

Walls in the west, roads in the east

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Editorial for Challenges

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For years now, we have been watching China's impressive rise in the global economy. All the statistics show it, from growth rates and exports to capital expenditure and infrastructure. And all the pundits who said China would soon be engulfed in crisis have so far been proved wrong. We now seem to be experiencing what can only be called an historical moment. To borrow a phrase from the French historian Fernand Braudel, China is becoming the "world economy"; that is, the country around which the global economy will henceforth revolve. In this regard, it looks set to supplant the United States, which took over this role from the United Kingdom, whose long decline is continuing with Brexit.

The *Belt and Road Initiative* marks this moment in world history. Launched in 2013 by Xi Jinping, what it proposes is an economic reorganization of half the planet, with infrastructure (roads, bridges, ports, airports and railways) from China to Africa, Europe, Singapore and Russia, as well as manufacturing facilities located where they can benefit fully from that infrastructure. It consists of millions of coordinated projects. The plan envisions massive financing based on the public-private partnership concept.

Until now, China has to a certain extent remained within its borders. It has always taken part in worldwide trade, but principally via exports. Its massive investments – notably in infrastructure – have essentially been dedicated to its own territory. The Belt and Road Initiative, intended to strengthen trade between Asia, Africa and Europe, demonstrates that China is now looking to develop well beyond its borders. This gigantic economic project is inclusive, covering 68 countries and nearly two-thirds of the world's population. It is not surprising that China promotes the Regional Comprehensive Economic Partnership (RCEP), which brings together the 10 ASEAN countries and five other nations including Australia, India and Japan. Nor is it surprising that, in the longer term, it aims to create an Asia-Pacific free-trade zone. Let's be clear about this: the Belt and Road Initiative is not about paving over the ancient silk routes, as some claim. It aims to cement the fact that China is on its way to becoming the "world economy", challenging the United States on a daily basis.

What a contrast with US policy! The United States seems to be gradually disengaging from the world, withdrawing, refocusing on itself. It wants to build a wall along the Mexican border, rather than helping the countries of Central America to develop. It is renouncing multilateralism, and even bilateralism, in favor of unilateralism! It withdrew

a year ago from the Trans-Pacific Partnership, which provides for free trade with 11 countries in the region – thereby rekindling Beijing’s initiative to create a vast Asia-Pacific free-trade zone – and it is threatening to terminate the North American free-trade agreement. It is rehabilitating protectionist policies. It is deepening the public deficit – US public debt is already at very worrying levels – although it is not yet ready to give up quantitative easing. Short-term fixes dominate.

A “world economy” has, whether it likes it or not, responsibilities to itself and to the rest of the world. A world economy is always a free-trade economy, and the increasing divergence between China and the United States in this regard is revealing. The US position on the environment is a perfect illustration of the isolationist temptation. Let’s compare the speeches made at Davos. China reaffirmed its three priorities: combating pollution; preventing risks, especially financial ones; and combating inequality and eradicating poverty. The very fact that Donald Trump felt he needed to respond by affirming that “‘America First’ does not mean ‘America Alone’ ” spoke volumes. He who excuses himself, accuses himself.

The shift from an American world economy to a Chinese world economy will not take place overnight, nor will it be brought about by a single project, much less a statement. Fernand Braudel believed first and foremost in long-term changes, particularly with regard to the economy. The telltale sign of this shift will appear at the monetary level. After the Second World War, the dollar took over the pound sterling’s three functions: reserve currency, transaction currency and value measurement currency. The world economy has ‘seigniorage’ rights: it can issue currency to finance its deficits. The United States has that right and is abusing it. The day the yuan is convertible and becomes the global reference currency, the economic shift will be a reality. After that, all the political questions will remain to be dealt with, and they are not insignificant.