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It is my great pleasure to call Mr. Kevin Rudd, whom many of you know. There are many reasons for him to be known, because he is a very famous man. He is a former Prime Minister of Australia, and he is now recognized as one of the best experts on China worldwide. Mr. Kevin Rudd speaks Mandarin fluently, with a slight Australian accent, and I have asked him to give us his assessment on the Chinese situation today, both from an internal viewpoint that is, the economic, social and political situation, and external, that is, foreign policy in a large sense, the grand strategy, and so on.

Kevin Rudd

More importantly, we have been following the rugby scores, so if you follow rugby, the Cherry Blossoms of Japan are now 28 against Scotland at 21. This, for those of you that follow this arcane sport, as I do, this is what we call a global upset. Well done to Japan, but the Scottish are still coming back, so we will see.

Thank you to Thierry for having me back at the World Policy Conference. I will spend 10 minutes talking to you about what I think Xi Jinping's worldview is, and then I will spend the following 10 minutes talking about what I think the American strategy is in response to that, with a concluding thought on where that leaves the rest of us in Europe, in the rest of Asia, in Africa, as well as in Latin America.

First, on Xi Jinping's worldview, I always think the beginning of wisdom in international relations is to understand how the other side thinks and why they think that way. So we should adopt a view that we are sitting around a large table of the standing committee of the Politburo. There are only seven of them, they are all men, and they meet every week like a cabinet in a democratic state. They have formal cabinet documents and papers, and it is important to probe how they see the world under Xi Jinping's leadership. Therefore, here are what I see as their 10 core priorities, if they were to be described as Maslow's hierarchy of needs, starting from the biggest priority down to number 10, which is still important but not as important as number one.

Priority number one in Xi Jinping's mind, and those of the standing committee, is keeping the Party in power, long term, not short term, not as a transition to democracy, but long term, as the permanent government of China. Xi Jinping's priority within that is for he himself to be long-term leader. He has, as you know, changed the Chinese constitution to allow for unlimited terms for the Chinese presidency. That will come up for final vote in 2022, and some of us think that if he gets his political way, we could see Xi Jinping in power until the mid-2030s, by which stage he will be in his early eighties, almost young enough to become a candidate for the presidency of the US. Priority number one, therefore, is to keep the Party in power, and within that, Xi Jinping staying in power.

Regarding priority number two, again in this series of concentric circles I will try and construct here, there is national unity. It sounds easy, but when you look at the practicalities, the razor-sharp focus of the leadership is always on Tibet, Xinjiang and Taiwan, and now more recently events in Hong Kong. Taiwan represents unfinished business for the Chinese Revolution, and whereas we would think it is irrational for China to throw so much of its strategic and political assets at regaining what it sees to be the renegade province from 1949, for this Chinese party leadership, and Xi Jinping in particular, it is core business. And if anything is likely to trigger a conflict in the wider region that still looms as a big candidate.

Thirdly, there is sustaining economic growth, which is hard in the current circumstances. The magical number in the Chinese leadership is 6%. Why? The Party calculates internally that they need that level of growth to sustain social and economic stability, and to provide enough jobs for university graduates each year. Xi Jinping, of course, since he took over six years ago, has applied a different political economy model to those of his predecessors, and this is one of the reasons we are beginning to see a slowing in that growth. What Xi Jinping has tried to do, in part, is to reinsert the



Party as a central factor in China's day-to-day market governance, and Chinese entrepreneurs, the Jack Mas of this world, have looked at this and decided that they do not like it. What we have seen in the last several years, as a result, is the beginning of a private fixed capital investment strike within the country, uncertain about the future of the private sector. Related to that task, however, of sustaining growth at 6%, is not just keeping people happy with rising living standards, manageable unemployment and poverty elimination to keep the party in power, but the second element is to grow the capacity of the Chinese state globally. And that is where discussions earlier today, particularly from John Sawers and others, about the centrality of the tech revolution in the economic strategy and grand strategy of the Chinese leadership is front and center, so that China wins the future global economic competition.

Priority number four comes in part as a reflection of the excellent discussion we had earlier today between Laurent and Patrick about global climate policy. That means sustainability in China's domestic governance, and their reason for concern about it is that Chinese people want clean air, they want clean water, and they want food that will not poison them. If ever there is a lightning rod that takes those concerns back to the question of the Communist Party's legitimacy, it is a failure to deliver clean air, and when you see spontaneous protests across the whole country because the air is not clean any more, you see how fundamental it is. They are not protesting about climate change per se but about particulate matter concentrations in the air, which is having a massive impact on public health. This has gone, in the last 10 years, from being a concern out there for the Chinese Communist Party leadership, to a central concern. It is the mirror image to priority number three, which is of course sustained economic growth.

Number five in Maslow's hierarchy of needs is modernizing the People's Liberation Army. This means turning it, not into an agent for domestic political control, because the technologies of the surveillance state now mean that the Chinese police and intelligence services are confident they can maintain domestic control, which historically was part of the mission of the Army. Xi Jinping's mission is to turn the PLA into a body which can 'fight and win wars'. That is his doctrine. So you see this huge investment in the PLA in capital, huge investment in the transformation of personnel, the removal of most of the previous leadership of the PLA and their replacement with a new rising professional leadership, along with a reorganization of China's military districts - the principal focus being Taiwan and the US.

Priority number six in Maslow's hierarchy is as follows – China's neighboring states. This is where we flip, if you like, from the domestic priorities to those which we would classify as foreign priorities. The neighboring states for China are 14 in number, the largest number in the world for any country apart from Russia, which also has 14. In Chinese strategy historically, it has always been a deep learning principle over many centuries that China's security domestically is threatened by one or other of its neighboring states. A number of foreign invasions in Chinese history, in fact, have resulted in those foreigners becoming the reigning dynasty for some several hundred years. Therefore, the priority for turning China's neighboring states into benign neighbors, and if possible compliant neighbors, all 14 of them, is a central organizing principle in the way in which this leadership looks at the world. The principal objective there has been Russia. Russia shares a very long border with China, and if you look at the transformation of the Russia relationship in Xi Jinping's period, it has gone from what I would describe as strategic ambiguity five or six years ago to strategic condominium, which is where it is today. Obviously, there are still residual reservations in Moscow about Beijing, and the reverse applies as well, but I personally am surprised by the rapid nature of the convergence, not just of economic interests between the two, but also of a strategic view of the world.

Seventh, China looks at its continental periphery to its west as one huge zone of long-term market opportunity for itself. It is called Eurasia, and therefore, when you hear about the Belt and Road Initiative, that is part of a much wider Eurasian initiative. Part of China's attraction to this wider region is that the Americans are not there. And with the Russians now part of a wider strategic condominium, there is no fundamental strategic objection to China developing this vast land mass compromising so many states, extending all the way to Western Europe and the Gulf, as a future massive market for China's domestic surplus capacity. It also, on top of that, wants to find the opportunity through economic cooperation to turn this into a wider region of, let us call it, broader political compliance with China's own worldview.

Eighth, turning to the east, is China's maritime periphery, where the number one problem is, of course, the US, from Beijing's perspective. When China looks east it sees threat, threat and threat – it sees an array of American military alliances from Tokyo through Seoul, the de facto arrangements with Taiwan down to the Philippines despite recent changes in the presidency, traditional alliance structures also with Thailand and Australia. China's strategy, as a



consequence, is over time to push the US back, first to the first island chain but then to what is called the second island chain. (Think of the Japanese archipelago, then draw a line through the American territory of Guam down to the Philippines archipelago, and then south.) The reason for that is essentially Taiwan-related; for China ultimately to execute its military strategy in relation to Taiwan, if it ever needed to, it must have the Americans behind the second island chain, and Chinese military modernization is designed around that organizing principle as well.

Second last is Chinese strategy for the rest of the world – Latin America, Africa, the rest of Asia, and of course Europe. Once again, it is to extend China's massive market opportunities, to find places where China's excess domestic capacity can be sold to the world at large, but also, through that, to make as many political and foreign policy friends in Africa and Latin America as possible. You do not have to be a keen PhD in international relations, studying voting behaviors in the UN, to know that China has succeeded in creating a massive voting constituency for itself out of Africa alone, before you add a large slice of the rest of Asia and Latin America and before you get to Europe or anywhere else.

Finally, the tenth in what I describe as Xi Jinping's Maslowian hierarchy of needs is the future of the global rules-based order itself. China at this stage has this as a work in progress within its own think tanks; it is not fully or finally conceptualized. However, if there are elements to it, I would describe them as follows. One, with the existing institutions of global governance, which have been described in various presentations as being in decline, China is actively investing in finance and personnel as well as beginning to influence the regulatory and operational behavior of those institutions over time. Secondly, the parallel track is to build institutions of its own outside the UN framework and the Bretton Woods framework. I have mentioned the BRI initiative, the Asian Infrastructure Investment Bank, and Shanghai Cooperation Organization, the security organization called SECA, and others in various parts of the world as well. China's strategy for the future of the rules-based system, therefore, is a bigger and more persuasive voice in the institutions that exist, while simultaneously developing institutions which are more Sino-centric. This is the way in which China views the existing institutions as being Amerocentric. However, over time, the think tanks are working around the Xi Jinping notion of what he describes as a "global community of common destiny for all mankind". There are a thousand think tanks at work on this at the moment; they would see it as the antecedents of the next Atlantic Charter. Let us wait and see.

I will conclude on the question of the US. The US, in observing all of this, has had a number of different reactions. If I could characterize US strategy for the last 30 years, since the fall of the Berlin Wall until the Trump administration, it is with three words: engage, shape and hedge. Engaging China is what you have seen bilaterally and multilaterally over many decades through the WTO and other institutions, through that engagement, the US has been shaping China into becoming, to use Bob Zoellick's term of 15 years ago, a "responsible global stakeholder", at least from the American perspective. In other words a country which would accept the existing liberal international rules-based system and would simply slide into it. Hedging (the other arm of post'89 US strategy towards China) is about continuing to have a military capability about yourself if the engagement part of the strategy described above fails.

Now, however, we have moved to a different zone altogether. As of December 2017, President Trump and his national security team announced the formal end of strategic engagement. Read the US National Security Strategy of November-December 2017; that is the formal turning point, and what we see emerging is the new bipolar world that we are now facing. This administration calls it strategic competition. But it is not just the trade war. It is also the unfolding tech war, not just in terms of technologies in themselves but the regulation of technology and tech standards as well. Beyond that, there are open questions now not just about decoupling in technology, but decoupling in finance, with debates now in Washington about the future of the New York Stock Exchange listing of Chinese firms, and open debates in Washington about whether future US administrations will allow US pension funds to invest in Chinese corporations which are deemed to be a strategic threat to the US.

Then you end up with the final stage of decoupling, if this were to unfold in this direction, with a currency war. China fears the continued dollarization of the entire global financial and economic system. Through its trading system, it now seeks to avoid as much as possible the intermediation of the Dollar and to do it through bilateral currency exchanges. China has looked long and hard at where all of this might go, which is the use of financial sanctions by the US with Venezuela, Iran and other countries, and therefore is concerned that where this decoupling will end up is one form or another of US financial sanctions, with its allies, on China itself. What then does China do? China, on the other hand,



does not wish to take the bold step of floating its own currency, the Renminbi, for reasons of loss of political control. It also faces the unfolding reality in its economy that it will soon face a current account deficit as well. This looms, therefore, as a major strategic challenge for our Chinese friends.

I will leave my comments there, we will talk about Europe, and the rest of the world I hope in the discussion that we will now have with Captain moderator. Thank you Thierry.