

DEBATE

Nicolas Véron, Senior Fellow at Bruegel, Senior Fellow at the Peterson Institute for International Economics

I was impressed by your presentation of the shift to the left of Chinese economic policy, which you dated back to 2007 and the point you made, if I heard correctly, that Xi Jinping is departing from the previous strategy of reform and opening up. I would like to ask you about the Chinese application to CPTPP, which on the face of it and rhetorically appears very aligned with reform and opening up. In the previous panel, if I am correct, we heard Marcus Noland of the Peterson Institute saying that he took the application seriously and expected it to succeed. We also heard Ambassador Lee of South Korea taking essentially the opposite view, which is that the application was just for the sake of applying but not for the sake of joining CPTPP. I would like your view from both the geographical standpoint and your experience. Is China serious about joining CPTPP or is it just for show?

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

Thank you, that is an excellent question. I think what we face with China on trade policy is China recognizing that it has a window of opportunity given protectionism within the United States Congress and the unlikelihood of the United States re-embracing the TPP anytime soon. That is even though, for example, my think tank, the Asia Society, has recommended that the administration begin to do so sectorially through a recent piece written recently by my Vice President, Wendy Cutler, the former Deputy US Trade Representative. You can find that on the Asian Society website, and it was published in *Foreign Affairs* magazine three or four weeks ago.

The Chinese estimation is that American domestic policies will prevent them from moving either comprehensively on the TPP and will probably impede them from doing so segmentally. I do not see that as just for show; I see this action by China as a bit like occupying a geo-economic vacuum created by a still protectionist America and to underline to the world that protectionism did not die with Donald Trump but continues today. That is at a level of international political symbolism. On the substance of it, I believe that the Chinese are serious if they can get away with it. The reason I say that is that this has been the subject of enormous internal analysis by Chinese think tanks since the TPP was first mooted, in fact at the end of my own period in political office. I had long discussions with President Obama at the time that the TPP was the natural economic pillar to what was then described as the American pivot to Asia. You would have the geopolitical pivot but, minus an economic pivot, frankly it would ultimately fail. For those reasons, the Chinese have been researching this

possibility for themselves for the better part of the last five years. And the Chinese do not usually put up their hand for fun; they usually put it up with deep strategic purpose.

Will the Chinese actually succeed in being accepted? The current reorientation towards the left on economic policy makes China more protectionist at home and more mercantilist abroad, more interventionist at home on behalf of the state and less yielding to international market principles abroad. China is also continuing to cross-subsidize its major global state-owned enterprises now with massive injections of state industry funds, not marginal but massive, the equivalent of 10% to 15% of GDP, 1.5 trillion in dollar amounts. In those circumstances, I think it would be very hard purely at an analytical level for the open economies of East Asia, like the Republic of Korea, Japan and Australia, to say that China should be accepted. Of course, the critical decisionmakers here will probably be Japan and I think Australia. The current conservative government in Australia has already indicated that they would not support China's accession. That is partly a product of the policy of economic coercion currently being adopted by China against Australia, but I think it also reflects a wider view across economists that China is now less amenable to a definition as being a market economy than it was when we granted China market economy status back in 2001-2002 in order to gain accession to the WTO. Therefore, on balance I am skeptical. But the open question is whether the prospect of TPP membership would enable the remaining economic reformers, who are now in the minority in the Chinese system, to regain a platform and a position of power. This would be in the same way as happened after China re-entered the WTO or had the prospect of entering it 20 years ago, so that they could leverage more ambitious market reforms than would otherwise have been possible.

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

Thank you very much. We are already over time, but I will briefly take two last questions from Karl Kaiser and Igor Yurgens.

Karl Kaiser, Senior Associate of the Project on Europe and the Transatlantic Relationship, Belfer Center for Science and International Affairs, Harvard University

As you contemplate the geopolitical structure that is emerging, could you share with us your views on how you see the role of Europe, besides the UK, France with its Indo-Pacific position and the European Union?

Igor Yurgens, Chairman of the Management Board of the Institute of Contemporary Development, Vice President of the Russian Union of Industrialists and Entrepreneurs

Thank you very much, Kevin, for an excellent analysis. Assertiveness at home means assertiveness abroad and that means proletarian internationalism and building up the blocs. The Shanghai Organization of Cooperation, the role of Russia in extending authoritarianism against liberal democracy, what do you think about that and where Russia steps in to help Xi Jinping to assert himself?

Thierry de Montbrial

If you will allow me Igor, your first question is closely related to mine about the two sides of capitalism. Anyway, Kevin you will conclude, and I will add a footnote, are you welcome in China anymore?

Kevin Rudd

Moi ? Je crois, pas de problème.

Thierry de Montbrial

You can get a visa?

Kevin Rudd

Yes. I have a continued visa and I speak with Chinese think tanks all the time and in open forums with the Chinese Foreign Minister and various other Chinese ministers. I use my think tank capacity to do that whatever the current state of relations may be between the Australian conservative government and the Chinese government. I defend my autonomy, independence and freedom of travel and maneuver. As you can appreciate, Thierry, it becomes more and more interesting.

Igor, thank you for the question. It is always good to have a great, provocative Russian question at forums like this, which is why I always enjoy my times in Moscow and Petersburg and elsewhere, Vladivostok in recent times. Let me put it to you in a slightly different way and I am not trying to be provocative here, rather to explore a question. I think the American policy failure in Afghanistan is being quite damaging for American global prestige. That is my serious analysis and as someone who as Prime Minister of Australia loyally committed Australian troops to Afghanistan over a long time period of time, as did the French Republic and others. However, the emerging challenge in Afghanistan is China's predisposition to have growing influence in Central Asia and Afghanistan as well, while not making the mistake, as they would see it of the former Soviet Union and the United States, in becoming so domestically embroiled in Afghanistan that there is no way to exit. However, China has a number of economic interests to pursue in Afghanistan, not least in minerals and at a very large scale. The open question is: can the Chinese prosecute a modus vivendi with the Taliban, which has alluded all previous external powers? It is an open question given that you know, Igor, the Taliban is not a single entity but a multifarious one. However, I make a broader point here in terms of the Russian Federation, China through both the Belt and Road Initiative and through its new Afghanistan strategy, will become a bigger and bigger geostrategic player across Eurasia. As an analyst not a politician, the question I have is at what point does that frankly create a fundamental tension with Moscow? I know that Vladimir Putin's relationship with Xi Jinping is very good, but I am looking at the structural dynamics of where this takes us over the next decade and a half, as China rises in Central Asia, BRI, Digital Silk Road plus Afghanistan and the rest.

The second response is to the point raised about the role of the European Union and Europe more broadly. If I got the question right, that is in relation to China strategy. I have a view about this which is not shared by the current conservative government in Australia apparently



and that is that Europe matters in a fundamental way. I say that not because I am a Europhile - as you have already heard, I speak very bad French - but the truth is that when the world is looked at through the lens of Beijing, they see a number of loci of power; they see primarily the United States and its Pacific allies; then they see the European Union led by Germany and France; then they see Mother Russia for historical reasons going back to Peter the Great, the whole problem of the non-resolution of the border until frankly Gorbachev and Deng; and also a combined community of interests with the United States. Therefore, in many respects geopolitically, Europe and the European Union represents the swing state in terms of China's perception of global geopolitics for the next decade. Therefore, where Europe goes is really important. One of my big critiques, for example, of the Australian government's recent handling of the so-called AUKUS arrangement, including the unilateral cancellation of the submarine contract with France and the French provider, is that it completely ignored the significance of France and the European Union in the future direction of global, as it were, China strategy. If Europe, led by France and Germany, is in the Indo-Pacific, that is better for all countries in terms of re-establishing a future balance of power with China. To ignore Europe and to ignore and frankly insult France, in fact heads in the reverse direction. On this question, my view is that Europe is central to this equation. It is the swing state, maybe not in pure military terms, but I think it is the swing state I think in foreign policy terms and certainly in global economic terms. I will leave it there.

Thierry de Montbrial

Thank you very much, Kevin. I think we will stop here. Best wishes and we all hope to see you soon in person somewhere.