

Michele Geraci

Helping the West Understand China Today

This is the edited transcription of the opening remarks by Michele Geraci to the Schiller Institute conference on September 6. Mr. Geraci is a former Italian Undersecretary of State for Economic Development. Subheads have been added.

The first item that I would like to touch on is to give a little update on the situation between Italy and China following the signing of the MoU [memorandum of understanding] last year. We, being very objective, recognized that given all the issues that we heard until a few minutes ago for the world, including the pandemic, and the impossibility to travel, the progress has been relatively slow.

The political situation has also been charged; the rise of China, as we all know, is being perceived in Europe as more of a threat than an opportunity. The feeling that I have in my country is that a little bit, the government, a little bit, public opinion is shifting more into the conservative side of the equation, therefore, focussing more on the threat which prevents doing business; retrenching rather than looking forward to the opportunities.



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I think it is not good progress. In a way, we have to excuse it because we have the pandemic. We have written off for the whole year, for example, the 50th anniversary of the diplomatic relationship between Italy and China, the year of culture and tourism that was supposed to be 2020, has all been moved to next year. So, as always, there is a crisis and there is an opportunity. We haven't done much, but in a way, thanks to the lockdown and the impossibility to do anything, we have the excuse to say, we have not wasted time; we really could not have done any better.

China's Model

The challenge is now, that if the world opens up again to a certain extent, we do not waste the second opportunity. So, this is the first thing I want to mention. I also want to leave with you, with the audience, with Helga, that everyone has a potential action point for practical things that need to be done.

Second point is that on the volume of infrastructure, the map that we saw before with the bridges and tunnels around the world is indeed in my view an extension of

what China has done in its own economy. I have been lucky enough to live in China for 10 years, and I've seen the transformation of a whole society, pretty much based on a number of pillars. One is the management of the exchange rate, trade, and interest rates; so let's say the finance part that has been kept managed by the government. And the other one has been the big investment in migration from rural to urban that has led to the development of transport and infrastructure. So, one of the key pillars of China's successful development model over the last 40 years, has been infrastructure.

I am one of the big supporters to see this model being extended beyond the borders, and hence of course, the Belt and Road to Central Asia, in Southeast Asia, in Africa. And maybe we can go beyond the meaning of "initiative" that China is pushing *per se*, and look at the world as a place that needs to be connected.

Beyond Simple Reactions

Everything that we have said is very much in line with the initiative of individual member states; everyone would like to do infrastructure. It's very much in line—and this is an important point—with the European Union. The European Union finally is starting to do something—not enough, but beyond the practical help that the European Union is doing in terms of recovery funds, issuing bonds. Materially, the amount of money is completely negligible, but the narrative within the member states seems to be changing and a push towards investment is taking hold.

Even public opinion, seeing the quality of local infrastructure, is pushing for government to act. As we know, in our liberal democracy, governments do not always lead. Sometimes—very often, unfortunately—they follow, because they need to follow electoral goals, of course. This puts in crisis a little bit the role of the markets and the state.

We are also debating where this line should be. How much of these new initiatives, how much of this cooperation with China and other countries for the development of Africa, for the development of Asia. Who should do it? Who are the actors, the agents? Where is the line between the government, or the state, and the markets? We seem to be looking at China with a little bit of suspicion and a little bit of admiration, because we do know that in China the line between state and market is moved where the state takes a bigger role.

Regardless of the statistics and privatization, we do know that the state is very much present there. We have

seen the numbers, the results, GDP, poverty reduction has been mentioned now. We're looking at China manufacturing, the faster race between China and the United States on semi-conductors, which is another theme. And we do look at it, worrying that maybe our market-driven model needs to be readjusted within the framework of a liberal democracy, of course. From an economic point of view, we need to find another mix. One potential way that we are looking at is liberal democracy with a bigger state intervention, but of a better quality than we had with the holding companies around Europe in the 1970s and '80s before the privatization went ahead.

A Message from History

My third and last point is, in a way, an appeal to all China experts. I'm witnessing the same situation that happened in 1947 during the Dixie mission to China by the United States. A member of the U.S. contingent, Col. [David] Barrett, was reporting there was a civil war between the Kuomintang and the Communists, that the Communists were kind of getting the upper hand, probably winning. It could have even been a party with whom the United States should have discussed aid, because they were winning. And maybe for the future role of the Communist Party in China. So, the report was not quite taking sides, but looking at the Communists as a potential partner. Of course, this was unsuccessful. Col. Barrett was dismissed, he was demoted and delayed promotion. Why?—because this is what is happening now.

Experts on China are mistakenly taken for people who do propaganda that is pro-China. So, this is exactly what is happening in the West. People who narrate the achievements of China get misunderstood for the voice of the Chinese propaganda system, and they get dismissed. This is a big problem that we have. We do want to make sure that policymakers this time don't make the same mistake that they made in 1947. They do listen. Because experts are here to tell what's happening.

Always when I talk to my members of the Italian government, my current members of the Italian government always tell me, remember when Mr. Bill Gates would come rushing by to his office and say, "Steve Jobs has created a new Windows system better than ours." He was exactly doing this, not to praise the achievements of Apple *per se*, but also to have some input in his workforce. Now, the population, if you bring it back to the state level, would react to that

change, whether it's a positive or a negative.

So, my second appeal is that—for people who engage in these areas of infrastructure development, railways, China, Asia—I think we need to make the voices heard and not misunderstood. We are informing—in my case, my people, my government, of what is happening. And the more we highlight the successes, the more people should listen.

This is why: This trade war between the United States and China should be looked at from a factual point of view. We all understand why this is happening; it would happen even if China were a democracy. It's a commercial fight; a rising economy that needs to be dealt with. Maybe we did not see it coming over the last 20 years, let's say since 2001 when China entered the WTO.

But export restrictions, restricting supply of components to China—semi-conductor technology and so

on—of course has the risk that it would see China accelerate along its path of developing indigenous technology. And it would make China even less reliant on the foreign supplies. This is the tricky thing. The West may get some short-term gains, but if we then take into account the stock of goods that China has, the speed at which China may increase its research and development, actually the time gap that would leave China out of supplies may not be, if anything,— there may not even be such a time. But in one of the worst-case scenarios for China, it may be shorter, in the best case, than we expected.

So, we also need to be careful about this. And therefore, when we say China is doing this big advancement in the semi-conductor business, we are not just praising China *per se*. We are just warning that some tactic may not be as effective.