**Thierry de Montbrial**

We will now have a Q&A session. I will ask you two or three questions to start, then we will take questions and comments from the audience. My first question is whether we could go a little deeper into the internal domestic economic situation, because there is a debate. You say yourself that a 6% growth rate is what would be necessary to maintain good social conditions without unrest and turmoil, but yesterday Naoki Tanaka told us that the real growth rate might be closer to 2%. You told me that the reality is probably 3%, but 3% is half of the 6% which is needed. Is this a serious issue that could threaten the legitimacy of the Party?

**Kevin Rudd**

I mentioned that 3% figure to you on a Chatham House basis, and now the room knows, that is good! The bottom line is that if you speak to enough Chinese corporates, who measure things like their export sales, imports and electricity demand, these become different measures of where growth actually stands in an economy. Therefore, if you aggregate those unofficial, as it were, calculations of where substantive growth actually stands, it is a long way below 6%, as the current Chinese Government indicates.

The second point is what is causing that. I mentioned part of it before. Xi Jinping, because he is at heart a Leninist, does not inherently trust markets, and therefore it is a defining characteristic of the last several years of Xi Jinping’s economic reign that while the deleveraging campaign has been designed for good macroeconomic reasons to reduce the overall level of corporate debt in the economy, in the implementation of it, the deleveraging campaign has preferred state-owned enterprises and been discriminatory against private firms. Third, you also see some language from the Chinese Communist Party leadership about not wanting private companies in China to get too big so that they actually dominate the Party, and there is something of that story alive in the Alibaba tale. Finally you have smaller but still significant things – the enhanced role of the Communist Party secretaries within the hierarchy of a private firm. Put those together and you see, through 2017 and 2018, a radical decline in private business confidence in China, and that has translated its way through to the overall Chinese growth numbers.

Remember that the private sector now represents 60% of China’s GDP, so it has been the engine room for the growth of jobs, of technology, of exports and of the rest. And so when that sector is unhappy, it translates through into real numbers. Finally, what has the system done about it? From November last year, you begin to see Xi Jinping realizing that he has a problem, and a rapid series of measures involving fiscal stimulus, a level of monetary policy relaxation, and a change in the administrative use of credit to put more of it in the direction of small and medium private enterprises. But so far the data is fairly thin about these private sector players bouncing back as quickly as China wanted.

The final piece in this jigsaw is the US-China trade war. It has not been the cause of China’s slowing growth, but it has added to it: both objectively, because the traded sector of the Chinese economy is about 36% of GDP, and if you look at the sheer volume of US-China trade, it flows through to the real economy; but it also dovetails with the problem of declining business confidence caused by other factors which have been more domestic. Does it represent a legitimacy threat to the Party? Xi Jinping would not have acted unless it represented a problem to him, and so it is the one issue domestically on which Xi Jinping remains politically vulnerable.

**Thierry de Montbrial**

The second question is about Hong Kong. You said elegantly that it was the unfinished business of the Revolution. How can this business be finished? What is the worst-case hypothesis?

**Kevin Rudd**
My reference before was to Taiwan being unfinished business for the Chinese Revolution. It is important for us to understand how Beijing looks at developments in Hong Kong now, and when they look at Hong Kong, they see something which is troublesome, difficult, but of a vastly smaller order of magnitude compared with the US-China trade war. That is for China to resolve as a top priority, and managing Hong Kong is in the middle of the field. It does not mean it is unimportant. I just want to give a sense of proportional reality to it.

Regarding the question we see often debated about whether our Chinese friends will resort to military force in Hong Kong, I do not believe that is probable at all, and the reason I say that is first, logistically it is a massive task. Think about the military or paramilitary occupation of Hong Kong – seven million people over a vast number of islands. This would make Tiananmen in 1989 look like a cakewalk. This is a very difficult logistical exercise. Secondly, it would inevitably involve a lot of bloodshed, and because of that, you will therefore have a huge international reaction to the physicality of the occupation, which would be very violent. You have seen a number of hardcore protestors in Hong Kong who are now quite well trained in how to deal with things.

Finally, with Carrie Lam still in control, if you are Xi Jinping, as soon as you militarily intervene, Hong Kong becomes 100% Xi Jinping’s problem; right now it is 90% Carrie Lam’s problem. Therefore, for those basic political realities, I regard it as improbable. There is a separate question about how this thing can be managed appropriately over the next several months, but on the headline question of whether they would do that, on balance they would not, unless the protest movement became mega-violent, by which I mean blowing up public infrastructure, killing lots of people – all those sorts of things. That would cross some threshold, but under present circumstances and known behaviors, I do not see that happening.

Thierry de Montbrial

Just to end on this Hong Kong question, we are 22 years after the retrocession and 28 years before the final integration with mainland China. How do you see the possibility of Hong Kong becoming a Chinese province, even in 28 years, because it is one generation? Do you think the mentalities in Hong Kong will change so much in 28 years that it is possible to get to that point without major upheavals?

Kevin Rudd

I have lived in China quite a lot over the years, but I have also lived in Hong Kong. My kids were born in Hong Kong, I have many friends there, and I know the place reasonably well, although I do not speak a word of Cantonese; I only speak Mandarin. However, it has about it quite a different political and social consciousness to anything you find on the mainland, even in the rest of Guangdong in the south of the country. There is quite a different psychology. Given the Brits were there for 150 years, they actually left, or had an impact on, the place’s psychology in quite a profound way.

I am not sure how this will evolve, but in my own engagements with my friends in China, I have left a few radical ideas. For example, if you wanted to calm things down with Hong Kong, and whoever the future Chief Executive of Hong Kong might be once Carrie Lam does go – and she will sooner or later – the Chinese and Hong Kong administrations will need a circuit breaker in this current cycle. However, if a new Chief Executive, whomever he or she might be, were to throw out some conciliatory lines to the protest movement; conduct one or two of the public enquiries the protest movement want, for example, into the proper deployment of the police; and then undertake a radical investment in social housing and the underlying difficulties in Hong Kong so that poorer or middle-class people could live comfortably - this then is an argument you could begin to present to our Chinese friends on a way forward.

Unlike Taiwan, the PRC has already won in Hong Kong. They got sovereignty in 1997 – that is what that agreement was all about. Guess what? Looking at the future, on the economic measures of things, and looking at Shenzhen’s economy just across the border, as of two years ago, Shenzhen as a municipal area had a bigger GDP than Hong Kong. Play that out to 2049, a very big gap which will open up, and that is before you look at this mega-development in the Greater Bay Area which is linking Shenzhen with the rest of the Pearl River Delta in a massive project of development. Hong Kong, as I say to my Chinese friends, by the time we get to mid-century, will be as important to China domestically in its size as Macau is today. Therefore, why worry about it in the greater scheme of things?
This is a radical thought for our Chinese friends. Once we get to the 25-year point of the 50 years of one country, two systems, why not roll it over again for another 50? When I have mentioned this to my Chinese friends, there was as much silence in that room as there has been here. In other words, zero response.