



## Trade and values in geopolitics 2

### Description

# To survive and prosper democracies as well as autocracies need liberal values

By **Jean-Luc Burlone**

America remains the most powerful and wealthiest country in the world but as Trump erodes the global structure, friends and foes alike turn to the East to secure agreements with illiberal regimes that champion impressive economic development projects. However, in spite of their authoritarianism, none of these countries has a reliable stability.

Eurasia stretches from Spain to Japan. The supercontinent includes the two most populous countries in the world, eight of the largest economies (4 in Europe, 4 in Asia), 65% of the world population and a combined GDP of 58% of the GWP. In spite of concerns over a trade war, 2018-19 economic growth is forecasted at 2% for Europe and at 6% for Asia, the latter being the heart of global economy fed by investments and trade flows.

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Between the Caspian Sea and China, Central Asia's five republics: Kazakhstan (the dominant economy), Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, are inhabited by 70 million people and endowed with large resources in metals, minerals and fossil energy. Its economy is greatly affected by commodity prices and depends on Chinese and Russian demand. Landlocked, Central Asia needs to expand its domestic infrastructures to reach European and Asian markets efficiently.

Asia is at the heart of the global economy and the power that will dominate Asia will have the upper hand in the rest of the world. The China Communist Party (CCP) knows that to succeed it must apply orthodox economic policies and secure social cohesion in the country. Hence, liberal values should not be ignored.



## China epitomizes the autocratic champion

The new ruler of all under heaven towers over Asia and eyes the world. Chairman Xi Jinping disregarded his predecessor Deng Xiaoping's dictum, "Hide your strength and bide your time", to state boldly that China will be a world leader in cutting-edge technologies by 2025, rule AI by 2030 and will become a world superpower by 2049. Such hubristic statements may surprise, as China remains dependant on western markets, but China is second to none with respect to technology.

China believes in science, its level of education is very high and it excels in applied technology. In fact, China's technology sector is most remarkable. Its apps, notably for the financial sector, are extraordinary and without an equivalence elsewhere. China invests massively in quantum technology, mobile technology and AI.

Chinese leapt from the middle age modes of communication to the digital age: peer-to-peer transactions are free, financial transactions are card-free and frictionless and the country tends toward a cashless society. With its proficiency in the use of AI, China is well positioned to gain geopolitical dominance in South East Asia, most of Africa and some other parts of the world, engaging the western hemisphere.

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Courting Europe, Xi Jinping had launched in November 2015 the 16+1 network, which includes China and 16 Central and Eastern European countries (CEEC). Last July, he asked Europe to "... join hands to defend multilateralism and the rules-based free-trade system". China aims to replace the US as the leader of global free trade and may succeed, albeit its efforts are hampered as it has yet to recognize intangible values such as intellectual property rights.

Courting Africa, the Forum On China-Africa Cooperation (FOCAC) includes all African countries with the exception of Swaziland. Chinese and African leaders agreed on intensive, green and safe developments at their third meeting in September in Beijing, where Xi Jinping touted China's interest as one of a "good friend, good partner and good brother". Sixty billion dollars are to be invested on transportation and real estate projects.

Courting Asia, Mr. Xi had formed in 2003 the Shanghai Co-operation Organisation (SCO). The organisation brings together China, India, Pakistan, Russia and Central Asia republics (with the exception of Turkmenistan that is an attendance with CIS, ASEAN and the UN, while 13 other Asian countries are partners or observers). SCO is an impressive gathering of competing even inimical countries that form China's spider web.

The trade war with the United States reveals an existential crisis where Chinese rules and values confront America at a time when the US administration is dismantling its own rules-based world order, replacing it by a selective live and let live approach. An international vacuum is thus created to the satisfaction of all autocrats. China is taking advantage of this context to befriend US allies to instigate new trade venues in Asia; after Trump publicly rebuked their trade policies, India and Japan, the latter being a staunch US ally, have step up their overtures to China, a traditional foe to both countries.



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Rather than bearing values and following rules imposed by western institutions, China's manifest ambition is to establish its own institutions in Asia. China launched the Asian Infrastructure Investment Bank (AIIB) in late 2015 and now contemplates an Asian trade tribunal that would favour the public rather than the private sector and an Asian settlement bank that would use the Yuan, the Ruble and the Euro rather than the Dollar for Asian countries' financial settlements.

## Infrastructure, money and players

The Belt and Road Initiative (BRI) is China's main vehicle to seduce the world. Still ill defined, the initiative spans three continents and will touch nearly 60 percent of the world's population. It will link China's western province of Xinjiang to Western Europe through several land corridors and waterways that will cover Asia, East Africa and Europe. The BRI will supply funds and knowhow to build the infrastructures that will integrate Asian countries to a global value chain.

China offers financing to countries regardless of their human rights record. But the terms of funding are often predatory and small or fragile economies, that most need infrastructures, risk losing their sovereignty because of their indebtedness. Sri Lanka (an example of Chinese investment approach though it predates BRI) signed a 99-year lease that surrounded 69 square kilometres of land and the management of the Hambantota Port to China because it could not service an eight billion dollar related debt. Four thousand kilometres west, on the African east coast, Djibouti faces the same predicament as it can hardly pay back the money owed to Chinese banks.

From some eighty recipients of funds from the BRI; twenty-seven of them have a sovereign debt rated as junk, fourteen are not even rated and eight countries will face bankruptcy if expected returns do not materialize. A major debtor like Pakistan expects that 4% of the total trade will come through the Gwadar-Xinjiang corridor by 2020. Financed by BRI, Gwadar is the site for an Iran-Pakistan pipeline, a special economic free zone and a deep-sea port with three berths and a draft depth of somewhat less than 15 meters. The debt incurred for the construction of the site represents 20% of Pakistani GDP.

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While Pakistan got entangled with China, India perceived the BRI advances as a debt trap and answered it coldly. The country chose to counteract with its own infrastructure project and launched with Russia and Iran the International North-South Transport Corridor (INSTC) — a sea and ground network that will link Mumbai to St-Petersburg. The INSTC consist of 7000 kilometres that will connect India, Iran, Azerbaijan and Kazakhstan first to Russia and later to Europe.



The INSTC will generate revenue for every country through which the network passes either by a transit fee or by benefits from trade or both. The INSTC includes the construction of highways to connect Iranian major cities to Chabahar. Located on the Iranian coast, 72 kilometres west of (and competing with) the Pakistan-China port of Gwadar, Chabahar is a deep-sea port with a draft depth of 20 meters and 11 berths, including a deep-water one for mega oil tankers.

The battle for dominance over the World Island – where Africa is joined to Eurasia by the Mediterranean Basin, the Middle-East and the Arabian Sea – is underway, driven by values of economic success. In the contest between a new, savvy authoritarianism model and the old liberal one, the latter is in retreat throughout Eurasia. Populist factions curtail liberal values in Western Europe, Eastern European countries defy EU rules and the majority of Asian countries have autocratic governments or illiberal democracies.

Even at the beacon of all democracies, a typical autocratic behaviour takes ground when the main character, in spite of the watch of his unknown babysitters, intimidates Congress, criticizes most institutions, tweets his contempt for the opposition and the press and identifies, unjustly, immigrants as the culprits of criminal offences. On the global stage, he enjoys the friendship of autocrats like Vladimir Putin and criminals like Kim Jong-Un.

## Values in the upcoming world order

As it stands, the US is retreating from global dominance, Russia is looking for any opportunity to extend its own political or military dominance over surrounding countries and China follows Xi Jinping's Chinese Dream. The end results may well be a split world with autocrats dominating in the East and democrats the West, both expanding their influence globally through technology and trade.

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Whatever regime, liberal or totalitarian, spread around the globe, a country's economic growth is not a sufficient condition to build social cohesion or for any regime's long term survival. Recent democratic elections have demonstrated how divided voters are in many western countries where many search for a venue to be at home in a changing world. Similar social divides exist in China and other autocracies albeit not expressed through elections.

In Asia and Africa, "peace and stability" is the sole human right sought after, whereas human rights, cherished in western democracies, are foreign to their customs and traditions. As all rights, human rights are intangible; they state the freedom of people without a behavioural guidance.

Liberal values, on the other hand, dictate specific actions to reach a specific objective. Eradicating poverty, education for all, environmental integrity and equality of the sexes are perfect examples of tangible values that demand and expect a prescribed conduct to be followed. Fortunately for their worldwide adoption, these values are in the interest of all political leaders, whether they are democrats or not.

After decades of neglect, China now champions the protection of the environment in general and the fight against climate change in particular. The CCP efforts are not only because the climate is the major menace for the world economy but also because ten of thousand of environmental protests every year (50,000 in 2012) disrupt the Party's control over its population.



Governments are paying attention to women's demands for the same reasons. Women represent more than half of the world population, their votes count in democracies and their role and influence cannot be questioned in any society. Their demand for equality is not only a moral necessity but an undisputed substantial economic asset and an unavoidable element of political success as well.

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Liberal values enhance the social cohesion needed for a political regime to succeed, if not to survive. Ignorance, customs and traditions are the only obstacles that savvy leaders should erode.

When liberal values and political or financial interest are in line with each other, the odds are that liberal values will be entrenched in democracies as well as in autocracies. As Charles de Gaulle once said about politics, "No nation has friends only interests"

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*The text above is my personal view, based on a review of the economic and financial press. September 30, 2018. – JLB*

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