



KEVIN RUDD

Australia's Ambassador to the United States, former President of the Asia Society Policy Institute, former Prime Minister of Australia

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

Ladies and gentlemen, we are going to start the conversation with Kevin Rudd in a minute, who I believe is in New York.

Kevin Rudd, Australia's Ambassador to the United States, former President of the Asia Society Policy Institute, former Prime Minister of Australia

Washington.

Thierry de Montbrial

How are you, you look well?

Kevin Rudd

I am good. I am adapting to my new job as Ambassador to the United States.

Thierry de Montbrial

It is not the right place to ask you why it is better to be Ambassador of Australia to the United States, being a former prime minister and president of the Policy Institute of the Asia Society, but we will not discuss personal matters. Tonight we are going to talk about China and my first question is quite easy. I think your last book was published about a year ago and you were a little more pessimistic about the evolution of US-China relations than previously. In other words, you no longer entirely excluded the Thucydides trap, so has your analysis changed in the last few months?

Kevin Rudd

First of all, thank you Thierry for inviting me to the World Policy Conference and our friends and colleagues meeting in Abu Dhabi. I continue to be a realist on US-China relations, there are certain structural things that have not changed. Number one, China is more powerful, militarily, economically and technologically, than it was 10, 20 or 30 years ago. Number two, Xi Jinping has said that China will no longer be a status quo power but will seek to change the regional and global order in a direction that is more compatible with Chinese interests and values. Third, since 2017-2018, the US has squandered with its doctrine of strategic competition. Those three things are the fundamentals driving the state of the US-China relationship. Right now, as the two leaders prepare for a summit in California in two weeks' time, nothing has really changed from what I described. However, as we approach this summit I think the Chinese interest is to try to stabilize the relationship at a political and economic level and their interest in doing that is to try to renormalize economic relations with both the United States and US allies, Europe and in Asia. At the same time, at this stage China has no



real interest in normalizing or even stabilizing military relationships because China has still got its plans in relation to Taiwan.

I think that is where we up to at the minute, Thierry. It is good that the leaders are meeting but we should be very cautious about our expectations and what comes out the other end.

Thierry de Montbrial

How would you describe the domestic political situation and degree of the economic difficulties?

Kevin Rudd

As you know, all our countries, whether it is the United States, China, France or Australia, our foreign and security policies are sometimes shaped significantly by our domestic expenses. In the case of China, as I have been writing for the last five years, China's growth model is in trouble and we have seen the evidence of that in the most recent economic data, including the October economic data which is negative. Manufacturing is down, services static, housing still in a state of collapse and that represent 28% of GDP so the overall economic climate in China is bad whatever the Chinese system may say. Second, it was therefore part of the impetus behind China's interest in the summit, in order to, as I have said before, create a better sense of normality in geopolitics to encourage domestic and foreign investors to rediscover their confidence in China and to try to renormalize trade flows. If you have declining trade, declining foreign direct investment and less positive portfolio investment, then all this contributes to China's poor economic growth, so I think that is the connection right now.

Thierry de Montbrial

Some analysts say that the goal of catching up or becoming equal to the United States or possibly number one power around the middle of the century is no longer achievable. Would you agree with that?

Kevin Rudd

To paraphrase what Zhou Enlai is supposed to have said in the 1950s about the significance of the French Revolution, when asked what the significance of the 1789 French Revolution was, his response in 1952 was, 'It is too early to tell.' I think it is a bit like that when people make predictions about the final landing point of Chinese economic growth, it is too early to tell. I think the significant factor here is that the pace of economic growth, which the Chinese would assumed to be around 6% for the decade ahead, is now likely to be as low as 2% to 3%. If you start to have 2% to 3% real growth, whatever the official statistics say, and if the US economy is currently growing at 5%, unless you say it reversed trend at 3%, then of course the gap between China and the United States does not close very much. Therefore, I notice that Goldman Sachs have continued to adjust their prediction points for when the two economies will achieve comparable size in gross domestic product measured by market exchange rates. The original projections had that occurring in the late 20s, Goldman have now pushed that off to the late 30s, so when you and I gather at this conference in the 2040s we may still be having this conversation.

Thierry de Montbrial

If we focus on the technological aspects of development, how do you assess the capabilities of China today? Are they strengthening their technological capabilities and how would you compare those to the United States?

**Kevin Rudd**

I think it is fair to say that China has achieved enormous progress in most of the 10 critical technology categories that they would define as being strategic, starting with semiconductors, moving through Artificial Intelligence, quantum computing, new materials research and then the rest, including biotechnology. These have been a priority for the Chinese system since the 2015 technology strategy announced by Xi Jinping, for China to become dominant or near dominant in these technology categories by 2030. China has made significant progress but so too has the United States, as well as American allies around the world. If we look at each of the categories it is difficult to point to a single one where we would say definitively China is ahead of the United States. For example, on semiconductors, which is fundamental to everything because it is all to do with the speed of computing and the intensity of computing power, we do not see evidence as of now that China has fundamentally closed the gap with the United States. It is still somewhere between three, five and seven years behind. When the US ecosystem is able to draw relatively easy on what is happening in Taiwan with TSMC, in Korea with Samsung, with the Japanese, Dutch and others, there is some reason for confidence that the US and the democratic world are likely to hold on to their advantage, at least for a while yet.

Thierry de Montbrial

Staying the economic and technological issues, of course, there are a lot of discussions about the car industries. Do you think that the Chinese will eliminate some of the largest car companies, including Mercedes in Europe, if I want to be a bit provocative, BMW, Renault and others? How do you see this major competition and how do you relate that to the issue of the trade war, which is more or less going on?

Kevin Rudd

As you know, I have always been somewhat Francophile and I have always preferred my Renaults over my BMWs but that is just for your personal information. China's strategy on automobiles is pretty clear. It is to take control over the EV revolution globally and to become the dominant global factory for all EV production for the world. Many of the US, Germans, French and the other 12 countries around the world who manufacture classical motor vehicles using internal combustion engines, have been late to the EV conversion. Second, I think that of course the Chinese have taken such a strategic position with their access to critical minerals, battery production and their ability to manipulate science through domestic subsidy. They are now in a dominant position and I know that in Brussels the European Union is deeply concerned about the impact this will have on all European auto manufacturers and there is the same view of the United States.

Where does this lead? Knowing the little about European politics I do, not just in la belle France but also Germany, it is not hard to imagine combined action now being taken out of Brussels against a fear of Chinese dumping cheap, subsidized electronic vehicles on to the European markets. Of course, the European consumers may have a different view because they will be a lot cheaper but that may be only short-term because its industrial policy practice has been to eliminate opposition and competition, monopolize the market and to increase their prices afterwards. However, this will be a huge challenge for European trade policy and industrial policy as well.

Thierry de Montbrial

If we look at the aircraft industry, do you think they will compete with Boeing and Airbus in 10 years' time? Of course, if we get to three major aircraft companies, one of the three will be eliminated, so who will remain?

**Kevin Rudd**

That is beyond my pay grade, I cannot make that prediction. I can tell you that the Chinese have been much slower at mastering large-scale jet passenger aircraft than they have been with electronic vehicles on the ground. That is not to say that they will not get there but I know it has taken a long time for Chinese prototypes to be produced and the Chinese are still very large customers of Airbus and Boeing. That is not because they love but because they presently judge they still have a problem.

Thierry de Montbrial

It is not very easy to take questions from the floor in a discussion like this so I will continue to ask questions myself. Let us maybe switch to international issues, so foreign policy issues. What is your most significant concern today, is it Taiwan or something else?

Kevin Rudd

I now live and work in Washington and I know the American system quite well, and I was on a panel last week with the new French Ambassador to the United States, Laurent Bili, who knows China well, he was most recently France's Ambassador in Beijing. I think the analytical view we have here is that the United States through its own strategic lens, see its number one strategic challenge in the 21st Century China's rise and its challenge to the existing regional and global rules-based order, not just in the Indo-Pacific but worldwide. Of course, number two is Russia's current challenge, the European security order after the invasion of Ukraine and this is of fundamental interest not just to Europeans but to all of this. It is one of the reasons why even a country as distant from Ukraine as Australia is now contributing billions in direct military aid to the Ukrainians because we see it as a global not just a regional issue. This comes a near second in the US list of priorities. Of course, third is the rolling crisis in the Middle East, because as you know, always draws us back into the vortex of not just Gaza, not just Israel, not just Palestine, but the absence of a two-state solution to underpin long-term security in that part of the world.

The challenge of being the American superpower is to manage these three simultaneously. Our Prime Minister was in this city for a four-day state visit and he spent a lot of time with President Biden, the Secretary of State, the National Security Advisor and the Secretary of Defense. The conclusion was that despite all these challenges, the United States is managing effectively to walk and chew gum at the same time. They are managing these three challenges simultaneously and reasonably well given all the pressures on them domestically as well. Those would be my top three apart from fundamental technological disruption of everything led by Artificial Intelligence, which of course reaches over all domains, not just military or economic, but the very societies in which we operate and live as human beings. That comes in over and above the three I have listed.

Thierry de Montbrial

Do you think that China has very clear objectives on Ukraine?

Kevin Rudd

Yes. China is a strategic culture of deep realism and when they look at Ukraine it is through the lens of the fundamental importance of their relationship with Russia and the fact that China now has a benign border with Russia. That is given at Russia-China relationship going back 400 years, including during the Soviet period, most of that history has not been benign. Two, if you have a benign border with Russia you can concentrate all your strategic assets on the ultimate strategic competition with the United States for the future of the regional and



global order. Three, I think from Beijing's stance is that Russia in Ukraine provides rolling, strategic distraction for the United States and its allies. Four, Russia provides a readily available source of energy and raw materials to help meet some of its own domestic needs.

The Chinese are very clear-eyed about these theories but I think that as things may move towards a greater military stalemate on the battlefields in Ukraine, depending on what happens in Donetsk, Luhansk and elsewhere, the Chinese may secretly become more active diplomatically sometime next year, to be seen to be drawing this conflict towards a conclusion. However, it will not do so in any way that would cut across the deep personal relationship between Xi Jinping and Vladimir Putin or the deep realpolitik of the Russia-China relationship I referred to before.

Thierry de Montbrial

Apart from personalities, would you agree with the idea that Russia has become the so-called junior partner of China?

Kevin Rudd

Absolutely, against any measure. By the way, the Russian economy today is about the same size as Australia's, to put this into context, it just happens to have one of the world's largest nuclear arsenals. It is very much a junior partner and that has been consolidated and solidified through the processes of the last decade, beginning with the first Russian invasion of Crimea in March 2014 through until now. As Russia has progressively isolated itself from the international community through its actions as a consequence China has occupied that strategic vacuum. The Russian people and the Russian political class may not welcome that, but any empirical observer would conclude that that is now the case, Russia is now very much the junior partner.

My dear friend, Thierry, I am afraid I have to leave you because I have friends waiting for me.

Thierry de Montbrial

I just have one last question. You spoke about strategic distraction, which is a concept I like, but would you also say that the new Israel-Hamas war is a strategic distraction from the viewpoint of the Chinese?

Kevin Rudd

It is certainly not a strategic distraction if you are an Israeli, a Palestinian or in the wider Middle East, it has its own tragic and human dimension that we are both familiar with and we both have many friends in both communities. When the Chinese look at it, it is always a double-edged sword from the Chinese perspective. On the one hand, they will conclude that the United States has challenges on three significant fronts at once, the Middle East, Ukraine and of course the Indo-Pacific. On the other hand, China's interests are not served by the Iranian's overreaching and unleashing their proxy organizations in Hezbollah and elsewhere across the Arab world, to escalate this from being Israel-Palestine-Gaza into a pan-regional conflict. The reason for that is that China has spent a lot of time seeking to normalize its relations with the Emirates, where you are at present in Abu Dhabi, the Kingdom of Saudi Arabia and with the other Gulf monarchies. As soon as you have a binary conflict involving Iran and/or Iranian proxies, Israel and by extension the United States, you automatically create a binary again in the strategic policy calculus in Abu Dhabi and Riyadh and that is not in China's interests.

Thierry de Montbrial



The best moments have to come to an end and I think we are all very happy to see you in very good shape. The Australian Embassy in Washington seems like a nice place to be and maybe someday you will welcome a delegation from the World Policy Conference to your quarters. Thank you very much Kevin and I hope that you will always be with us.

Kevin Rudd

Thank you, Thierry. You are always welcome here in Washington and I look forward to seeing you soon.