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Prof. Michele Geraci

Lies and Truth About the Belt and Road Initiative

This is the edited transcript of the presentation of Michele Geraci to Panel I, "Peace in the World Through a New Security and Development Architecture for Each and Every Country; The Indispensable Strategic Autonomy of European Countries," of the Schiller Institute's July 8–9 conference, "On the Verge of a New World War—European Nations Must Cooperate with the Global South!" Prof. Geraci is former Undersecretary of State, Ministry of Economic Development, Italy. He is currently Professor of Practice in Economic Policy, Nottingham University, Ningbo; Honorary Professor, Peking University School of Economics; Adjunct Professor of Finance, New York University, Shanghai; En-ROADS Climate Ambassador—Climate Interactive/MIT, Italy. Subheads have been added.

The video of Geraci's presentation is available [here](#).

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Prof. Michele Geraci

Bonjour, bonjour; I'm very happy to be here. I want to say thank you to Helga for the very kind invitation. I'm very happy to be here with nice friends.

I want to give you a little bit of an overview of what is happening on the Belt and Road (BRI) and, hopefully, give you a bit of a different angle on why Italy joined the Belt and Road Initiative, some of the criticisms that we have received, and how I think the BRI is actually, in my view, a way to bring peace to the world.

I'm half a professor in various universities. I'm lucky enough to work in China in Shanghai for an American university, New York University, and in another university, in Ningbo, for a British university, while I am in China. I was lucky enough and honored to be with Prime Minister [Narendra] Modi, President Xi Jinping, and with President [Vladimir] Putin, [Russian Foreign Minister Sergey] Lavrov and others. So, I'm half a politician, half an economist.

I'll get down to practical things. I want to show

FIGURE 1

Courtesy of Michele Geraci

the picture of me and President Xi **(Figure 1)**. This was when Italy signed the BRI memorandum back in March 2019, in Rome.

To give an idea of how important the relationship was between Italy and China and also the importance of signing this MOU [Memorandum of Understanding], I'll tell you what is happening with my friends in Rome and in the Italian government. Not everyone—I say it very diplomatically—not everybody understands the importance of the Belt and Road. You got what I mean.

Xi Jinping, in a sign of friendship, also came to my home town in Palermo in Sicily. So we did one day in Rome and one day in Palermo, as a tourist, with the First Lady Peng Liyuan. During the meeting, he said, politely, this is a very nice city, I hope many Chinese tourists will come to Sicily because it's a beautiful place, I like the beach, my wife likes opera, we went to the theater, and so on.

Immediately after, weeks later, we signed an agreement with one of the largest travel agencies in China, Ctrip, with the idea to increase the frequency of flights between Italy and China. In my dream I had a direct flight from Wenzhou to Palermo, because 90% of Chinese people that live in Italy come from this city in China. And for tourists coming to China.

The importance of this event is in an economy where the presence of the government in China is strong and kind of leads the activities of companies; the more that President Xi said this is a nice place, I hope many Chinese tourists will come. Immediately I got a phone call from Ctrip saying, what do we need to know, what do we need to do to bring more Chinese tourists to Italy and Sicily? Let's talk to airlines, to the hotels, etc. So, immediately there was a cascade of positive momentum and in addition to that, the image of Italy in the minds of the Chinese consumer was immediately raised to a higher level.

Italy Comes Under Attack

However, after we signed the MOU on the BRI, we received a lot criticism **(Figure 2)**, which is fine, because that's what we do; we make the analysis and we make decisions after having done the analysis, not before, as it happens now in the EU. One of the first criticisms was, oh, you are the first G7 country in the EU to sign the MOU and this is bad. To which I replied, we are not the first G20 country to sign this MOU, not even the only NATO member that is in the MOU, not the only EU country which is inside the MOU.

I tell you this, because the narrative is a bit strange. Thirteen or fourteen countries who are in the Belt and Road and in both NATO, the EU, and, of course, in the G20. But what did the critics point at? They pointed at Italy being the only one in the G7—which is between the G20 [and] the EU and NATO. In my view, the G7 has the lowest importance, because it has no legal framework; less important than the G20, which is inclusive; less important than NATO, which does wars, or the EU, which does policies. The fact that you could not be allied with the United States, or friends with the EU, or sacrifice our Western values by being in the Belt and Road, in my view it's complete nonsense, and is disproven by the fact that there are thirteen other countries that are both in NATO, allied, and in the Belt and Road.

FIGURE 2

Courtesy of Michele Geraci

The other criticism was, Italy will fall in the debt trap. Now, I actually did finance and economics for 30 years, so I do know—and this is an analysis that we did before—that debt traps do not happen to G7 countries, two-trillion-dollar economies. The debt trap may happen in countries like Sri Lanka or Malaysia, where the level of lending to GDP, level of external debt to GDP, held by a single lender—it could be China, the IMF, the World Bank—is high. But in the case of Italy, again, a G7 country, two-trillion-dollar economy, even if China had invested 10, 20, 30, 50 billions, we are way, way away from being anywhere near the threshold of finding ourselves in a debt trap. So, the critics were using problems that other countries did have, for reasons connected to the way they were managed internally, like Sri Lanka, for example, to transpose those problems into larger economies. So, logically flawed.

But this is the narrative you need to get used to. Because the arguments look reasonable in the beginning, but then they become extrapolated and become illogical, like the debt trap. One of the criticisms from the EU was also, "Italy will sell off all its ports to China." This is, first of all, legally impossible, because in Italy we cannot sell ports; they are not companies limited by shares. [They are publicly owned.] Unlike, for example, the Piraeus [port] in Greece or a quarter of a stake in one container terminal in the Port of Hamburg, which was indeed sold to [the Chinese company] Cosco Shipping Ports. Again, legally an impossibility in Italy.

The critics have also forgotten that China has investments in Greece, Egypt, Israel, France (Le Havre, Marseilles), Spain (Bilbao, Valencia), Morocco, Belgium (Zeebrugge), Holland (Rotterdam), Germany (Hamburg), the UK, Malta—basically everywhere. Why should Italy be the only country that cannot direct the flow of containers to our own ports in the Mediterranean—because we need also be honest: the European ports compete among themselves.

So, a cargo, a container that arrives from China or anywhere else from Asia, that goes by the Suez Canal, has two simple choices: either land into a Mediterranean port, which could be Greece or Italy—two southern points and closest to the Suez Canal—or go South by Gibraltar and end up at a North Sea port. So, I totally understand why the German government, the French government, the Dutch government, were against us. Because they knew that one container more in the port of Trieste and Genoa means one container less in Rotterdam. It's a zero-sum game. We can cooperate to increase the total value, but in the short term, in partial equilibrium, it's a zero-sum game, and we compete with each other just as when we compete over exports. One more bottle of French wine to China, is one bottle less of Italian wine exported to China.

I told you about NATO and the other countries, but the reason why we did it, is because, in the specific case of Italy, we are a large economy but very fragmented, made up of very, very small companies, a lot of SMEs (small- and medium-size enterprises), around 5, 6, 9, 10, 15 people on average; about four million of those, at least pre-Covid, now three million and change. So, those SMEs are not Siemens, Airbus, BSF, VW, Air France, Carrefour. They need the help of the government, they need an umbrella that protects them, that informs them about the risk of going into the Chinese market, which is indeed very difficult, very complex, because rules of access are continuously changing. It's not easy to compete with the large, state-owned Chinese companies; there is a cultural problem, a language problem.

So we, and I, personally, put Italy into the Belt and Road to offer my companies this kind of protection. To tell them, I know going into China is risky, I know that you are scared, I know there are many success stories but also many failures. And my duty as a member of the government was to lower the business risk and to increase the possibility of making money.

The other criticism was kind of funny—don't laugh: "If Italy signs the MOU, it means that the Italian government is becoming communist." Well, eh, no. Actually, the Memorandum does not say that the Italian government should become communist, nothing wrong in any way with people having their own views. In fact, in the wording of this agreement, which we negotiated, I personally negotiated a lot with my counterparts in China. We have words that are very dear to our, let's call it European values: level playing field, respect for climate, labor, etc. So, in a way, we brought China to, let's call it Western style, by negotiating successfully with China, to agree to those terminologies.

Let All Nations Benefit from the BRI

So in my dream scenario, this MOU of the Belt and Road that Italy signed, was not the *last* step, but the *first* step of a broad strategy that I had in mind to make sure that yes, Italy was the first G7 country—there are 15 European countries—but I wanted to make this MOU available to all other partners, to Germany, to France, so that they could also gain from the effort; from the painful negotiations I did to make sure that China wrote these things into the MOU, so they could also do it, and bring it to EU level. I even went to Washington, and half-jokingly, half-not—you never know, I could have been lucky—I told the U.S. counterpart at the ministry of trade, "You should also join the Belt and Road." At the end of the day, you have a phase-one agreement, you want to do a phase-two, you can do it in the Belt and Road, there is room for everyone in Asia and in Africa.

I wasn't so lucky [as] to have the whole EU sign on to the MOU, but I did have two important countries follow Italy: Switzerland and Luxembourg—different countries, different economies. It did help politically to have a founding member of the EU, Luxembourg, and an open liberal so-called democracy like Switzerland, sign the MOU. That gave us a little political support.

We didn't know four years ago, [what] we do know [now], that the migrant crisis from Africa to Europe is a problem, not about the one hundred thousand migrants that arrive now in Italy—it is not about how we share and distribute these migrants among Italy, Germany, France, the allocation. The problem of migrants is that Nigeria will double its population to 400 million and Africa will increase to almost 3.8 billion by the end of the century. So, the only solution, in my view as an economist, is to offer economic and social stability in Africa.

We don't have to like with whom we do business. We know that China, like any country, has its own interest. China like Italy, like the U.S., is not Santa Claus. They don't go to Africa to help; they go to Africa because they understand that you need a double-bottom approach when you help a country to develop: On one hand you do it for an ethical reason, but you also have to make money, otherwise the ethical reason runs out of steam very soon. And that's why China smartly makes investments in Africa, 425 billion total stock of total FDI [foreign direct investment—ed.] into Africa. I'm trying to tell now my Prime Minister, Giorgia Meloni, and other people in the government: Giorgia, if you really want to solve that crisis of migrants, you need to continue to cooperate with China in Africa.

I think it's a combination. Nothing is perfect in the world, but I think, Italy and—maybe here I bring my dream back again—more European countries, like France and Germany together cooperating with China. China brings money, expertise in construction, in infrastructure, even on migration, from rural to urban areas. There are three pillars of China's economic success: migration, infrastructure, and transports for development. We bring a little bit of, let's say, the image of the good guys in Africa; we balance, and I think that could be a successful match for both of us.

The Difference Infrastructure Makes

I conclude with one practical example, because I'm not a paper economist; I actually try to be a guy who does things. I would like to show you a trip that I did last week to a real Belt and Road project. I took a train from Shanghai to the border between China and Laos, and then from the border between China and Laos to the border between Laos and Thailand, and then from the border down to Bangkok. I saw with my own eyes the benefits of infrastructure development of the Belt and Road.

From Shanghai to the border with Laos to Kunming, it's 2,400 kilometers; average speed 240 km/h, about nine hours. When we go from the stretch from the border of Laos to Bangkok, however, it's like going back 50 years: the train does 50 km/h. For 500 km, it takes ten hours, there's no air conditioning, its hot. And then, in the middle, there is this magic, there is Laos, which is a land-locked country that would have otherwise been skipped by development. Its *per capita* GDP is on the order of $1,000, a few hundred dollars *per capita*.

This train goes from China to Thailand crossing Laos; the speed is not as high as the one in China. It's not 300 km/h, it's 150-120 km/h on average, half of what China has done already but double what Thailand does today. What I've seen, is that the development of infrastructure is now bringing tourists from China to Laos (including me), more development in the local economy, more exports, because the train can also be used to carry goods back into China.

At this point in his presentation, Geraci projected a video comparing the Thai train, with no air conditioning and old furniture, from Bangkok to the border between Thailand and Laos, to the new and very modern and comfortable Belt and Road train, with air-conditioning and electrical computer recharging facilities, and very modern, spacious, clean, and safe stations.

This is what I'm trying to do: Do the analysis from a theoretical point of view to answer questions; and live in this world between academia and government so that we bring numbers onto the tables of policymakers. They don't understand what is going on.

I would like to extend an invitation to Helga Zepp-LaRouche and others here for some field trips of anybody who is interested—companies, governments in Europe—to come and see the Belt and Road countries. We can do all this analysis on paper and say that Belt and Road is good, but when you go there, and see it, trust me. You will see that the happiness of the people completely transforms the society, the way people live. It's not just the hardware, infrastructure; its software, the brain, changes the standards of living, and the way people do activities changes. Only if you go there can you understand. This is an initiative that I want to launch: practical organized field trips by European governments, media, think tanks, universities, all the layers incorporate—all the four layers of our societies, to go to these Belt and Road countries to see what is really happening.

I will stop here with a slogan—allow me, since I am also a politician: "The Belt and Road is better than the road of tanks." In this moment of war and destruction, we really need peace. I wish our Russian friend soon to rejoin our community in a peaceful world.

A New 'BRICS Currency'?

Michele Geraci intervened at the end of Panel 3's Discussion Session to answer an audience question regarding the possibility of a BRICS common currency.

Question: This week, the BRICS announced gold-backed money being released. Do you expect this to be a game-changer, commercially speaking, worldwide, either an accelerator or game-changer within the Ukraine-Russia conflict?

Geraci: The question, if I understand it correctly, concerns development of a common BRICS currency, as an opposition to the U.S. dollar as a trading currency. I'll tell you my view, and I'll make it very simple. So, if there are economists here in the audience, please forgive me for being so simplistic about it.

I'll give you some figures. Today, about 43% of total world trade is conducted in dollars, 37% in euros, and then nothing. The yen and renminbi, British pound a little bit more, but it's basically a U.S. dollar-dominated issue.

There are two very big problems with moving to a BRICS currency: One, when the currency becomes an international currency, used as a reserve currency, when there are wars or other crises, people flock and buy it, it creates a problem on the issuing country's balance of payments. So, countries like China, which have a net trade surplus, would suffer, just like the U.S. has with its permanent trade deficit. Normally, when a country has an economic crisis, it devalues its currency to boost exports. What happens in the U.S., however, is that when the U.S. has an economic crisis, because its currency is also proxy for the world, the whole world has a crisis. And when the world has a crisis, what do they do? They buy dollars! So, the dollar goes up in value instead of down. That creates a problem with the U.S. economy.

China does not want to have the renminbi become an international currency. They talk about it, but they don't want to do it. Because it would create problems for their own economy. Diluting it among the other four BRICS countries might be a solution to mitigate this effect. But the problem arises, for example, with the India rupee. Russia has sold a lot of oil to India, and now they don't know what do with the rupees. Russia cannot buy anything from India, because India doesn't sell enough to the rest of the BRICS countries that Russia can use the rupees.

In short, the suggestion [of a common BRICS currency] is very complicated, and I don't think there could be the immediate emergence of a BRICS currency because the dollar dominates world trade. Some of the countries talk about it, but they really don't want to do it.

What you will see is a growing use of this alternative currency for incremental trade, from now on, carved out of trade growth, which is about 3% per year.

Think of it. Even if you get 10-20%, the dollar loses only 0.2 [%] every year. So, I do not expect important dollar loss in the short term. But, very important, and I'll repeat it: Neither does China want its own currency to become an international currency. It's a very complex system. China would never open up its current account to let a 25-year-old trader on Wall Street push a button and bring China to its knees.

Remember: Every day, you have a $5 trillion in U.S. dollar-denominated trade in the world. That's two-and-a-half times the economy of Italy changing hands every 24 hours. There is nothing the central banks can do if they let Wall Street run their own currency, which means the interest rate curve, the value of the renminbi. It's evil for a Marxist-run state economy like China.

Thank you.