

Discussion of  
Joshua Aizenman, Yothin Jinjarak, Huanhuan Zheng's  
**CHINESE OUTWARDS MERCANTILISM – THE  
ART AND PRACTICE OF BUNDLING**

By

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# Summary of the paper

## – Before GFC, China

- Runs a current account surplus and invests it in low-return foreign assets (e.g., US T-bills)
- But pays a high yield on its foreign liabilities (especially on the stock of its inward FDIs)
- AJZ's label – the “old” mercantilism

## – Since GFC

- Aims to raise the returns on its foreign assets
- By converting some its foreign asset position to outbound FDI
- Bundling FDI with
  - Finance (lending, swap lines, and trade credit)
  - Trade (including exports of capital goods and labor services)
- Bundling strategy focusing on
  - Developing and emerging market economies
  - Other “commodity economies”
- AJZ's label – the “new” mercantilism

# Reported evidence #1

- Association between trade and FDI
- Bilateral OFDI is related to exports of manufactured goods and imports of commodities
- Confirmed by 2SLS
- Effects become larger after GFC
- Use it to support the claim of a national strategy
- Comments:
  - Market forces alone could generate the same observations
    - FDI vs import is similar to “own and buy” strategy
  - To separate the two possibilities, would be helpful to separately examine OFDI by state-owned firms vs that by private sector firms
    - Under the assumption that the former cares about national strategy but the latter cares about profit only.

## Reported pattern 2

- The combination of swap lines and commodity imports raises OFDI.
- AJZ's interpretation: the bundling is a national strategy

### Comments:

- Possible, but ...
- Since OFDI could result from private decisions, while swap lines result from the decisions of the central bank, would it be useful to make the presence/absence of swap lines to be LHS variable?

- The words like “mercantilism” and “bundling strategy” have evocative implication of a statecraft or a national strategy.
- Evidence so far is suggestive but perhaps not sufficient
- If a national strategy is proven, is it unique?  
What about the experience of US and Japan?

- The pattern of low-yielding foreign assets and high-yielding foreign liabilities is exactly what is predicted by
- J. Ju and S-J. Wei, 2010, “Domestic institutions and the bypass effect of financial globalization,” *American Economic Journal: Economic Policy*, 2(4):173-204.
- J. Ju and S-J. Wei, 2011, “When is quality of financial system a source of comparative advantage?” *Journal of International Economics*, [84\(2\)](#) 178–187.