Weekly Commentary 13 – April 2023

Europe and China…

The unspoken truth about western liberal democracy is very different from the much vaunted principles of individual freedoms or the right to express oneself. The reality is that the liberal democratic norms that create the political leadership that then leads society in general, require these politicians to secure one vote from every man. The way it has evolved over the last fifty or so years is that the current one-man, one-vote political system prevalent in the collective west requires a lot of money to get those numerous singular votes mobilized. A lot of money.

Every man who has the right to vote for a leader will not ask what's good for the community, society or country as a whole, but what's in it for me. Politicians who cannot answer that question is unlikely to get elected.

As portrayed accurately by basic economics, desires are unlimited, and resources are limited. This is true for individuals as well as for countries as a whole. As such, the unspoken rule in the one-man, one-vote system is that politicians aspiring for leadership have to mobilize huge amounts of funding to motivate voters to support him so that he can deliver the goodies that makes voters think they have justified the use of their vote. Complicated? Not really. It is just money politics. Corruption, if you prefer the truth.

As general wisdom has it, all the politicians in Washington DC are provided the campaign funds to get into office by various plutocratic groups, such as the military industrial complex (ie the arms manufacturers), the gun makers, the big pharma companies and the medical insurance folks etc to then pursue policies to keep the profits flowing to these interested parties. It is no longer the invisible hand of Adam Smith driving free markets, but installed politicians that are put there to effectively work for those organizations. It is why what were once noble principles of political choice and governance are now corrupted to the extent that overall, the US can be considered a failed state. How else can you think about it when many of its policies result in a morbid counting of deaths, whether these arise from mass shootings inside the country or the war mongering policies that have led to almost continuous wars since the big one in WW2.

100 mass shootings in just the last three months. At least 200,000 Ukrainians killed since one year ago (and don't blame the Russians, according to thought leaders like John Mearsheimer, Jeffrey Sachs and 85% of people on planet Earth).

There is the view that the war in Ukraine has not ended because America refuses to let the Ukrainian side negotiate, and worsening the situation by supplying weapons to Kyiv for as long as it takes, not because there is some noble principle to fight for, which is the propaganda angle of all this shit, but because war keeps weapon manufacturers' profits gushing. You don't believe that? Well in the last week, one of the ministers in the Kyiv regime, demanded a cut of the western war profits! What a stunning revelation! Now we really know what it is all about.

The fact that liberal democracy is mostly about money politics can also be found in France in the last two weeks.

In the largest country in Europe, there was violence in the streets, with tens of thousands of people protesting the extension of the retirement age from 62 to 64. This was clearly about money, with the government trying to make ends meet and the population refusing to have key benefits removed from their entitlements. Besides the actual financial implications of the change, it was also about the way in which President Macron enforced it. There was apparently widespread discontent with his dictatorial style. Here is a Financial Times report on the situation:

Is France on the road to a Sixth Republic?

by Simon Kuper March 24, 2023

The demonstrators at Place de la République in Paris were chanting, weirdly, in Italian: "Siamo tutti antifascisti," — "We are all antifascists." In French, they targeted their chief enemy, the president: "We are here, even if Macron doesn't want it."

Watching them were ranks of massed riot police, who, in the French policing tradition, made no effort to mingle with the crowd and defuse trouble, but instead stood waiting for the moment to unleash their tear gas and batons. The crowd were waiting for it, too. "ACAB," they chanted, the English abbreviation for "All Cops Are Bastards". "A-ca-buh", it came out in French.

Then someone set a dustbin on fire — the perfect Instagram image — and other demonstrators began filming it. They knew they were taking their places in a glamorous Parisian tradition, stretching from 1789 through 1944 and 1968. At last the police advanced, and people began chucking bottles.

France was in turmoil even before Emmanuel Macron's unilateral decision last week to raise the minimum general retirement age from 62 to 64, after he couldn't get it voted through parliament. In Paris, following a winter of rolling strikes, the metro is becoming a theoretical concept, while rats pick through heaps of uncollected garbage. Peak Paris was arguably reached last Saturday, with a demonstration for the rats. "NO, rats are not responsible for all that's wrong with France!" said the organising group, Paris Animaux Zoopolis.

French anger transcends pensions and Macron's high-handedness. There's a generalised, long-term rage against the state and its embodiment, the president. After 20 years living here, I've become used to the French presumption that whoever they elected president is a moronic villain, and that the state, instead of being their collective emanation, is their oppressor. But Macron's unpopular ramming through of a higher retirement age without a vote increases the risk that the French will follow Americans, Britons and Italians and vote populist: President Marine Le Pen in 2027. The far-right's vote in presidential run-offs has gradually risen this century, to 41 per cent last year.

France can't go on like this. It's time to end the Fifth Republic, with its all-powerful presidency — the closest thing in the developed world to an elected dictator — and inaugurate a less autocratic Sixth Republic. Macron might just be the person to do it.

The Fifth Republic was declared in 1958, amid the chaos of the Algerian war and fears of a military coup. The constitution was written for and partly by Charles de Gaulle, the 6ft 5in tall war hero, the "man of providence" whose very name made him the embodiment of ancient France. He consented to return as leader if France muzzled political parties and parliamentarians. (He even disliked his own party, the RPF, the Rassemblement du peuple français.)

So the constitution created a strong executive, albeit not centred on the president. Clause 49.3 allowed the executive to over-rule parliament, and pass laws without a vote. Triggering the 49.3 allows opposition parties to file a no-confidence motion. If the motion fails, the law is considered passed. The pensions manoeuvre was the 11th time that Élisabeth Borne, Macron's prime minister, had invoked 49.3 in 10 months in power.

In the 1958 constitution, the president was still a relatively modest figure, elected by about 80,000 officials. But in 1962, de Gaulle enhanced the president's status: he would be elected by universal suffrage. As de Gaulle later explained: "The indivisible authority of the state is entrusted entirely to the president."

Postwar France's governing philosophy became a sort of French-Confucian rule by the cleverest boys in the class, plucked from all ranks of the population. Prime Minister Pierre Mendès France's father sold affordable ladieswear, President Georges Pompidou's was a small-town schoolteacher, and President François Mitterrand's the stationmaster of Angoulême. Typically at G7 summits, the leader with the highest IQ and broadest hinterland beyond politics is the French president.

The republic's technocrats gradually extended their writ to the most isolated villages. Almost everything that moved in western Europe's largest country was administered from a few square kilometres in Paris. The various waves of "decentralisation" since 1982 never got far. The guiding belief of Parisian technocrats, says the liberal writer Gaspard Koenig, is "étatisme", statism. He notes that they are typically described as "servants of the state", rather than of the people.

The deal became that the French would hand over a big chunk of their income to the state, and navigate an often nightmarish bureaucracy, in exchange for free education, healthcare, pensions and often even subsidised holidays.

Into the 1990s, the system more or less worked. France experienced its "Trente Glorieuses" — 30 glorious years of economic growth, from 1945 until 1975. It built Europe's fastest trains, the TGVs; co-created the world's fastest passenger plane, Concorde; it went on to invent the proto-internet, Minitel, which French people used to book tennis courts and have phone sex; it pushed Germany into creating the euro; and became an independent actor in world affairs. The all-powerful presidency enhanced France's international standing: the administration spoke with one man's voice, and foreign leaders always knew which French number to call.

The moment when the Fifth Republic lost its sheen was possibly the oil shock of 1973, since when the economy has mostly stagnated. Or perhaps it was April 21 2002, when far-right leader Jean-Marie Le Pen reached the run-off of the presidential elections. He lost to Jacques Chirac, but from then on, spurred by French disquiet over immigration and unemployment, there was a credible threat to the republic.

The disenchantment with the president showed in approval ratings. Mitterrand (president from 1981 to 1995) and Chirac (1995-2007) generally had ratings between 40 and 60 per cent, according to *pollsters Kantar Sofres. But the last three presidents, Nicolas Sarkozy, François Hollande and Macron, have usually ranged between 20 and 40 per cent. Hollande's rating in one poll hit 4 per cent (not a typo). These figures from the post-heroic age were too small for de Gaulle's job. Few voters now even expect that the next president will be the national saviour. Although Marine Le Pen may become president, she too has lost her magic after years of scandals. It's hard to attach fantasies to her today.*

But the technocrats look tarnished too, especially since they have congealed into a self-perpetuating caste. Today's ruling class consists disproportionately of white sons of the book-owning high bourgeoisie, who travelled together from Parisian Left Bank nursery school to Left Bank école préparatoire, where they crammed for exams for the grandes écoles, before acquiring their own Left Bank apartment. If they didn't come from Paris, they generally moved there as teenagers, like Hollande, a rich doctor's son from Normandy, or Macron, a neurologist's son from Picardy.

It was as the sociologist Pierre Bourdieu, a south-western postman's son, had warned decades earlier: the French elite was reproducing itself. (And nobody mastered elite self-reproduction better than Bourdieu himself: all his three sons followed him to the most intellectual grande école, the École Normale Supérieure on the Left Bank, which trains social scientists.)

French technocrats spend their working lives in a few arrondissements inside the Périphérique, the ring road that encircles the Parisian court like a moat. They treat the rest of France almost like a colony, inhabited by smelly peasants who failed to absorb the Parisian culture they had been taught at school, and who vote far right or far left.

The fundamental facts of life outside Paris escape many decision makers. Jean-Pierre Jouyet, an École Nationale d' Administration (ENA) classmate and right-hand man of Hollande, realised that large swaths of the countryside had no broadband internet only because he suffered the experience in his second home (his parents' old house) in Normandy. He never got around to alerting Hollande. "In my defence," he notes in his memoir L'Envers du décor, "nobody in government was interested in the subject." When Macron decided to add a few cents to the fuel tax in 2018, he had no idea it would spark a months-long nationwide uprising by the gilets jaunes, the "yellow vests", because he and the technocrats around him hadn't grasped how much people beyond the Périphérique relied on their cars.

When things go wrong, the French blame the technocrats — and above all the president, who decides without consulting them. Ordinary people's lives feel determined, down to the day they can retire, by a Parisian pretend meritocracy from which they were excluded at birth. Three-quarters of people who identify as belonging to "popular classes" say they feel the object of social contempt and lack of recognition, reports Luc Rouban, an expert on politics at Sciences Po, an elite Paris university. This is particularly galling, given the country's promise, proclaimed from the facades of every post office and primary school: "Liberté, égalité, fraternité". France isn't the UK or US, where the power of social class or money is frank.

While the French population defy the technocrats, so the technocrats defy the population, diagnoses Chantal Jouanno, who has just served five years as head of the National Commission for Public Debate. French "deciders" often describe society as "conflictual, uncontrollable, irreformable", she told Le Monde. Perhaps she was thinking of Macron's jibe about "refractory Gauls". On Wednesday he lamented, "We have not succeeded in sharing . . . the necessity of doing this reform," as if the problem were the public's inability to understand reality.

Since Macron became president in 2017, popular anger has targeted him. It was said of US President George HW Bush that he reminded every woman of her first husband. Macron reminds every French person of their boss: an educated know-it-all who looks down on his staff. He understood that

Hollande had lacked presidential grandeur, and cast himself as "Jupiterian"; but most voters just saw a jumped-up little ex-banker dressing up as king. Even many who voted for him never liked him, nor felt that they were endorsing his platform, with its pledge to raise retirement ages. In both the 2017 and 2022 run-offs, the other choice was Marine Le Pen. The French president has gone in 60 years from "man of providence" to "not the devil".

Macron's brief employment at Rothschild inevitably generated antisemitic conspiracy theories among people who confuse today's boutique Parisian investment bank with the Europe-straddling behemoth of the 19th century. A common jibe is that Macron is "neoliberal" or worse, "ultraliberal": busy dismantling the French social safety net to benefit the shady forces of global capital.

The charge is ludicrous: France remains about the least neoliberal place on Earth. Government spending in 2021 was 59 per cent of GDP, the highest in the OECD, the club of rich countries. The perennial French fear of losing entitlements — above all, their 25-year retirements — betrays how good their lives are. On the downside, people pay so much to the state that many run out of money at the proverbial "end of the month". The French net median income — €22,732 in 2021 — is lower than in the northern European countries that France likes to see as its peers.

Especially after the gilets jaunes, Macron has tried to rein in the elite's privileges. Sarkozy and his former prime minister François Fillon have both been sentenced for corruption, though neither has gone to jail yet and both are appealing. A new sobriety has been imposed on parliament: gone are the days of deputies taking pretty interns for Château Lafite-fuelled lunches on unregulated expenses.

Macron's ministers have been taken off dossiers where they have conflicts of interest — though that has highlighted the sheer number of these conflicts within the tiny Parisian ruling caste: Marlène Schiappa, minister of state for the social economy, had to hand in much of her portfolio after shacking up with the boss of a big mutual health insurance provider. The minister for energy transition, Agnès Pannier-Runacher, cannot touch matters involving petrol company Perenco, which her dad used to run, nor deal with the energy company Engie, where her ex-husband is a senior director. And Jean-Noël Barrot, minister delegate for the digital economy, cannot handle matters involving Uber, where his sister is a communications chief.

These concessions haven't appeased the population. Nor has the melting-away of the longstanding French scourge of unemployment. It's now at 7.2 per cent, its lowest since 2008, without Macron getting any thanks. Such is the anger over ramming through the new pensionable age without a vote that he might struggle to pass any laws these next four years, unless he dares to resort to ramming them through without votes again.

The fruits of the Fifth Republic aren't so bad. But the system itself has gone out of date, says Catherine Fieschi, founder of the think-tank Counterpoint. The state's autocratic nature helps explain why the French are so angry despite living relatively well. You could describe the republic's workings without mentioning the almost irrelevant parliament. France today has three branches of government: the presidency, the judiciary and the street. If the president decides to do something, only the street can stop him — by stopping the country through protests and strikes. Street and president rarely seek compromise. One wins, one loses.

Historically, the trade unions control the street. But as they too lose relevance — Macron barely consulted them over pensions — the street has become increasingly violent and undirected, from the leaderless gilets jaunes to today's burning dustbins. My daughter's lycée is intermittently blockaded by pupils waving banners with slogans such as "Against Capital". At a neighbouring school, a group of pupils and teachers are conspiring to turn their own blockade into a week-long occupation, a sleepover with fun activities including designing banners and repainting buildings. My daughter's friend there plans to participate till Saturday: "Then I'll take my weekend."

This is no way to run a country. In last year's presidential elections, far-left candidate Jean-Luc Mélenchon campaigned on a promise of a "Sixth Republic". He wanted a new constitution that shrank the powers of the "monarch president".

But the person best-placed to usher in the Sixth Republic is Macron himself. He's a politician who hunts big game, notes Fieschi. He has already variously tried to charm Donald Trump and Vladimir Putin, and to remake the French labour market, European defence and the EU. His schemes usually founder, but at least he aims high. A Sixth Republic is an idea on a Macronian scale. It could be his legacy, suggests Fieschi. It might just get the French train back on the rails.

On Monday his party, currently called Renaissance, sent an email to members headlined, "On the Reform of Institutions". Members were invited to give their views on elections to parliament, the use or otherwise of referendums, and local powers. There was an open-ended question: "In a few words, on which subject(s) do you think it would be useful to organise a citizen's convention?"

It's a strength of France that it can update itself by revising its constitution — as it has done 24 times in the Fifth Republic. What might a Sixth Republic, or at least a reformed Fifth one, look like? Koenig recommends scrapping de Gaulle's innovation of an elected president. That would deflate the role, and boost parliament's status. Koenig also favours devolving powers to France's 35,000 communes: in effect, local authorities. Surveys repeatedly show that the French have much more trust in their local representatives than in national ones.

Koenig made a symbolic run for president last year on a liberal platform of a shrunken presidency. Travelling around the country, he was enthused: many French people live in beautiful places, near mountains or beaches or sheep meadows. They are reasonably well off, eat well, and have the time to develop passions outside work.

They might function even better without some guy in Paris micromanaging their lives.

If this FT article is an accurate depiction of the situation in France, then there are two big issues why the riots occurred. One is the part about money – where the French government apparently faces a deficit of some 10 billion Euros if it did not reform the pension system. In other words, people were taking out more money than were being put into it. This is a common problem in countries with a high degree of social welfare, because everywhere in numerous countries, noble causes eventually run out of money because greed always crimp altruism and drives money to the non-deserving. This is obviously being worsened at the current time in France when you have high inflation, eroding the spending power of the pensioners. We can all remember, this is caused by the sanctions against Russia, and the enlargement of public expenditures when you have to support a fruitless war in Ukraine.

The other problem is that a forceful way to solve financial problems at the state level is not tolerable. I am not qualified to comment on how unapproachable Macron has been to his people, because only French folks should have a view on that, but it is a trend that the WEF neoliberal agenda is losing traction. Electorates care more about what is happening to them domestically than whether or not their country integrates well into some Davos dictated global vision. People describe this as the growth of right wing politics. Whatever it is, the WEF agenda is in trouble.

From the way things are described, it seems that France is governed like how the US describes Russia and China – there are autocrats with absolute power. Yet there is no criticism of the violence on the streets of many French cities, compared to the verbiage found in every western newspaper when small numbers of Chinese citizens protested peacefully with blank pieces of paper during the last stages of China's covid lockdowns. It is pure hypocrisy.

It would appear to anyone who is objective that there is no inherent superiority of the liberal democracy system over the so-called authoritarian system in China and Russia. Both have their problems, and it is best to leave it to their respective populations to solve them. What these situations do not need are the assholes from some liberal newspapers claiming the west knows better. Not that I can see.

And the fight that America has forced all its allies to pick with China is going against the grain of economic logic. Ordinary people don't want to support this exercise which they know make no sense. All the European political leaders have learned to speak with duplicity trying not to piss off the Americans who insist they must act in unison against China, while maintaining an ability to work with Beijing in trade and investments. Both Macron and von de Leyen are planning trips to see Xi Jinping this month, as Olaf Scholz has already done, and I doubt this will be just to persuade China to negotiate a peace in Ukraine. At the end of the day, I don't think anybody really cares about Ukraine.

A distancing from China in economic matters is actually fool-hardy. Not only has it become the largest manufacturing superpower in the world, it now possesses the technology to build the best infrastructure everywhere, and this affects the integration of the Eurasian landmass. Europe has to be able to deal with the BRI, the new silk road which connects China and Europe, and however geopolitics play out in the next 20 years, this physical connection will come to pass with implications for hundreds of millions of people on the planet, leaving out perhaps only those on the North American continent. Europe has to deal with this.

The rise of China as a global technological power has been underrated and somewhat smothered by the US chip war on China, and of all people, the Harvard Business Review has just run an article on how China is emerging as the likely champion of technology in the world. Here is the article:

China's New Innovation Advantage

By Zak Dychtwald, Harvard Business Review, May-June 2021

The future of the Chinese economy lies *in innovation, and everyone in China knows it. But that hasn't always been true. Innovation didn't drive the manufacturing miracle that has unfolded in*

China over the past half century, during which some 700 million people have been raised—or lifted themselves—out of desperate poverty. Instead the driver has in large part been what might be called brute-force imitation. Relying on a seemingly limitless supply of cheap labor, provided by the hundreds of millions of ambitious workers born during the postwar baby boom, China devoted itself prodigiously to the production of other countries' innovations. The effort enabled a country that missed the Industrial Revolution to absorb the world's most modern manufacturing advances in just a decade or two. Fittingly, China earned a reputation as a global copycat.

Now times are changing. China's Baby Boomers are being replaced by its Millennials, born under the country's one-child policy, which was officially launched in 1979 and designed to get birth rates below replacement level. It worked—but it also created a new demographic reality: China today doesn't have enough people in its rising Millennial and Gen Z workforce to replenish the ranks of its disappearing Baby Boomers. According to its National Bureau of Statistics, China will have 81 million fewer working-age people in 2030 than in 2015; after 2030 that population is projected to decline by an average of 7.6 million annually. This has profound implications. With its pool of younger workers shrinking, China can no longer rely on imitation if it hopes to grow and support its aging population. It will have to rely on innovation instead.

But can China innovate? Can it compete at a global level with developed nations that have built their economies on innovation for decades? Many observers are doubtful. In recent years, they note, the West has steadily produced an abundance of innovations and innovators, while China has produced relatively few. In March 2014 this magazine published "Why China Can't Innovate," by Regina M. Abrami, William C. Kirby, and F. Warren McFarlan, an article that captured the conventional wisdom. The authors' arguments were sound and well supported at the time. But just two years later eight of the 10 companies that had reached a $1 billion valuation in the shortest time ever were Chinese—and six of those eight were founded the year that article was published.

Those are startling numbers for a country that in 2020 ranked only 14th on the Global Innovation Index. Something clearly propelled those Chinese companies to the top, but the metrics we use to evaluate innovation have missed it. We tend to focus on people and companies that generate big new ideas—charismatic heroes with dash, daring, and dynamic thinking. By that measure the U.S. innovation ecosystem stands apart. But in the past five years, as an "innovation cold war" has taken shape between world powers, China has achieved a kind of parity with the United States—and the driving force behind its success may not be its innovators at all.

To understand what's powering the global rise of Chinese companies, we need to recognize that China now has at its disposal a resource that no other country has: a vast population that has lived through unprecedented amounts of change and, consequently, has developed an astonishing propensity for adopting and adapting to innovations, at a speed and scale that is unmatched elsewhere on earth.

It's that aspect of China's innovation ecosystem—its hundreds of millions of hyper-adoptive and hyper-adaptive consumers—that makes China so globally competitive today. In the end, innovations must be judged by people's willingness to use them. And on that front China has no peer.

The Story of Old Yang and the Growth of Mobile Payment

Old Yang is a beggar who lives in Beijing. He can usually be found just outside the Gu Lou Street subway stop in one of the city's tourist districts, where for years he survived on loose change and spare bills from commuters. But life changed dramatically for him in 2015, when everyone in Beijing abruptly stopped carrying cash. Seemingly overnight, the entire Chinese population began to download apps such as WeChat Pay and Alipay and integrate mobile payment into their daily lives.

For Old Yang, this tech disruption could have spelled disaster: His livelihood relied on cash. But faced with a crisis, he adapted. First he scraped together enough money to buy a cheap Xiaomi smartphone. Next he printed a sign that displayed the QR codes for his WeChat Pay and Alipay accounts. Then he returned to his spot outside the Gu Lou Street station, where, with the sign strung around his neck, he connected his phone to the subway Wi-Fi—and waited.

Old Yang didn't simply survive in China's new cashless world. He thrived. Today, when people want to give him something, they no longer reach into their pockets for spare change. Instead they open the mobile-payment app on their phones, scan a code on Old Yang's sign, and transfer a few yuan to him. The average donation he receives has grown from one or two RMB to three to five RMB—an almost 300% increase. Digital upgrading works.

No payment is too small or too big for Chinese mobile-payment apps, and no business is too informal. In 2015 in Chengdu, I used my phone to pay for a new laptop from a global brand. Then I went outside the store and used my phone to buy a breakfast sandwich from a woman who cooked it on an upside-down metal trash can suspended over hot coals on the side of the road.

Old Yang, the computer-store owner, and the breakfast-sandwich vendor are not innovators. They don't have much "value" in the systems we use to rank global economies on innovation. But what happens when rapid adoption and adaptation become normal for more than 900 million internet users in every social stratum? You get an economic force that can change the terms of global competition.

The story of mobile payment is especially instructive, because the technology that enables it emerged in the United States and China at almost exactly the same time. Thus their comparative innovativeness or timing—who copied whom?—becomes almost a nonfactor. In 2014 Apple Pay was launched in the U.S., followed a year later by Samsung Pay and Android Pay, and Alipay and WeChat Pay were launched in China.

In timing and tech the innovations were all but equal, but their adoption rates have differed dramatically. In early 2019 Apple announced with much fanfare that 383 million phones around the world had activated Apple Pay—but at that point only 24% of U.S. iPhone owners had ever actually used the technology. And not until that year did Apple Pay surpass the Starbucks mobile app—used only in Starbucks stores—as the most-used mobile-payment app in the United States.

Things have unfolded very differently in China, where WeChat Pay has won 84% market penetration among smartphone users. (The app is available to users of Tencent's super-app WeChat, which has 1.2 billion monthly active users.) That kind of penetration explains why in 2018 WeChat Pay did 1.2 billion transactions a day, whereas Apple Pay did one billion a month. And it's why in 2019 the total gross expenditure in China via mobile app (347 trillion yuan, or roughly $54 trillion) was 551 times greater than the total expenditure in the United States ($98 billion).

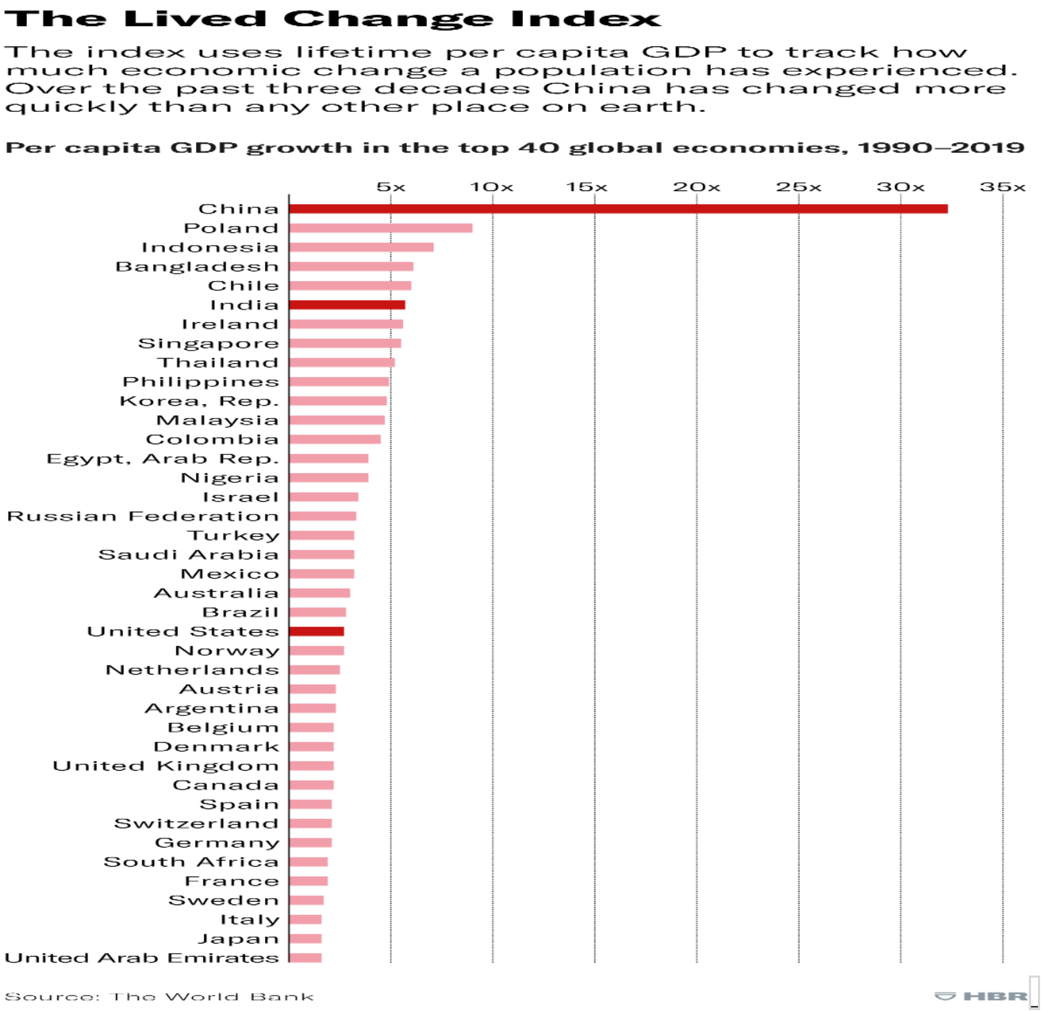
So in the case of mobile payment, which country or company was more innovative? And did it matter?

Young China

Undeniably, the regulatory environment has helped mobile payment take off there. Though this article focuses on the underexamined will of Chinese citizens to try and to trust new technology, the specific way China widely adopted mobile payment was paved by two groups: Chinese innovators, who are increasingly at parity with their Silicon Valley counterparts, and the government. In this case Chinese regulators did the unprecedented by granting banking licenses to two nongovernmental tech giants, Alibaba and Tencent, at the expense of state-owned lenders. Without that support the mobile-payment rocket wouldn't have left the ground.

But what has made China's adoption of mobile payment so successful—and globally unique—is its people. Even here the government has played a significant role, because it has conditioned its citizens to expect less data privacy than Americans do—and indeed, has granted them fewer rights. But there's more to the story than that. To understand why the Chinese public is so fiercely adoptive, let's think about Young China, by which I mean two things: first, the 700 million Chinese who are under the age of 40; and second, a new national identity, which in the past decade has emerged as distinct from the manufacturing identity of the late 1990s and the 2000s.

Lived experience has shaped China's unique attitude toward adoption in recent years, and that experience has been unlike any other country's. To understand just how different it is, consider what I call the Lived Change Index, which uses lifetime per capita GDP to track how much economic change people have lived through. As the exhibit "The Lived Change Index" illustrates, to have lived in China since 1990, broadly speaking, is to have lived in a country that is moving faster and changing more quickly than any other place on earth.



When we talk about the speed of change in China today, we tend to focus on its rapidly changing physical landscape—and the differences there are dramatic. But in doing so we neglect changes in the mental landscape of China's people. Looking at the exhibit, or at side-by-side pictures of Shanghai in 1989 and today, you might ask yourself how living through that sort of change would shape your expectations for progress and your sense of what government, technology, and commerce can do.

American Millennials have lived through dramatic, life-altering changes since 1990, the year I was born. First came the internet. Then cell phones. Then smartphones, social media, dating apps, mobile banking, electric cars, big data, CRISPR, and so much more. Since 1990 Americans have seen U.S.

per capita GDP grow by roughly 2.7 times, which sounds impressive until you realize that somebody born in China in 1990 has seen per capita GDP grow by 32 times—a whole order of magnitude greater. In 1990 China's GDP represented less than 2% of the global total. By 2019 its share had jumped to nearly 19%.

Consider some of the specifics. In just three years, from 2011 to 2013, China poured more concrete than the United States had poured in the entire 20th century. In 1990 China's rural population had one refrigerator per 100 households; today that number is 96 per 100. (Food preservation is a common benchmark for development.) In 1990 China had only 5.5 million cars on the road; today it has 270 million, of which 3.4 million are electric, representing 47% of the global electric fleet. In 1990 three-quarters of the country's population was rural; today nearly two-thirds is urban, an increase of more than half a billion people.

India's Counterexample

Perhaps it's not fair to compare the United States and China. Most observers write off China's high rates of mobile-payment adoption as the result of "leapfrogging"—that is, modernizing so recently and so quickly that the country has been able to skip some of the cumbersome stages of technological development that the United States had to live through. Think of what Google calls the "next billion users" market, where internet users are leapfrogging expensive desktops or laptops and getting online for the first time using cheap smartphones. India, China's "other" in Asia, is part of that market. So let's compare it for a moment with China.

The two countries are ripe for comparison. They were founded as modern polities at nearly the same time—India in 1947, and the People's Republic of China in 1949. As recently as 1992 both had a per capita GDP of about $350. Both have an exceptionally large population. India's is younger than China's, suggesting a greater openness to new technologies. The two countries put a similar emphasis on education and STEM.

Study the data a bit more closely, however, and big differences emerge. Just half of India's population uses the internet, and many Indians resist the idea of scanning QR codes to pay for things. As a result, only about 100 million people in India use mobile-payment apps, compared with some 850 million in China—even though Google, through its Next Billion Users initiative, has invested hugely, along with other organizations, to improve India's infrastructure and access. That's an extraordinary differential, and it can't be explained away by leapfrogging. In both countries mobile payment and QR codes are demonstrably faster, easier, safer, and cheaper than cash. Yet the incredible adoption disparity persists.

What explains it? You can find the answer on the Lived Change Index. During the past three decades per capita GDP in India has grown in a roughly linear fashion, from just over $350 to more than $2,000—whereas in China it has grown almost exponentially, from just under $350 to more than $10,000. That disparity helps explain why many Chinese will scan a QR code but many Indians will not. The point here is not that any one culture is better at innovation but, rather, that certain developmental ecosystems create naturally different attitudes toward change, adoption, and newness. More than any other population in the world, the Chinese in recent years have had to adapt to radical change—and they have learned that innovative technologies can be key to their survival.

Closing the Innovation Gap

To compete successfully with China in the decades ahead, countries and companies will need to start strategically prioritizing not just innovation input, in the form of heroically imagined new tools and technologies, but also innovation output that becomes transformational through rapid adoption on a very large scale. In the short term, China has a clear advantage in terms of output, thanks to its huge population of hyper-adopters and hyper-adapters, and as a result it is poised to take the lead in the *innovation arms race. But if business leaders outside China take the following steps, they can begin to close the gap.*

Pay attention.

As the science-fiction writer William Gibson once wrote, "The future is already here—it's just not evenly distributed." That's an insight worth applying to China, which in some cases is years ahead of global markets and so provides an excellent way of peering into the future, particularly when it comes to digital and retail trends.

Consider Visa, Mastercard, and other key global players in noncash payments, which to date have resisted encouraging mobile payment, ostensibly unwilling to fully disrupt their credit card empires. If China is any guide, those companies could be headed for a "Kodak moment," as when Kodak, in response to the emergence of the digital camera, read the future wrong and made the disastrous decision to define itself as a film rather than a photo company. What's in store globally is probably a lot like what we already see in China, where people trust platforms like AliPay and WeChat Pay for all things financial, from purchases to loans to investments. But the big credit card companies still have an opportunity to pioneer and encourage mobile payment globally rather than ceding the market to tech giants, as the banks in China have largely done.

Similarly, the online and offline retail ecosystems in China are merging in ways that are years ahead of what's happening in the United States. In Chinese grocery and convenience stores, it is now commonplace to see rows of QR codes below meat and produce. Scanning a QR code with a smartphone will reveal the product's entire story, from, say, where a cut of salmon was sourced to how far it was shipped. Similarly, scanning a tech product in a store can bring up the brand video and user ratings. This is what Alibaba calls New Retail, and it could well become the global norm, because it allows brands to deepen their relationships with customers directly. Nearly all multinationals operating in China have adopted this sort of digital-first, China-forward strategy. (U.S. companies operating there have rolled out far more advanced versions of this strategy than the ones they currently use at home.)

The lesson here is that Chinese consumers have come to expect such a rich online brand experience. Failing to provide it, or being seen as having fallen behind, will doom a company in the market. The Chinese can show companies looking to gain competitive advantage in U.S. markets how to develop better touch points with consumers.

Up your imitation game.

If you're used to believing in your own exceptionalism, leaning into imitation as a strategy can feel like a declaration of defeat. But innovation has always been about both invention and imitation. We don't think less of Apple because Steve Jobs got the idea for the mouse from Xerox. Genius steals, and it always has. To compete with China, imitation must be a weapon in the arsenal of global companies—one they're willing to use.

Some of the smartest non-Chinese companies already understand this and are looking to Chinese rivals for ideas. That's what Facebook did in 2019 when it added an integrated payment option to its chat function, five years after WeChat had introduced a similar option on a mass scale, in a pioneering example of how to productively fuse the worlds of social and commercial technology. It's what Amazon did when it modeled its Prime Day (a wildly successful annual event during which Prime members receive all sorts of sale offers and discounts) on Alibaba's Singles Day. Instagram got the idea for its Reels feature from TikTok. The list goes on and on.

Companies looking to China for ideas should consider these courses of action:

Lead from your China team. We've all been told to localize for China. Take that a step further and, at least in part, lead from China. Few companies empower their China teams to help create global strategy. That's a missed opportunity. What is second nature to your China team may be revelatory to your other teams. What you learn about local strategy in China may well help transform your global strategy.

Expose your best. Send your best and brightest to China. Expose them to new ideas there. Expand their sense of what's possible. I have spoken with delegations representing a range of companies, from German auto manufacturers to U.S. retailers, who told me that part of their mission in visiting China was to learn from the digital ecosystem there and take those lessons back home.

Stay informed at China speed. As the saying goes, "If you haven't been to China in the past six months, you haven't been to today's China." Stay informed constantly and consciously. Quarterly updates from trendspotters and on-the-ground resources are a good start. For global executives, video updates illustrating trends and experiences can be a close second to travel.

What are our conclusions from the above? Firstly, I would not disregard what Harvard has to say on the matter. Therefore, we can conclude that the technological progress in China is for real. As a matter of fact, I personally witnessed the technologically enabled beggars, as even five years ago, I could see buskers in Shanghai displaying QR codes to solicit cyber-tips for their efforts.

As I see it, the animosity between Europe and China as brought about and insisted on by the US cannot be sustained. Europe is in no financial condition or mood to pick a fight with China, when the European economy is not doing well, evident in its largest country, France. Every opportunity it gets to expand profits to help its own population should be taken up. It was never a face-off between Europe and China in the first place. With the kind of popular discontent that is showing up on the streets of Paris, Berlin and everywhere else, disguised under many grievances, but nearer always about not having enough money at the core, the attitude towards China will change.

It has to change. China is no longer just selling cheap goods benefiting its copy-cat industries. It is becoming more capable in many ways than Europe, and going forward, Europe has to deal with the issue of missing out on Chinese technologies that are going to be really desirable to their own countries. Electric cars is one such simple example. China is already the largest producer of electric car batteries in the world and given the ambitious plan for Europe to switch to electric by 2035, there is no way it can avoid dealing with China. (Actually, the same with America.) Europe's inability to engage with Huawei, on America's insistence, already represents a serious deterioration of their 5G and eventually 6G capabilities, and if it continues to be dictated by American foreign policy, then it will ultimately lose out. The electorate will protest. The politicians will give way.

There is the further matter of de-dollarization. I have written extensively about this. I do think that on current trends, there will be de-dollarization. This does NOT mean that the Dollar will die. What de-dollarization means to me is that the total monopoly of the Dollar in many of its functions will no longer remain the monopoly it currently is. De-dollarization means the breaking up of the monopoly, not the death of the currency.

In short, the termination of a monopoly does not imply its demise.

After all, America remains one of the two largest economies in the world, and its currency will dominate trade and finance for at least another generation to come. The breaking of its monopoly over its use in trade settlement or reserve accumulation will simply mean that it goes from a higher percentage of these transactions to a lower one. Specifically, the dollar is now nearly 60 percent of global reserves. The Chinese Yuan is only 2.8 percent. De-dollarization will result in the dollar going from 60% of all national reserves to 50% and the Yuan increasing to 10 percent. That's it. Because of the state of the European economy, de-dollarization will not make more people in the world hold Euros or Sterling, which will probably remain at about 20 and 4.5% respectively. And even that will take 20 years for us to get there.

In terms of trade settlement, the US Dollar is probably 90 percent of everything, and when we have complete de-dollarization, it may become 60-70 percent in USD. Europe having cut itself off from Russian energy and other commodities is shooting itself in the foot. If it also refrains from trading with China, that will not help Europe at all.

And when it comes to speculation, it is now 95% dollar based; and it will remain essentially that way, unchanged for another generation.

So if anyone of you think that the Dollar is going the way of the Mozambique currency, as one Youtuber suggests, that is a nonsensical notion.

Another implication of the fast adoption of technologies in China, as in the immediate adoption of Wechat Pay and Alipay, is that when China wants to launch its digital yuan as a transaction medium, it is likely to be immediately successful. And if so, all countries, including those in Europe, will have to deal with it. As noted in the HBS article, money is where it will all come together. This is where the main tenets of the FT article above and the HBS article merge. A technologically sophisticated China will lead to the rapid adoption of Central Bank Digital Currencies, not crypto nor the USD, and this may change the world of finance. Being the third most important part of the global economy, after China and the US, Europe has to play ball in this aspect of de-dollarization and the rise of Chinese technology.

The strangest thing of course, is that it is the US State Department that has brought this de-dollarization about. The country was enjoying the benefits of having free credit from the rest of the world, but this got to its head, and it wants to control other countries that use its currency. De-dollarization implies that there are many countries who do not want to put their heads into a noose which can be tightened by some neo-con sitting in Foggy Bottom (US State Department) at any time. So they back off. And there will be fewer people left to finance the growing US deficits.

Is that the best leadership that liberal democratic systems can bring about to deal with the fast moving multipolar world we are forced to live in?

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Un-Influencer in a World full of Hubris