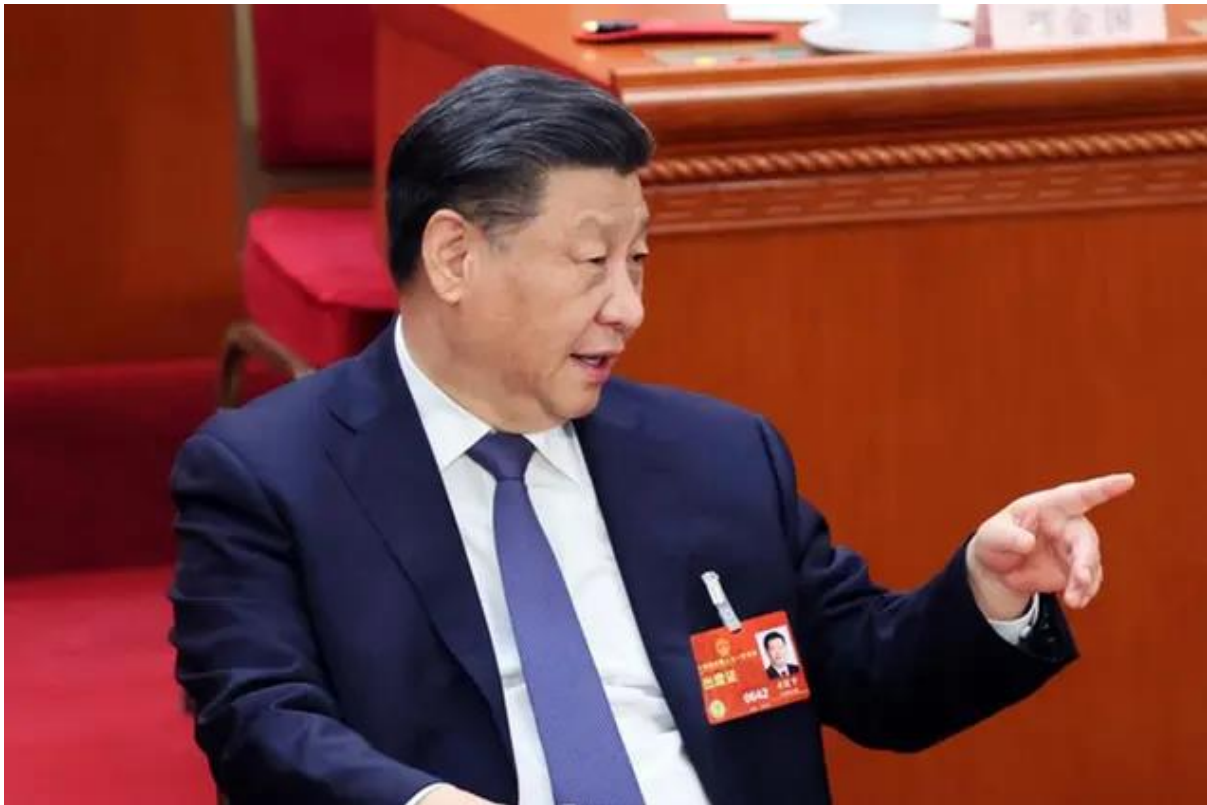


The risks to the world economy come from the isolation of China, not Russia

by Lorenzo Codogno

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- The enormous devastations of the war in Ukraine dwindle in the face of the potentially immense risks of a new division of the world into large blocs.
- Globalisation based on free trade, as conceived in the past, is over. The challenge is now on technology and digital platforms that intermediate many areas of economic activity.
- The West should not let the embrace between Putin and Xi Jinping take shape. It should not drop Chinese peace proposals for Ukraine but use them as a possible basis for a dialogue and a first step for revising world governance based on mutual respect and peace.

On the eve of the crucial “friendship visit” between Xi Jinping and Vladimir Putin in Moscow, it is worth reflecting on what really matters not only from a geopolitical but also from an economic point of view. It is undoubtedly true that distinguishing the purely economic dimension from the more slippery geopolitical dimension is increasingly difficult.

Furthermore, it is known that there is now an open conflict, even within the United States, between the interests of companies that have significant investments in China and the demands of national politics and security. The latter imposes strategic autonomy in producing technological components for the military industry and beyond. The United States, as well as China, have lost the leadership in the production of advanced microchips to Taiwan and South Korea. These components are essential in producing cars, smartphones, and medical equipment. But for the United States, they are also crucial to maintain leadership in artificial intelligence and the military industry. Europe is, by and large, out of this competition, which is predominantly played between the two sides of the Pacific.

THE ESCALATION OF THE BIDEN ERA

In July of last year, the US Congress, with a bipartisan vote, approved a \$200 billion plan over the next five years to boost manufacturing and research on US soil and restore the US to a leading role in the microchip industry. Those receiving the subsidies and tax incentives will be banned from expanding production in China for ten years. In November, the US Department of Commerce prohibited the export of next-generation superconductors and advanced technology to China, further escalating the trade and technology war. As is often the case, the decisions of the US administration apply not only to US exports but also to any company outside the US that manufactures with US technology, including companies in Taiwan which are world leaders in manufacturing advanced microchips. But the bans went even further. The new rules ban US citizens, residents and green card holders from working in Chinese chip companies. An American think tank defined the move as “a strangulation with intent to kill”.

«STRANGULATION» AND THE REACTIONS

China has responded by announcing \$143 billion in incentives and subsidies to develop its semiconductor industry to reduce its dependence on Taiwan, which currently supplies 70 per cent of its needs, and achieve self-sufficiency in the coming years in this sector. For the moment, it has not gone any further. For example, it has not limited the export of rare earths, which are essential raw materials for this industry. But in the future, the answers could be more substantial.

Unfortunately, technology plays an increasingly important role in the political arena. In fact, times have passed when globalization was mainly driven by the search for low-cost production sites from which everyone benefited. Some emerging countries, and above all China at the time, were lifted out of poverty and entered the world economy, while in developed countries, consumers could benefit from low-cost products. If we leave out some crucial social and employment costs for the advanced countries, this was a win-win situation for the world economy. Everyone benefited from it. Now the game is different. It is a challenge on technology and digital platforms that intermediate many areas of economic activity. This clash will presumably accelerate with the increasingly extensive use of artificial intelligence and the most advanced technologies.

THE CLASH AND THE ALTERNATIVES

The risk is that we are heading towards a sharp division between Western economies, increasingly dependent on the technological and military protective wing of the United States, and China, increasingly attracting the support of the complex and varied world of emerging countries. The recent agreement between Saudi Arabia and Iran orchestrated by China demonstrates how China increasingly plays a crucial role in international economic diplomacy.

If there were no losses and human dramas of colossal dimensions, the conflict in Ukraine could be dismissed as a skirmish relative to these crucial international geopolitical and economic challenges. Yet, it could also be seen as an opportunity. It could be an opportunity to rethink world governance on a more equal and inclusive basis, involving China as an essential and responsible actor to guarantee peaceful world progress based on shared rules. This would help avoid future conflicts, give access to world resources to all countries, ensure the right to economic development to a large part of the world struggling to emerge from underdevelopment, and avoid new fractures and divisions. It would also help the world economy overcome the current slow recovery and the pessimistic climate.

The alternative, i.e. the division of the world into new blocks, is so devastating for the economic prospects and the lives of all citizens that one wonders if the political-military strategists in the various capitals have ever seriously considered such a problem. China recently released a 12-point text called "Position on the Political Settlement of the Ukraine Crisis". At almost the same

time, China launched a “Global Security Initiative”. The text contains poison pills that would upset any Western diplomat’s stomach, but there are also good intentions. It could be a starting point for re-establishing collaborative relations with China and reconnecting it to an enlarged international community based on mutual respect and peace.