

## KEVIN RUDD

President of the Asia Society Policy Institute, former Prime Minister of Australia

### **Thierry de Montbrial, Founder and Chairman of Ifri and the WPC**

I would like to thank you very much, Kevin. We would have preferred to have you in person, but it was not possible this time. I will just remind our friends that you are well known of course as a former Prime Minister of Australia, as well as former Minister of Foreign Affairs, but you are currently the President of the Asia Society Institute and one of the most famous experts on China. I am going to give you the floor immediately because we want to hear your views on the political situation in China and the interface between domestic politics and international affairs. We just had a general panel on Asia with a variety of different views on what China is up to, its leader Xi Jinping and his foreign policy goals in the short, medium and long-term. The floor is yours and we are eager to listen to you.

### **Kevin Rudd**

Thank you very much, Thierry. Let me spend 10 to 15 minutes on one question, which is what is Chinese domestic politics looking like between now and 20<sup>th</sup> Party Congress at the end of 2022? Secondly, what does Chinese economic policy look like in that period given all the recent publicity about the return to socialism? Then thirdly, what does that mean for the long-term trajectory of Chinese foreign policy and strategic policy? I am going to spend about five minutes on each of those and then let us have a discussion.

On Chinese domestic politics, I think it is fair to say that Xi Jinping has moved the center of gravity of the Chinese Communist Party further to the left during his nine years in office. We see this of course in terms of the reassertion of the centrality of the Communist Party in every element of Chinese governance and in Chinese life as well as the assertion of himself as the Supreme Leader within the Communist Party. We also see it in a range of crackdowns against his political opponents through a series of Maoist-style Party rectification campaigns, of the type used by Mao way back in Yan'an in 1942. This, together with the anti-corruption campaign, has been the means by which he has sought to eliminate any critical opposition against himself from within the leadership echelons of the party. As a consequence, if you look at the combined impact of these measures over the last nine years, it is quite a different set of Chinese politics now than we had very much at the end of the Hu Jintao period in November 2012.

Of course, one of the reasons Xi Jinping is doing that is ideological and as I have said to many analysts, Xi Jinping is fundamentally a Marxist-Leninist. As a consequence, he will not ultimately tolerate any diversity of view that undermines the centrality of the Party's position as the Leninist vehicle of the Chinese revolution. In other words, he is contracting the private



space for political dissent and contracting the space for the entrepreneurial class and the private sector. He is also contracting the space for what you can do in your normal lifestyle, with for example, restrictions on the gay and lesbian community in China; there are new restrictions on the number of computer games you can play, when you can play them and what their content should be. Ideology and the central role of the party has been a principal motivation for this move to the left.

However, this is also individual and political. That is, he seeks to acquire the reelection of himself as General Secretary at the 20<sup>th</sup> Party Congress and reappointment and as China's President the following March. That is all about 12 months from now so there is quite an intensive political campaign by him against any would-be opponents to that extension of his term in office. In my view, he would like to see that term in office extended through to about 2035.

I said I would also address where Xi Jinping is going on the economy. Parallel to what I just said, the move to the left on the Chinese political spectrum has been matched by a move to the left on Chinese economics. We have seen this in both the ideological domain and the new configuration of concepts of China's New Development concept, as a replacement concept for Reform and Opening. We have seen it in China's new doctrine of the Dual Circulation economy, which is code language for greater national economic self-sufficiency and self-reliance and less dependency on the international market. Third, we have also seen it in the contracting space for the private sector and a reassertion of the role of the state-owned enterprise sector. Part of that is a new domain for Chinese industry policy that is state intervention in driving the new mega-corporations of the future in the new technologies of the future. All these shifts have occurred at much the same time as we have seen those unfolded in politics. Although the moves to the left on the economy did not start back in 2013. In fact, we have seen them intensify since 2017.

What are the motivations for that? Once again, it is ideological. Xi Jinping wants to see the reassertion of the Party-state. He does not like Chinese billionaires becoming the role models for China's youth for the future. He also believes that to hold onto power he must see bigger wealth redistribution to China's working classes and lower-middle classes. He also believes that this is all necessary in order to deliver the long-term realization of his national ambition for China to become a global superpower by 2049. He believes that that can only happen as a consequence of the state driving this.

Of course, this is a shift in the economic model from 35 years of reform and opening to what Xi Jinping now calls the new national development concept driven by greater reliance on the party-state within the middle of it rather than the private sector. The problem with this is whether this whole model and experiment will work or not or whether as a result we will see China's animal spirits having been crushed and whether its economic growth numbers will start to come down. Right now, we are in this process of change and it is too difficult to predict how it is going to land. This new direction was articulated most clearly in the 14<sup>th</sup> Five-year Plan, which was promulgated by the Party in the country in March of this year. Much of what I have just described is articulated in the pages of the Plan, which of course is then taken down to the provincial and sub-provincial level.



Given that the private sector represents 60% of GDP and some 90% of all Chinese innovation, and of course 80% of all China's employment generation, there is a question as to whether this move to the public sector, to the state-owned enterprise sector, to the industry policy drivers of China's "guided market" model now, there is a real question of whether this will actually backfire.

The last thing I wanted to spend four or five minutes on is what this all means in terms of China's foreign policy and strategic policy. If I can put my summary position, it is a bit like this: Xi Jinping has taken Chinese politics to the left for the reasons I have explained. He has taken economic policy more recently to the left for the other reasons I have explained. But at the same time, he is taking Chinese nationalism to the right and that is a reflection of his desire to have a more assertive Chinese foreign policy and to realize more foreign policy goals in the short to medium-term rather than the medium to long-term. It is also because Xi Jinping realizes that domestic nationalism provides another pillar for domestic political legitimacy for the Chinese Communist Party as well.

In the past, political legitimacy for the Chinese Communist Party, given that they do not have elections, proceeded from three pillars. One is traditional Marxist-Leninist ideology within the Party and all 95 million members of the Party. The internal orthodoxy, the internal language of orthodoxy and practice of that orthodoxy provides legitimacy in the eyes of the Party for its continued role, and also those who would voluntarily support the Party's ideological mission. The second pillar of orthodoxy during the Deng Xiaoping period, given that Party ideology collapsed after the Cultural Revolution, was what happened with Deng's economic transformation of the last 35 years. The new pillar of legitimacy was prosperity and, as prosperity rose, not just for the country but for individuals within it, then so the Communist Party was seen as delivering the goods. However, the third pillar of legitimacy has been nationalism and rising Chinese national power and the assertion of that power, particularly against the United States and Japan, as well as other members of the so-called West. This is becoming more important as a pillar for legitimacy as a question mark begins to rise over China's slowing economic growth rate, the actions taken against the Chinese entrepreneurial class and whether in fact the economic miracle of the last 35 years may begin to slow down and deliver less in the future than it has in the past. That makes nationalism more important.

What does it mean in practice? It means that in the next decade, assuming that Xi Jinping is reappointed, we will see a progressively more assertive China over Taiwan, the South China Sea, the East China Sea, over its policies with its 14 neighboring countries. You will also see a more assertive Chinese international economic policy, a more assertive position by China in the international rules-based order and China seeking to enhance its position within the UN system, within the Bretton-Woods machinery, and also with new multilateral institutions that China itself creates.

Where will that land us by the end of the decade? I think we should not anticipate any early move by China against Taiwan. That is not because China has eschewed the use of force but because China believes that the balance of power will be more to its advantage against the United States by the end of the decade rather than at the beginning. The case is similar with the South China Sea and with both Japan and the US in the East China sea. I do not see any immediate flashpoints in the next year or two in any of these important theatres. However, I do

see flashpoints emerging towards the end of the decade as the balance power slowly changes unless of course, the Americans can arrest that balance of power and partnerships with allies in this part of the world.

Thierry, I have spoken now for just under 15 minutes on Chinese politics, the economy, nationalism and its impact on Chinese foreign and strategic policy; I am happy to take any questions you may have.

### **Thierry de Montbrial**

Thank you Kevin for this extremely clear statement. I have two simple questions for you. First, the economic political model of China – and I say economic political because, politics, the Party is everywhere – is it viable from an economic viewpoint in the long-term? It is a very important question because if the answer is positive, it would mean that the Western capitalist approach to economics, or to economic development, would not be the only possible one. That would be the first time in modern history that we have a real alternative model. The Soviet Union failed because of its inability to solve the economic problems within its political framework. Do you have some clear views on this very basic question?

I will put my second question at the same time because domestic and foreign policy are interrelated here. My second question is something we discussed briefly in the previous session. The traditional Chinese approach to strategy is in the spirit of Sun Tzu, which is to win without having to wage a war. In that sense, strategic patience could be enough to resolve the Taiwan problem. On the other hand, it is a fact that Xi Jinping has clearly and openly stated a number of times that the Taiwan problem would be solved during his mandate. Nobody knows exactly how long that will be but if we take him at his word, that means that in the next few years he wants the Taiwan problem solved. There is a contradiction there and my question is how do you explain the risk Xi Jinping has taken by being so assertive and precise in terms of the timeframe on Taiwan?

### **Kevin Rudd**

Thank you, Thierry. I will take those in sequence. On the question of whether the economic model will work, the honest answer is that the jury is out. You are right to say that this is a very large gamble by Xi Jinping that China has found a new path to development, to overcoming the middle-income trap, without further liberalizing the economy or politics. In fact, within the economy itself, and you are right to call it the economic political model, Xi Jinping has been quite explicit about his formulations on this. He has said that China is now embarked on a period of a guided market economy - no longer a market economy or a socialist market economy, but a guided market economy. It is a new term. The mechanism for the guidance, for example, is the massive injection of industry guidance funds into the economy driven by state-owned enterprises, against the strategic definition of core innovation driven industry sectors for the future.

You are from *la belle France* and I know well the importance of *l'État* within the French economic development model, but this is something that is 10 times as big in scale and in relative scale to anything that our friends in France would have experimented with before, and it is to be driven by state-owned corporations. It is big. They can see that it is different. They



also see it as the third phase in China's socialist model evolution after the failures of the pre-1978 period, the capitalist excesses of the post-1978 period, we now have the moderation into the Xi Jinping period into a guided market economy with greater common prosperity. Of course, in Europe and the West we are familiar with the whole debate around the *troisième voie* in terms of capitalism and social democracy, and socialism. This is different because the debates in the West between capitalism, socialism and social democracy were within a liberal political system, a democratic political system. This is within an authoritarian political system.

The only thing I would say in terms of definitive political analysis of whether or not it will succeed is from reading the most active students of China's economic development model in the international community today, like Nick Lardy at the Peterson Institute in Washington, and Barry Naughton, who I think is at the University of California on the US west coast in San Diego. If you read carefully what they have written in the last 12 months, they are skeptical about whether this can work. These are scholars not polemicists or classic think tankers as such, they are analysts of the Chinese economy. They are skeptical as to whether Xi Jinping can continue to generate the productivity growth necessary to actually engender long-term sustainable economic growth in China to break through the middle-income trap without falling victim to the economic and financial burden of an aging population, a shrinking population and shrinking workforce participation rate.

That is my attempt to answer the first question and I will be very brief on the second. On Taiwan, I do not think that Xi Jinping wants to go to war over Taiwan any time soon. I think he is very cautious. You just referred to Sunzi bingfa and article one in the *Art of War*, which Sun Tzu wrote, says that "War is a great matter of state which must be studied carefully, because if you lose a war, you lose the state". That is etched into the cerebral cortex of most Chinese leaders and as a consequence they take a highly cautious approach to the conduct of war. In my judgment, Xi Jinping intends to political leader of China through until 2035 and by that stage he will be 82 years old, still younger than Deng who retired from active politics around the age of 87. For those reasons, I suspect that his career planning personally and the strategic patience necessary to engender a bigger balance of power advantage for China during the course of this decade, would still enable him to threaten and, if necessary, take military action by the end of this decade or early in the 2030s to achieve his objective with much greater certainty of success than would that be the case anytime soon. I will leave my comments there.