

Neo-Mercantilist Policy and China's Rise as a Global Power

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Abstract

This paper argues that China is adopting Neo-mercantilist policies in its national development and global expansion. China's Neo-mercantilist strategies include promoting nationalism and patriotism, stockpiling gold and foreign reserves, striving for favorable balance of payment via exchange rate manipulation, tariff, export subsidies and other trade protections. The Chinese government also controls population growth for national development and social control, initiates "Belt and Road" project and the Asian Infrastructure Investment Bank to counter American and Western influences, and deploys strategic expansion in Africa, South Asia and Latin American countries. China's economic success through Neo-mercantilist strategies may provide an incentive for other Asian developing nations such as the Philippines to follow.

Keywords: *Mercantilism, Neo-mercantilist policy, China's economic development, international political economy*

1. Introduction

China pursuing Neo-mercantilist policy in global expansion is generally known (Beeson, 2009; Ayittey, 2010; Atkinson, 2011; Zhang, 2016). In particular, Hawkin (2005) argues that China's economic development strategy is a new version of Mercantilism. Likewise, Beeson (2009) observes that "China is actively embracing elements of Neo-mercantilism and state interventionism" in international economic affairs. Verma (2016: 5) comments that "China is the modern world's most successful Mercantilist state". Ayittey (2010) even regards China's involvement in Africa as "Chopsticks Mercantilism". Though there are numerous commentaries on Chinese Mercantilism, an in-depth study on China's Neo-mercantilist policy in its national development and global expansion is lacking. This study fills this gap. This paper starts with an introduction of the doctrine of Mercantilism, and is followed by a comprehensive account of China's Neo-mercantilist policies in its national development. The last section will summarize the arguments.

2. The Doctrine of Mercantilism

The term "Mercantilism" was coined by Victor de Riqueti, marquis de Mirabeau in 1763, and was popularized by Adam Smith in 1776 (Verma, 2016). Mercantilism is an economic and political doctrine developed in Western European countries between 1500 and 1800 in which statesmen, policymakers and merchants seek to increase wealth through state action. According to *Encyclopedia Britannica*, Mercantilism is described as "economic theory and practice common in Europe from the 16th to 18th century that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers". Similarly, McCusker (year unknown) defines

“Mercantilism as a set of policies, regulations and laws, developed over the sixteenth through the eighteen centuries, to support the rising nation states of Atlantic Europe by subordinating private economic behavior to national purposes”. It can be said that Mercantilism is a national policy of building up a wealthy country via strong state and armed forces. In a seminal work entitled *Mercantilism*, Heckscher (1935) reports in detail how Western European nations (especially France, England, the Netherlands and Spain) pursued Mercantilist policies during the 16th to 18th centuries.

2.1. Nationalism

Mercantilism is often viewed as economic nationalism for the purpose of building a wealthy and powerful state (LaHaye, 2008). In Rees' view (1929: 561), “Mercantilism was the economic expression of the militant nationalism which sprang out of the social and political changes of the sixteenth century”. Mercantilists believe that without a strong central government, the society would revert to the dark age of feudal period. It follows that “the balance in society must be tipped in favor of the central government in order to avoid such a sorry fate. The interests of business and workers were secondary; everything had to be channeled to the interests of the nation. In pursuit of the common good, the nation must come first.” (McCusker: year unknown) For example, in 1549, England imposed “Political Lent” in order to preserve cattle for supporting team of seafaring men. During the Lent period, people were forbidden by law to eat meat to ensure sufficient supply of meat for sailors and armed forces.

For Mercantilists, wealth and prosperity were a zero-sum game in global competition (McCusker, 1996: 339). One country can increase its wealth only at the expense of another and “no profit whatever can possibly be made at the expense of another” (Montaigne, 1580).

Mercantilist policies “sought to strengthen one state economically and politically to the disadvantage of others” (Magnusson, 1994: 4).

2.2. Bullionism

Mercantilist thinkers believe that a strong and healthy nation is measured by the amount of precious metal (gold and silver) which it possesses. Philipp von Hörnigk (1684), a German civil servant and one of the founders of Cameralism, sets out his Mercantilist view on precious metals in 1684 as below:

Gold and silver once in the country, whether from its own mines or obtained by industry from foreign countries, are under no circumstances to be taken out for any purpose.

With a large volume of gold and silver reserves, the country would be able to acquire goods and services that might be needed to win in the international conflicts which are inevitable in international conflicts (Ebeling, 2016).

2.3. Favorable Balance of Trade

Mercantilists believe that a favorable balance of trade is needed to obtain precious metals. To obtain a favorable balance of trade, a nation must achieve economic self-sufficiency. Those who founded new industries should be rewarded by the state. Agriculture should be carefully encouraged. Farming does not only prevent imports of food and raw materials, but also provides a base for taxation. Most importantly, commerce should be regulated to produce a favorable balance of trade. Mercantilists argue that the nation can be benefited from trade if the value of goods imported from other countries is minimized and the value of goods exported to other countries is maximized. Hence, Mercantilists

argue for the government to control and ensure a “positive” balance of trade. Tariffs should be high on imported manufactured goods and low on imported raw materials. Monopoly grants can be adopted to restrict competition. Import of luxury goods are to be avoided because such consumptions take money (gold and silver) out of the economy.

2.4. On Population

For Mercantilists, population is an important asset. As Eli Heckscher (1935, volume 2: 158) observes, countries in the Mercantilist period possess “an almost frantic desire to increase population”. A large population size is considered to be an essential in building up economic and political power of a country. Population should be increased by methods such “as (a) placing various disabilities on celibates; (b) encouraging marriages directly; (c) encouraging fertility; (d) making punishment for illegitimate births less severe or abolishing such punishment entirely; and (e) encouraging immigration and preventing emigration” (Strangeland, 1901: 123-137). Furthermore, population must be a pool of hardworking labor. In England, the Act for the Relief of the Poor (1597) punishes all lazy people. “Poor Laws” was passed in 1601 to move paupers towards “correction”. The Act provides poorhouses for the disabled poor, House of Industry for the abled poor, apprenticeship for pauper children, and correction or prison for the idle poor and vagrants.

2.5. On Colonization

Mercantilists calls for the “mother country” to possess colonies around the world. The sovereign state can have full control of useful resources and raw materials in its colonies that are essential for the sovereign state to boost economic growth and wage war with other nations.

Furthermore, colonial territories must be made subservient to the “mother country”. For instance, the British government attempted to make her colonies to depend on the “mother country” for manufactured finished goods in exchange for colonial raw materials. It also assured that the “mother country” could make a net gain from the colonies (Ebeling, 2016). Between 1651 and 1673, the English Parliament passed four Navigation Acts to ensure the proper trade balance. The acts declared the following:

- Only English or English colonial ships carried cargo between imperial ports.
- Certain goods including tobacco, rice, and furs, were prohibited from shipment to foreign nations except through England or Scotland.
- The English Parliament would pay “bounties” to Americans who produced certain raw goods, while raising protectionist tariffs on the same goods produced in other nations.
- Americans could not compete with English manufacturers in large-scale manufacturing.

To sum up, Mercantilist thought arises between the 16th and 18th centuries when each nation attempts to build a wealthy and powerful state. The pragmatic principles of Mercantilism fit into the needs of the kings, government officials and merchants at that time. Mercantilism has been modified and adapted through the passing of time. In history, Asian nations which successfully adopted Neo-mercantilism are Meiji Japan during 1868-1912¹, the three Asian Newly Industrialized Economies (South Korea, Taiwan and Singapore) during the 1960s, and contemporary China in the era of globalization.

3. Neo-mercantilist Policy of China in the Era of Globalization

China has been regarded as a nation which pursues Neo-mercantilism (Verma, 2016). Comparing the degree of Mercantilism around the world, Wein *et al.* (2014) ranked China (scoring 35.5) on the top of all 55 nations in the Global Mercantilist Index.

China's Neo-mercantilist strategies include promoting nationalism, patriotism and technologicalism, stockpiling gold and foreign reserves, striving for a favorable balance of payment via exchange rate manipulation, tariff, export subsidies and other trade protections. The Chinese government also controls population growth for national development and social control, initiates "Belt and Road" project and the Asian Infrastructure Investment Bank to counter American and Western influences, and deploys strategic expansion in Africa, South Asia and Latin American countries.

3.1. Promoting Nationalism and Patriotism

Nationalism and patriotism have their roots in China's imperial history. In the late Ch'ing dynasty, Empress Dowager Cixi used nationalism and patriotism to divert people's attention away from the corrupted leadership. Chairman Mao exploited nationalism and patriotism to the extreme during the Cultural Revolution. Since Deng Xiaoping embarked on the "Open Door Policy" in 1979, Chinese people have had the chance to experience Western culture and democracy. Deng's economic reform brought along a lot of domestic problems, including corruption, poor quality of life and income inequality between rural and urban areas. The Beijing government utilizes national sentiment as an instrument that shifts public attention away from domestic problems by reinforcing the Party's role as the guardian of China's national sovereignty and honor.

The Chinese government attempts to re-position itself as the supreme agent responsible for rebuilding a strong and prosperous nation. The Chinese leaders question the Western modes of democratization and theories of development. They argue that the Western value is the cause of China's national and cultural identity crisis. Hence, China's modernization should be different from the West and the future development of China should rely on "Chinesenization" (Jiang, 2012: 52).

The exploitation of nationalism and patriotism is fabricated into the great "Chinese Dream". Early in November 2012, Chinese leader Xi Jinping articulated a vision for the nation's future that he called "the Chinese Dream". The "Chinese Dream" integrates national and personal aspirations, with the goals of reclaiming national pride and achieving national well-being. Xi's task is to lead "the Party and people to fulfill the great dream of revitalizing the Chinese nation". The "Chinese Dream" emphasizes on economic prosperity, national pride and being free from foreign domination. Media and schools in China stress patriotism, with "love of the Communist Party" as "love of the nation". Foreign ideas such as democracy and human rights are modified with the "Chinese characteristics" to fit into Chinese values. For the Chinese leaders, "the Chinese model of economic development" can offer other developing countries an example of an authoritarian route to economic progress. China's nationalism has been observed in the Taiwan Strait relationship, disputes in South China Sea, the Japanese history textbook controversies, as well as controversy on Prime Minister of Japan Junichiro Koizumi's visits to the Yasukuni Shrine, to cite a few.

3.2. Bullionism and Hard Currencies Accumulation

For the old Mercantilist thinkers, gold and silver are regarded as wealth and power of a nation. Today, gold is still important to the Chinese

government but used as national strategy to encounter American domination in world affairs. China is a member of BRICS². Since 2009, China officially reports that her gold holdings have jumped by 60 percent (Gleason, 2016 September 1). World Gold Council's data indicates that China's official gold holdings are 1,843 tons at the end of 2016, with the value of gold accounting for 2.2 percent of China's foreign reserves. China is the sixth biggest gold reserve country in the world (*South China Morning Post*, 2017 February 5).

The huge gold stockpiles held by the People's Bank of China helped China win ascension into the IMF's elite SDR currency basket in 2016. When the Chinese Renminbi is an SDR currency, the world witnesses a new multi-polar currency regime with the Greenback declining in stature (Gleason, 2016 September 1). Moreover, China and Russia have mutual global strategic interests in fostering de-dollarization. Toward that end, the two great powers are engaging in bilateral trade deals that bypass the US dollar (*ibid.*).

Gleason (2016 September 1) comments that the world monetary order is changing. Global trade and currency markets become less dollar-centered. Renminbi now becomes a competitor to U.S. dollar dominance.

Foreign exchange reserves: Apart from stocking up gold, China has accumulated foreign exchange reserves at an unprecedented rate over the last two decades, and is now the world's largest holder of international reserves. It is reported that China accumulated US\$3.12 trillion of foreign reserves in 2016 (*The Wall Street Journal*, 2016 February 7). Atkinson (2012) argues that the purpose of accumulating huge foreign reserves stems mainly from the fact that China has practiced economic Mercantilism on an unprecedented scale in recent decades.

3.3. Maintaining a Favorable Balance of Trade

China engages in a series of Mercantilist policies to boost its trade surplus, enabling it to accumulate huge foreign reserves. According to Atkinson (2012: 28), Chinese Mercantilist policies in trade work in two ways: the first type is through policies designed to spur exports and reduce imports. They include currency manipulation, high tariffs and tax incentives for exports. However, such policies benefit both Chinese firms and foreign firms in China. The second type is through policies designed to help Chinese firms while discriminating against foreign companies in China. These policies include land grants and rent subsidies to Chinese-owned firms; preferential loans from state banks; tax incentives for Chinese-owned firms; benefits to state-owned enterprises and generous export financing. To help Chinese firms catch up with foreign technology, the Chinese government controls foreign purchases and joint-venture requirements to force foreign firms to transfer technology to China (Atkinson, 2012: 7). With a weak and discriminatory patent system in China, industrial espionage allows many Chinese firms to grow quickly. In this paper, our discussion focuses on exchange rate manipulation, tariffs and export subsidies.

(i) Exchange rate manipulation: Rodrik (2013) points out that Mercantilism remains largely in place in China. In particular, the Chinese government manages the exchange rate to maintain Chinese manufacturers' profitability, resulting in an impressive trade surplus. China systematically devaluates its currency. Given huge trade surpluses prior to devaluation, Bhalla (1998: 14-15) contends that China adopts a Mercantilist trade policy. In particular, Dooley *et al.* (2004, 2005) argues that China, on the one hand, attempts to absorb unskilled surplus labor in the manufacturing sector, and on the other hand, builds up domestic

capital stock. To achieve those goals, China deliberately undervalues its real exchange rates to support export-led growth. Likewise, Robert Cassidy, the U.S. Trade Representative for Asia and China, argues in 2008 that “China has adopted an export-led development strategy, the centerpiece of which is a currency that is undervalued by 20 percent to 80 percent, with the consensus leaning toward 40 percent. Thus, China’s wages in U.S. dollar terms are 40 percent cheaper than they would be if the currency were allowed to freely float. Similarly, foreign investors receive a 40 percent subsidy to develop operations in China.” (Atkinson, 2012: 29) As Krugman (2010) observes, “the more depreciated China’s exchange rate – the higher the price of the dollar in yuan – the more dollars China earns from exports, and the fewer dollars it spends on imports”. He concludes that “Mercantilism works: countries that subsidize exports and restrict imports actually do gain at their trading partners’ expense”.

(ii) Tariff: China uses tariff, the most important Mercantilist weapon, to achieve favorable trade balance. Despite being a WTO member, China places tariffs on a wider range of products at a higher rate. Specifically, in 2009, China’s tariff application on imports was 9.6 percent on average. In contrast, the U.S. rate was just 3.5 percent. In 2009, there were 46 percent of foreign goods entering China with duty free, compared to 76.3 percent of foreign goods entering the USA (Atkinson, 2012: 29-30). Regarding IT products, China places 30 percent tariffs on magnetic-tape-type video recording or reproducing apparatus, 24.5 percent on computer monitors, 20 percent on printers, copying machines, facsimile machines, and video recording and reproducing apparatus. Furthermore, China restricts imports through non-transparent trade barriers on customs regulations, heavy documentation requirements and randomly applied product certification requirements (*ibid.*).

(iii) Export subsidies: Even though export subsidies are illegal under the WTO, China uses them to support Chinese firms. In 2005, more than \$2.4 billion of export subsidies by the Chinese government was reported (Atkinson, 2012). In 2007, China devoted more than \$15 billion on export-enhancing subsidies to its steel industry (Atkinson, 2012: 29-30). The United States took legal action at the WTO against China's support of its steel industry, alleging that China unfairly offers cash grants, rebates and preferential loans to its steel exporters. However, Chinese subsidies go far beyond steel. The Chinese government also subsidizes the country's clean energy industries, particularly solar and wind power industries. As Ben Santarris, a German solar panel manufacturer, complains, "pervasive and all-encompassing Chinese subsidies are decimating our industry" (*ibid.*).

In short, the Chinese government successfully adopts Mercantilist weapons including exchange rate manipulation, tariff and export subsidies to boost its industries and export and restricts foreign competition.

3.4. Technologicalism

The Chinese leaders believe that a strong and powerful nation can be enhanced through science and technology. China's Fifteenth National Congress set the goals and tasks of invigorating China through science and education. Action Scheme is formulated to push forward educational reform so as to enhance China's innovative capacity (Ministry of Education, P.R. China, 1998 December 24). Nationalism in China's technological development picked up the pace after the government introduced two key policies: the medium- and long-term program for science and technology development in 2006, and the "strategic

emerging industries” initiative in 2010 (Hansen, 2014 October 14). Former Chinese president, Hu Jintao was the architect of China’s technology development. His “scientific development concept” paves the way for modern technology development in China. China focuses on “pragmatic techno-nationalism”, with technology policies designed to favour domestic firms while keeping close collaboration with international partners (*ibid.*). In 2015, national expenditures on scientific research and experiments totaled 1.42 trillion yuan (US\$213.4 billion). They accounted for the world’s second largest number of published international science and technology papers and national comprehensive innovation capabilities ranked 18th in the world (State Council, P.R. China, 2016 August 8).

In 2016, China’s State Council issued a national scientific and technological innovation plan to steer China into an innovative country and a scientific and technological power. The plan is a blueprint designed for technological innovation development for the 13th Five-Year Plan (2016-2020). The plan aims to enhance the country’s innovation capabilities into the world’s top 15. It calls for accelerating major national scientific and technological projects (State Council P.R. China, 2016 August 8). Over the decades, China has witnessed technological advances in areas such as manned space flights and lunar probes, manned deep-sea submersible, deep earth exploration, super computers and quantum communication.

As a result of the government’s effort in promoting technology and industries, China is able to export its goods and services consisting of a wide range of technological skills. For example, in export of high-tech knowhows, China sells high-speed-rail to Indonesia and nuclear electricity plant to the United Kingdom; in mid-tech products, it sells mobile phones to India and African nations and household electrical appliances to the United States and Western European nations. In low-

tech products, markets and stores in the Central and Southeast Asian countries are flooded with simple household goods such as clothing and plastic toys and footwears made in China. Such a huge export success allows China to gain impressive foreign reserves, international status and global influences.

3.5. Strategic Global Expansion

China pursues a government-led globalisation strategy to accumulate capital and wealth for the nation (Zhang, 2016). Specifically, China initiates two grand projects, namely “One Belt One Road” and the Asian Infrastructure Investment Bank in 2013 for strategic global expansion.

(i) “One Belt One Road Initiative” for trade and global expansion:

In 2013, Chinese President Xi Jinping proposed a development strategy that focused on connectivity and cooperation between China and Eurasian countries. The strategy underlines China to take a larger role in global affairs and coordinate manufacturing and development capacities with other countries in areas such as steel, oil, coal, transport and communication, etc. Referring the Initiative, Li and Yuan (2016) claims that China is assuming a new role in the world economic order. It moves from “the workshop of the world” to “the architect of the world”. The project will provide China and its strategic partners with plenty opportunities for the development along the new “Silk Road”. However, Zhang (2016) argues that the Belt and Road Initiative is a product of Chinese Neo-mercantilist thinking. Wong (2017 July 20) even refers the project as “global financial Leninism”. The Belt and Road Initiative serves as a vehicle for creating a new global economic and political order (Zhang 2016). Zhang (2016) concludes that the project marks the beginning of a new economic diplomacy of China that moves towards being an active leader of the global economy.

(ii) The Asian Infrastructure Investment Bank (AIIB): In October 2013, Chinese President Xi Jinping announced the establishment of a new China-led multilateral development bank, the Asian Infrastructure Investment Bank (AIIB) to “promote interconnectivity and economic integration in the region”. The aim of the Bank is to provide financing for infrastructure needs throughout Central and South Asia, the Middle East and Europe (the Silk Road Economic Belt) and, along a maritime route, from Southeast Asia to the Middle East, Africa and Europe (Weiss, 2017). The AIIB was formally established on December 25, 2015. The Bank has 57 founding members, including four G-7 economies (France, Germany, Italy and the United Kingdom) and began operations in mid-2016. The creation of the AIIB is said to be “part of a broader reorientation of Chinese foreign and international economic policy that has taken place since Xi Jinping became Chinese Communist Party General Secretary in 2012 and president in 2013” (Weiss, 2017: 2). In contrast to his predecessor Hu Jintao, Xi pursues “an ambitious foreign policy agenda to deepen economic, security, and political ties with neighboring countries” (*ibid.*). The Chinese government wants greater influence in global affairs. So far, international establishments such as the International Monetary Fund, World Bank and Asian Development Bank are dominated by American, European and Japanese interests. To counter this situation, China initiates the AIIB which allows China to have a greater voice in global finance. As the *Financial Times* (2014 June 25) reported in June 2014, “China feels it can’t get anything done in the World Bank or the International Monetary Fund so it wants to set up its own World Bank that it can control itself”. In short, the Belt and Road Initiative, facilitated by the AIIB, allows China to extend its ambitious mercantile trade, and political and economic influences around the globe.

(iii) Strategic expansion in the Third World countries: China increases its influence in the developing regions including Africa, Latin America, Middle East and South Asia via trade, infrastructure investments, technology export and foreign aids, etc.

Expansion in Africa: Holslag (2006) observes that China pursues a pragmatic Mercantilist policy in Africa that combines a wide array of diplomatic and economic devices. China is Africa's second-largest trading partner after the United States, importing a third of its crude oil from Africa. It spends billions of dollars securing drilling rights in Angola, Nigeria, Sudan and Angola. It has exploration deals with Chad, Gabon, Mauritania, Kenya, the Democratic Republic of Congo, Equatorial Guinea and Ethiopia. China invests in the copper extraction in Zambia and Congo as well as buying timber in Gabon, Cameroon, Mozambique, Equatorial Guinea and Liberia. Chinese companies win contracts in Africa to pave highways, build hydroelectric dams, upgrade ports, lay railway tracks and build pipelines. China supplies jet fighters, military vehicles and guns to Zimbabwe, Sudan, Ethiopia and other African governments (Ayttey, 2010 February 15). However, Chinese economic involvement in Africa is regarded as predatory and brutish (*ibid.*). The former president of South Africa, Thabo Mbeki claims that China's interest in Africa is a "new form of neo-colonialist adventure" with African raw materials exchanged for inferior manufactured imports and pays little care to the poor Africa. China is criticized as performing "chopsticks Mercantilism" (*ibid.*).

Expansion in Latin America: Latin America is another example of "how Chinese Neo-mercantilism is assuming a neo-colonial pattern in which the dominant country secures markets for its manufactured goods in exchange for raw materials from its partners in Latin America"

(Hawkins, 2005 February 3). In November 2004, China re-enforced the “strategic partnership” with Brazil. China offered between \$5 billion and \$7 billion worth of investments to improve roads, railways and ports in Brazil. Brazil also ordered at least ten Embraer aircrafts. In this deal, China keeps the advanced industrial project in their own hands, relegating its partners to a subordinate supplier status (*ibid.*).

China builds another “strategic partnership” with Argentina. She promised to invest US\$20 billion in Argentina over the next decade, mainly on the development of telecommunications, railways and hydrocarbon fuels. Hawkins (2005 February 3) claims that Argentina is being turned in a “neo-colonial direction” by China. China’s imports primary goods from Argentina whereas China exports manufactured goods to Argentina.

In Chile, China invests heavily in the island’s nickel mines. It is predicted that Cuban exports of nickel would double from expanded shipments to China (*ibid.*). In Venezuela, Chinese firms are allowed to operate 15 mature oil fields in the east of Venezuela, which can produce more than one billion barrels. Chinese firms are invited to bid for natural gas exploration contracts in the western Gulf of Venezuela. Other agreements cover agriculture, railways, mining and telecommunications (*ibid.*).

From Middle East to South China Sea: In national defense, China adopts a series of strategies to seize naval bases and ports from the Middle East to the South China Sea. These bases include a new dock under construction at the Pakistani port of Gwadar, where China already has an electronic spying device to monitor the Persian Gulf. Other “docks” include a container port at Chittagong, Bangladesh; a naval base under construction in Burma; and intelligence gathering facilities in the Bay of Bengal and near the Strait of Malacca. China helps Cambodia

construct a railway line from southern China to the sea. China also discusses with Thailand to build a canal or railroad across the Kra Isthmus, which allows shipments to bypass the narrow Strait of Malacca (*ibid.*). Hence, China's global strategic expansion through the Belt and Road Initiative and the AIIB can be facilitated by these strategic ports and naval bases.

3.6. Population Policy for a Strong Nation

During the 15th to 16th centuries, most European nations were hunger for a pool of working population. Hence, it is not surprised that old Mercantilism calls for a large population. For Mercantilists, growing population can provide abundant supply of labor for production, lower wages and human resource for navy. More importantly, a large population supports the state with stronger stakes to engage in direct confrontations with countries where there are disputes. Nowadays, China is overpopulated. Instead, Neo-mercantilist China adopts a population strategy for the sake of building up a strong national state. Specifically, one-child and naturalization policies are solely for national development.

(i) One-child policy: China's rapid increase in population from 1949 to 1979 was largely the result of Maoist pro-natal policies (Howden and Zhou, 2015: 228). Mao believed that population growth empowered the country and he launched a campaign to encourage families to have more children, leading to a birthrate of over 4 children per family. When Mao died in September 1976, the population of China was already 930 million, which means that population had doubled in China during 1949-1976, despite acute food shortage due to the Great Leap Forward and drought. By 1980, a new band of Chinese leaders believed that forcibly restricting population growth would lead to greater economic prosperity. As a result, one-child policy was introduced in 1979. In 2007, 36 percent

of China's population was subject to strict one-child restriction, with an additional 53 percent being allowed to have a second child if the first child was a girl. After adopting coercive birth control, China exhibits a drastic change in demography. The 2010 census reveals an alarming total fertility rate of 1.18 percent, falling into the extremely-low-fertility bracket. Gender imbalance due to couples preferring male children also falls for the sixth year in a row, down to 115.88 males for every 100 females in 2014 (*Xinhua / China Daily*, 2015 July 10). The fall in the birthrate has pushed up the average age of the population. The Chinese government foresees an ageing population crisis because the policy reduces the young labor pool that is needed to support a strong and prosperous nation. It hence announced on October 29, 2015 that the country would allow all families to have two children, abolishing an unpopular policy that limited many urban couples to only one child for more than three decades (*CBC News*, 2015 October 29). It can be concluded that, unlike old Mercantilism which called for a larger population, Neo-mercantilist China controls the population growth for its national development.

(ii) Stringent naturalization policy for the sake of Chinese nationalism and social control: China's economic nationalism is also reflected in its stringent naturalization policy. The nation wants a population of pure Chinese blood so that the government can convey Chinese nationalism to people effectively. First of all, China denies dual nationality for any Chinese national. It is also generally known that Chinese citizenship is the most difficult to acquire in the world. Naturalizing as a Chinese national is rare. During the Fifth National Population Census of the People's Republic of China (2000), only 941 naturalized citizens not belonging to any of China's recognized 56 indigenous ethnic groups were recorded in China.

According to the 2010 Chinese Census, China had only 1,448 naturalized Citizens (*The Economist*, 2016 November 19). It is hard to get naturalized in China without being Chinese in the first place. If a foreigner is not born to be Chinese, he or she can never gain a full Chinese citizenship and only permanent residency is granted. Even marrying a Chinese does not grant citizenship. The Chinese government may give a married spouse a permit to stay and work only. Furthermore, national certificates are granted in limited amount every year. In other words, even if a person is qualified for Chinese citizenship, he or she could most probably be denied a certificate if the quota is full. Unlike the United States which welcomes people from all over the world and cultivates a melting pot, the Chinese government wants a pool of population with pure Chineseness in its territory for the sake of easier social control and governance.

4. Conclusion

This paper has explained and illustrated how China utilizes Neo-mercantilist policies to boost its national development and global expansion. Mercantilism in Chinese style starts from nationalism and patriotism which fit into Chinese minds embedded with the old imperial glory. With nationalism, the Chinese leaders believe in a strong and authoritative state to manage and coordinate domestic and foreign affairs. In domestic economy, the Chinese government finetunes its population policy with the aim for national development and social control. It also boosts its production and technology via government tax, subsidies and other industrial policies. Together with the manipulation of exchange rate, China is able to export its goods and services with different levels of technology in an unprecedented scale. In global finance, China attempts to enhance its Renminbi to an international

monetary status to counter the influence of American dollar. China also helps developing nations build infrastructure in order to extend China's influences in these regions. China's domestic and foreign economic policies reinforce each other. Internally, the Chinese government enhances its production and technological capabilities to boost export. Successful export boosts foreign exchange earnings as well as international status. Consequently, China's rise as a global power gives pride to Chinese people. Hence, the Chinese government gains its legitimate ruling and popularity which justify a stronger and authoritative state, and in turn pursues Neo-mercantilist policy further.

China promotes nationalism and patriotism and uses these sentiments as an instrument to divert the public attention away from domestic problems by reinforcing the Party's role as the guardian of China's national sovereignty and honor. The Western value is considered to be the cause of China's national and cultural identity crisis. For the Chinese leaders, China's modernization should rely on "Chinesization". The "Chinese Dream" initiated by the party leaders integrates national and personal aspirations, with the goals of reclaiming national pride and achieving national well-being.

Like old Mercantilism, China is stocking up gold and becomes the world's sixth biggest gold reserve country in the world. Unlike old Mercantilism, China increases gold reserve to counter the American influence in global finance. With huge gold stockpiles by the People's Bank of China, Renminbi became an SDR currency in 2016. Thus, the world witnesses a new multi-polar currency regime with the U.S. dollar declining in stature. Global trade and currency markets become less dollar-centered while Renminbi becomes a keen competitor to U.S. dollar dominance.

To gain gold and hard currencies, China has maintained a favorable balance of trade. China's Mercantilist policies in trade include exchange rate manipulation, high tariffs and export subsidies. Other policies enhancing Chinese firms' competitiveness in export include land grants and rent subsidies to Chinese-owned firms; preferential loans from state banks; tax incentives for Chinese-owned firms; benefits to state-owned enterprises and generous export financing, controls on foreign purchases and joint-venture requirements to force foreign firms to transfer technology to China. Thus, China is able to accumulate US\$3.12 trillion worth of foreign exchange reserves in 2016 and enjoys the world's largest current account surplus.

In order to boost its national development, China focuses on "pragmatic techno-nationalism", with technology policies designed to favour domestic firms while keeping close collaboration with international partners. National expenditures on scientific research and experiments account for the world's second largest number of published international science and technology papers and its national innovation capabilities ranked 18th in the world.

Unlike old Mercantilism which calls for large population growth, Neo-mercantilist China adopts a population strategy for the sake of building up a strong national state. Its control on fertility rate and naturalization policy are solely for national development and social control.

China's Neo-mercantilism is also seen in global expansion. In 2013, the Chinese government initiates the "One Belt One Road" project and the Asian Infrastructure Investment Bank for strategic global expansion. The two projects serve as a vehicle for creating a new global economic and political order. Attempting to increase its influence in Africa, Latin America, Middle East and South Asia, China pursues a pragmatic Mercantilist policy that combines a wide array of diplomatic and

economic devices. China is so ambitious in exploiting the Third World nations' resources that it has been regarded as pursuing "chopsticks Mercantilism".

In explaining China's rapid economic growth after the "Open Door Policy" announced by Deng Xiaoping in 1979, most scholars in development economics employ Neoclassical growth model via total factor productivity analysis (e.g. Li *et al.*, 1998; Aziz, 2006; Ito and Krueger, 2007). Gumede (2010: 4) points out that Neoclassical economists explain that "the success of the East Asian economies, with its focus on minimal state prudent and conservative macroeconomic policies, was debunked as being too simplistic". Instead, East Asian economies have developed "through the active involvement of the state in determining strategic national agendas". Rejecting the analyses from Neoclassical economic paradigm, scholars from political economy adopts the concept of "developmental state" (Johnston, 1995) to explain China's recent growth (e.g. Knight, 2012; Mabasa and Mqolomba, 2016). Our Neo-mercantilist explanation on China's growth has in many ways share with the notion of developmental state. However, we have argued and illustrated that China's rise as a global power is more adequately explained by Neo-mercantilism, a set of modified economic and political doctrines that led to the rise of Western European nations including England, France, Spain and the Netherland in 18th Century. As shown in this paper, China's recent economic policies on national development and international relations are strikingly similar to Mercantilism and is in line with Frederick List's notion of "Economic Nationalism" (List, 1928)³.

Regarding whether the "Chinese model" can be transferable to other economies, Dellios (2005) concludes that China's rise as a global power provides an alternative to the US development model by incorporating capitalism into a socialist polity. China's economic success through Neo-

mercantilist strategies may become an incentive for other Asian developing nations such as the Philippines⁴ or the African nations (Gumedde, 2010) to follow.

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Notes

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1. It has been argued that the international economic policy of Meiji Japan was "a combination of Hideyoshi's Mercantilism and Friedrich List's Nationale System der politischen Ökonomie" (Linebarger, Chu and Burks, 1954: 326).

2. BRICS countries (Brazil, Russia, India, China and South Africa) are countries with large reserves of gold and an impressive volume of production and consumption of gold.
3. For a discussion of Frederick List's notion of "economic nationalism", see Shin (2015).
4. Alejandro Lichauco, a Filipino political economist, recommends the Philippines to pursue nationalist economics to invigorate his country. See Lichauco (1988).

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