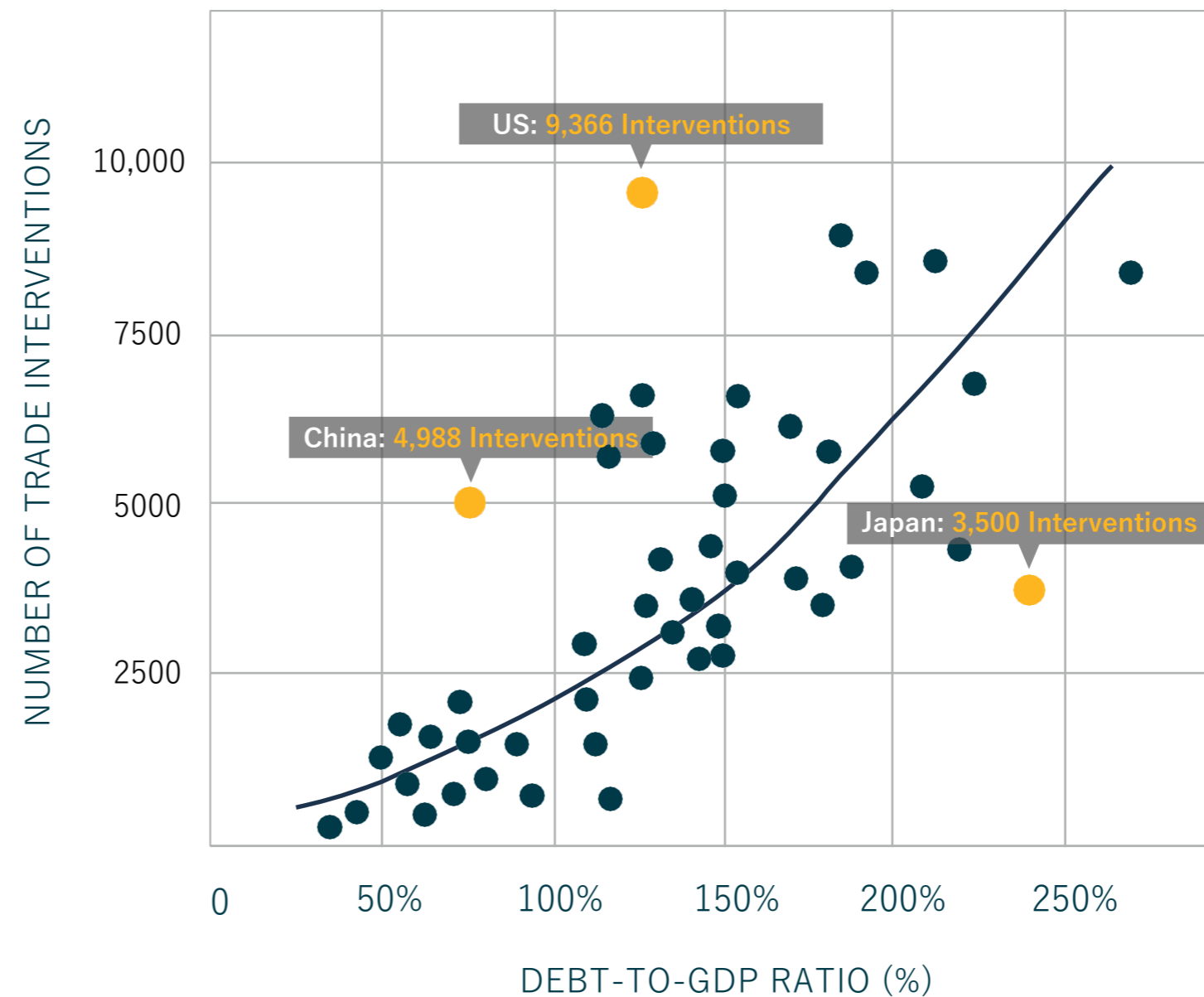
The Multiplier Effect

Crossing the 100% threshold doubles interventions. Above 200%, it nearly doubles again—a 4x multiplier effect from lowest to highest bracket.

The Outliers

The US (~350% total credit) and China (~310%) have implemented staggering numbers of interventions, while lower-leverage economies like Indonesia (40%) maintain open policies. Source: Global Trade Alert / BIS.

Debt Drives Protectionism



Source: Bloomberg Finance L.P. / WTO / IMF Data as of 2024. For illustrative purposes only. Not investment advice.

Demographic Divergence

AGE STRUCTURE DRIVES ECONOMIC STRATEGY

Demographic asymmetry creates opposing but equally mercantilist impulses across the global economy.

Aging Societies

Examples: Japan, Europe

- Protect existing wealth through defensive policies.
- Implement protectionist measures to preserve employment and social benefits.
- Pension obligations consume fiscal space that might otherwise fund industrial policy.

Young Societies

Examples: India, Africa

- Build new capacity through expansionist strategies.
- Pursue export-led growth and resource acquisition to support population expansion.
- India adds Australia's population equivalent every 18 months.



Technology Maturation: Semiconductor Subsidy Arms Race

GOVERNMENT INVESTMENT DETERMINES TECH LEADERSHIP

Global semiconductor subsidies exploded from < \$50B pre-2020 to > \$300B announced by 2025. With a leading-edge fab costing \$20-30B, private investment cannot compete without state backing. Technology leadership becomes a function of fiscal capacity rather than innovation alone.

Support Intensity

China:

- Total Support USD150 bn +
- 63% of project costs
- Direct grants and equity stakes

South Korea:

- Total Support USD65 bn
- 44% of project costs
- Tax credits (25%+)

EU:

- Total support EUR43 bn (USD47 bn)
- 33% of project costs
- Grants and loans

US:

- Total Support USD280 bn
- 28% of project costs
- Tax credits and grants

Taiwan:

- Total Support of USD10 bn
- 25% of project costs
- Tax incentives

Japan:

- Total support USD25 bn
- 23% of project costs
- Subsidies and land

The Vicious Cycle of Modern Mercantilism

Self-Reinforcing Loop of Intervention

1. Monetary Exhaustion

High public debt (>250% GDP) renders traditional monetary policy ineffective.

2. Massive Fiscal Activism

Governments turn to direct intervention: subsidies, local content rules, and strategic support.

3. Trade Retaliation

Intervention triggers rapid defensive responses from trading partners (under 90 days).

4. Financial Fragmentation


Nations diversify reserves, bypass SWIFT, and proliferate capital controls.

5. Higher Debt Servicing

Fragmented markets raise costs, reinforcing the original debt constraint.



04. Pillars of Modern Mercantilism

An aerial photograph of a large fleet of oil tankers on the ocean. The ships are scattered across the frame, with some larger tankers and many smaller ones. The water is a deep blue-green color. The text is overlaid on the center of the image.

The mercantile transformation is organized into five interconnected risk clusters. Each represents a distinct policy arena with specific investment implications.

Technology Sovereignty, Resource Nationalism, Financial Fragmentation, Industrial Subsidies, Trade Realignment

Pillar 1: Technology & AI Sovereignty

State-Mandated Tech Standards Fragment Global Markets

Nations are using regulatory power to fracture once-unified digital markets into sovereign spheres of control. Export licenses, data localization mandates, and technical standards now decide who can compete globally.

United States

Capping exports of cutting-edge AI chips to rivals via Commerce license quotas.

ASEAN Nations

Publishing AI licensing regimes banning foreign Large Language Model APIs not locally registered.

China

Mandating domestic IoT security standards excluding Western tech firms from USD100+ bn market.

Taiwan & UK

Barring sub-3nm fab semiconductor investment from unfriendly nations; requiring sovereign-compute certificates.

These measures represent the weaponization of technology standards as instruments of geopolitical control.

Pillar 2: Resource Nationalism

CRITICAL MATERIALS BECOME INSTRUMENTS OF STATECRAFT

Physical commodity control prioritizes national power over global market efficiency. With the green transition requiring 4-6x current mineral production by 2040, resource chokepoints become the new geopolitical flashpoints.

Mineral Dominance & Chokepoints

- China's Dominance: Controls rare earths (69% of production), gallium (98%), and graphite (77%).
- Export Controls: 7 of 15 critical minerals already face export controls.
- Processing Monopoly: China's mining share translates to an 85%+ share in processing, creating dual chokepoints.

Global Resource Weaponization

- Russia: Aims to price at least 50% of oil exports in non-USD currencies by 2030, challenging the petrodollar.
- Emerging Markets: Brazil taxing agricultural exports for fertilizer subsidies; Nigeria imposing lithium export duties.
- Market Impact: Historical patterns show each restriction triggers 50-150% price spikes within six months.

Pillar 3: Financial Fragmentation

WEAPONIZED FINANCE & ALTERNATIVE ARCHITECTURES

Dollar dominance is eroding as nations decouple after 2022 sanctions – financial fragmentation is reshaping global commerce.

Dramatic Reserve Shifts

USD Share of Global FX Reserves (2000 → 2024): 71% → 58%

Gold Share (2000 → 2024): 11% → 22%

Central banks added 1,100+ tonnes annually (2022-24).
Sanctioned nations moved away from dollars.

Alternative Payment Systems

- BRICS+: >30% bilateral trade off-SWIFT by 2028.
- Digital yuan: ~\$500B+ annual flow projected.
- Treasury risk: ~10% chance of failed US auction (2027-31).



Pillar 4: Industrial Subsidies & Local Content

Competitive Subsidies Replace Currency Wars with Fiscal Wars

Governments are channeling fiscal support into strategic industries to build domestic champions, shifting supply chains toward national security and autonomy.

Global Examples of Selective Protectionism

European Union

Require 40% local production for key medicines.

India

Mandate domestic solar panels for govt projects.

Mexico

Require 25% local content in semiconductor assembly.

South Korea

Investment tax credits for semiconductors >25%.

Pillar 5: Trade Realignment & Defense

Security-Driven Industrial Policy

Industrial policy and national security have effectively fused. Governments are subsidizing peacetime industries while redirecting defense and high-tech procurement to favor allies and punish adversaries.

Trade Realignment (2018-2023)

- US goods imports from China fell 22%.
- Imports from Mexico surged 55%, Vietnam jumped 121%, and broader ASEAN rose 47%.
- Mexico overtook China as America's top supplier in 2023—the most dramatic trade realignment since WWII.
- Cross-bloc trade consistently underperforms intra-bloc flows by double digits since 2022.

Defense & Institutional Shifts

- Institutional Fracture: Analysts project that by 2030, at least one major economy could formally withdraw from the WTO.
- Power Shifts: IMF projected to agree to a BRICS-backed quota increase, reducing G7 voting share below 50%.
- Naval Dominance: Allied shipyards (NATO, AUKUS, Japan, South Korea) to capture >50% of global naval vessel orders.
- Dual-Purpose Spending: Defense spending now serves both military readiness and economic containment.



05. Investment Implications & Key Sectors

Investment Implications

Geopolitical Risk as Primary Factor

Traditional diversification fails when correlations spike during bloc-based conflicts. The new reality demands portfolio construction that acknowledges geopolitical risk as a primary factor, not an afterthought.

Overweight

- Policy-favored champions with state backing and protected domestic markets.

Underweight

- Companies dependent on frictionless cross-border flows.

Hold Volatility Insurance

Geopolitical risk no longer mean-reverts quickly. Traditional 60/40 diversification provides inadequate protection.

Sectors Benefiting From Modern Mercantilism

STRATEGIC SECTORS POSITIONED FOR GROWTH

Semiconductors

Reshoring and subsidies bolster domestic chip manufacturing.

Defense

Higher allied spending strengthens defense supply chains.

Agricultural Products

Food security and export demand keep agri sectors key.

Construction & Real Estate

Infrastructure investments drive urban and trade growth.

Renewable Energy & Transition

Policy incentives and global pledges accelerate clean energy adoption.

ICT & Tech Sovereignty

National programs support secure digital infrastructure.

E-commerce & Fintech

Digital platforms and payments expand cross-border trade.



06. Egypt's Strategic Position



Egypt sits at the intersection of three geopolitical fault lines: African supply chain reshoring, Gulf capital deployment, and Mediterranean trade realignment. The Suez Canal handles ~12% of global trade; the SCZone provides a state-backed industrial platform; and the AfCFTA positions it as Africa's gateway for friend-shoring investment flows.

Egypt's Structural Advantages in the Neo-Mercantilist Order

ICT & Tech Sovereignty

Egypt's IT exports surpassed \$5.7B in 2023. SCZone's digital infrastructure zones and data center pipelines position Egypt as an AI and cloud hub for Africa and the Levant, backed by state industrial policy.

E-commerce & Fintech

CBE's open banking regulation and FRA-licensed capital markets platforms position Egypt as an early-mover in Africa's digital finance. InstaPay transactions grew 300%+ in 2023, signaling structural fintech depth. Egypt's high caliber IT labor force is growing exponentially.

Agricultural Products

Egypt is Africa's largest wheat consumer and a leading exporter of citrus, vegetables, and sugar. Food security mandates and export-promotion policies align with global friend-shoring of agricultural supply chains.

Construction, Infrastructure & Real Estate

New Administrative Capital, Ras El-Hekma (USD 35B sovereign FDI), and SCZone logistics corridors represent one of the world's largest state-directed infrastructure programs — a direct magnet for Gulf and strategic capital under the new mercantilist playbook.

Renewable Energy

Egypt targets 42% renewable electricity by 2030. Benban Solar Park (1.65 GW) and the Ras Ghareb wind corridor position Egypt as a credible green hydrogen exporter to Europe — a direct energy leverage play.



07. Geopolitical Conflicts & Mercantilism

The Iran-US Conflict & Mercantilism

GEOPOLITICAL TENSIONS RESHAPE TRADE DYNAMICS

The conflict has altered international trade, raising concerns about global supply chains and forcing adaptation to new economic realities.

Impact on Trade & Supply Chains

- **Commodity Shocks:** Surges in oil prices affect shipping costs.
- **Trade Balances:** Direct effects on economies reliant on oil.
- **Disruption Risks:** Heightened concerns about supply-chain stability.

The Strategic Shift

- **National Security Focus:** Policy subordinated to security priorities.
- **Friend-Shoring:** Sourcing from perceived secure partners.
- **Just-in-Case:** From "just-in-time" efficiency to resilience.

The Russia-Ukraine Conflict & Mercantilism

SECURITIZATION AND ECONOMIC INTERESTS

The conflict forces nations to balance economic ambitions with security imperatives.

Securitization of Trade

Energy and resources are weaponized, showing trade interdependence can be a vulnerability.

Reevaluation of Dependencies

Europe's rapid decoupling shows a state-directed shift from established supply chains.

Balancing Ambitions

States accept higher costs for strategic autonomy.

Supply Chain Resilience

Accelerates friend-shoring and the rise of parallel economic blocs.





08. The Decade of State Capitalism

The Decade of State Capitalism

Structural Transformation Defines the Next Era

Modern mercantilism is not a cyclical trend or a temporary deviation from free-market principles. It represents a fundamental, structural rewiring of the global economic system that will define the coming decade.

1. The End of Hyper-Globalization

The era of prioritizing cost efficiency above all else has ended. Supply chains are being redesigned for resilience, redundancy, and geopolitical alignment, permanently altering global trade flows.

2. The Return of the State

Governments are reclaiming their role as primary economic actors. Massive industrial subsidies, export controls, and strategic investments are now standard tools of statecraft, not exceptions.

3. Security Trumps Economics

National security concerns now dictate economic policy. Access to critical technologies, resources, and financial infrastructure is viewed through a zero-sum lens of strategic competition.



09. Strategic Imperatives for Investors

Strategic Imperatives for Investors

Rewriting the Playbook for Global Investment

Investors must adapt to a world where state intervention and geopolitical alignment drive market outcomes. The traditional playbook of pure free-market allocation is no longer sufficient.

Focus on Policy Alignment

- Invest in sectors explicitly supported by national industrial policies (e.g., semiconductors, green energy).

Prioritize Resilience

- Favor companies with diversified, redundant, and geopolitically secure supply chains ("friend-shoring").

The New Paradigm

Geopolitical risk is now a primary factor in asset pricing, requiring dynamic portfolio adjustments and a deep understanding of statecraft alongside traditional financial metrics.



10. Policy Considerations & The New Economic Reality

Policy Considerations

INTEGRATING APPROACHES FOR BALANCED DESIGN

Navigating the new economic reality requires a nuanced approach, balancing strategic imperatives with market-driven innovation.

Mercantilist Elements

- Strategic Subsidies: Support for critical industries.
- Supply Chain Resilience: Local content & diversified sourcing.
- National Security Focus: Controls on sensitive tech.

Free-Market Elements

- Private Sector Innovation: Market-driven technological progress.
- Global Cooperation: Open trade where risks are low.
- Avoiding Protectionism: Prevent permanent, inefficient subsidies.

The New Economic Reality

Navigating the transformation of global commerce requires adapting to a world where security and state intervention drive economic outcomes, rather than pure market efficiency

1. State Capitalism

Government intervention is the new normal. Subsidies and industrial policy will dictate market winners.

2. Geopolitical Risk

Risk is now a primary factor in portfolio construction and supply chain design, not an afterthought.

3. Adaptability

The ultimate competitive advantage is the flexibility to navigate fragmented markets and shifting alliances.





Disclaimer

© 2026 Investia Capital Group. All rights reserved. This publication is intended solely for the use of the individual or entity to whom they are addressed. If received by mistake, please inform Investia Capital Group and then delete it. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of Investia Capital Group. While every effort has been taken to verify the accuracy of this information, Investia Capital Group cannot accept any responsibility or liability for reliance by any person on this publication or any of the information, opinions or conclusions set out in it. This information is being provided to the recipient for information purposes only and is not, and under no circumstances should be construed as an offering or solicitation by Investia Capital Group. To the extent that the contents of this publication contains any financial advice, it is general advice only and has been prepared by Investia Capital Group without taking into account a client's objectives, financial situation or needs. A client should, before acting on any such advice, consider the appropriateness of the advice having regard to the client's own objectives, financial situation and needs.

Important Notice

Please read this disclaimer carefully before proceeding. By accepting this document, you agree to be bound by the limitations set forth herein.

Investia Capital Group

contact@investiacapital.com

investia[®]