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China's Self-Defeating Mercantilism

Viewing trade as a form of warfare guarantees you will lose.

Beijing's export quotas on rare earths, elements needed to create sophisticated electronics, have many countries worried. But if the past is a guide, this exercise of monopoly power will backfire. Throughout China's history, government attempts to impose restrictions on the export of goods in high demand have unleashed devastating forces on the empire.

The fabled land of Cathay was once the only source for the most desirable luxury goods in the history of world trade—silk, tea and porcelain. So it's curious that the Mongolian national dress is made from brightly colored silk, while the Chinese traditionally wore coarse blue cotton. Likewise, many people around the world say they drink "English" tea and not Chinese tea. And the finest "china" is made in European cities like Meissen, Germany, rather than Jingdezhen.

China's rulers sought to monopolize the production and trade in all these products. When they restricted trade, Central Asian nations like the Huns or the Mongols who controlled the trade routes turned to war. The "barbarian" tribes forced the Chinese to pay tribute in the form of rolls of silk. Or worse, some decided to overrun China and set up their own dynasties.

That's why an astonishing number of "Chinese" dynasties were not Chinese at all. The emperors of the Tang, Liao, Khitan, Yuan and Qing dynasties were foreigners who often could not even speak Chinese.



Associated Press

Cathay was once the only source for some of the most desirable luxury goods in world trade, including porcelain.



It was Kublai Khan who, after grabbing all the silk in China, forced the Chinese to grow cotton. Ever since, the Mongols have worn silk but the Chinese dress in cheap cotton garments. The Mongols then built the Grand Canal so they could suck all the silk, tea and porcelain from the Yangtze Delta and bring it north to Beijing, from which it could be dispatched across the steppes to Europe.

The succeeding Ming dynasty, a Chinese dynasty, threw out the Mongols but drew the wrong conclusions from history. The Ming emperors built up the Great Wall, closed off the land routes and ended international trade. At the same time, the Europeans were starting to search for sea routes to Cathay. Christopher Columbus was bearing letters to the Chinese emperor because thought he was on the way to China.

When the seafaring Europeans, soon flush with gold and silver taken from the New World, wanted to spend it by splashing out Chinese luxuries, the insular Ming dynasty said no. They did allow some of the foreign traders to land, but only in Macau. Even so, enough New World silver did enter the country that it destabilized the empire's finances, spurring its collapse.

The Manchus who ran the Qing empire tried to continue the same restrictive trade policies as the Ming, but the trade was just too lucrative. The emperors in Beijing grew rich on the monopoly sales of silk and other luxury goods. Like previous dynasties they worked and taxed to the limit the peasants who manufactured these luxuries.

The results were predictable and unfortunate. The overtaxed peasants and craftsmen tended to revolt and the industrial revolution took place elsewhere. Then the Europeans lost patience with trying to persuade Beijing to allow free trade. The only thing the traders could sell to balance the exchange was the illicit drug opium.

And finally, these policies encouraged the rest of the world to set about finding alternative sources. Foreigners like the Japanese—and then the French and Italians—mastered the techniques of making of silk. Westerners began producing it on an industrial scale, causing a disastrous collapse of the Chinese silk industry. Then in the 18th century frustrated Europeans discovered their own deposits of kaolin clay and started making superior porcelain.

Lastly Britain's Robert Fortune (1812-1880) came to China and discovered how tea was grown. He worked out how to preserve the seedlings long enough to bring them to Darjeeling, India. Soon everyone was drinking tea plucked from bushes grown by British planters in India, Sri Lanka and Africa.

The interesting part of the story is not just why or how the foreigners stole China's "industrial secrets" but that by destroying these monopolies, they made these luxury goods available to everyone. Tea became a global drink which even the poorest people could afford. The same is true for silk and fine china.

The worst legacy of this history is how it has been taught in China. It is almost always seen through a mercantilist prism, drawing the lesson that trade is a kind of warfare. In this telling, China is always a victim of foreign bullying. Perhaps it is true that ordinary Chinese have been losers in the past but this has more to do with the desire by their rulers to exploit and maintain monopolies too aggressively. Such policies inevitably backfire as will surely be the case with rare earths.

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