

KEVIN RUDD

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Good evening, everybody. This is Kevin Rudd, and I am speaking to you from Washington DC. I am sorry that I cannot join you live in the flesh at this most recent Ifri conference but greetings to my good friend Thierry de Montbrial from Australia, Washington DC's Australia anyway.

Thierry has asked me to address three questions, which I will try to do as succinctly as possible. The first is, what major changes have we seen in China's domestic political economy since Ifri met as a conference 12 months ago, in November 2023? Second, what are the likely contours of China's own strategic and policy response to the election of President Trump for a second term? Third, what are the likely contours of US strategic response to China, given the election of Trump as well? I will do my best to answer these in five or 10 minutes and we will leave it at that.

On number one, what has unfolded in China's own domestic political economy over the last 12 months? I think the important thing to emphasize here is the economy, the economy and the economy. All of you in the business community will know that China's economic growth performance has been softening significantly, not just over the last 12 months but really over the last 24 months. It will be remembered that two years ago when China first emerged from the zero-Covid environment, it was expected that Chinese economic growth would come roaring back; it has not. There are a number of manifestations of that:

1. Weak consumer demand.
2. Weak levels of business confidence, reflected in weak levels of private fixed capital investment.
3. On top of that, we have had a radical downturn in the Chinese real estate and property market, which of itself represents some 28% of GDP and the principal vehicle for personal savings and investment in the PRC.
4. We have also seen only a small growth in public investment because there are ultimately constraints in terms of fiscal capacity.
5. Therefore, the main driver of economic growth these days continues to be net exports. Therefore, what we have seen around the world is great pressure being placed on global markets as China seeks to undercut international competitors around the world in order to boost its net export earnings back into the economy. In

fact, one of the few areas that is registering positive growth for China's economy at present is the net export sector.

Put all these factors together and you get some sense of the underlying dimensions of the domestic economic challenges. What has been the Chinese government's policy response to this? So far, we have seen no fundamental change in the strategic direction of Xi Jinping's effort to reassert the centrality of the Party over the market, reassert the centrality of state-owned enterprises over private enterprises and to reassert the central importance of common prosperity over unequal income distribution. The consequence of all the above has been the private sector, once this enormous generator of economic activity in China has been in relative retreat, and that has continued. We see so far, no real correction against that underlying ideological direction to the Party going right back to when Xi changed ideological course prior to Covid, in fact from the 19th Party Congress way back in 2017.

Second, what have Xi Jinping and his economic team done instead? They have tried to deal with the declining growth problem, the rising unemployment problem, and the rising youth unemployment problem, and static living standards problem by a combination of fiscal and monetary policy stimulus. However, there has been a limitation so far in terms of the size of the fiscal and monetary policy loosening that will be undertaken to fill the growth gap. We will see what the detail is emerging from the Central Economic Work Conference of the Party, whose communique has literally only been released today. It is a little too soon for us to properly evaluate but we should expect some overall loosening of fiscal and monetary policy, therefore some injection of additional economic activity as a result of that. However, as we all know, stimulus strategies are by definition short-term not long-term, cyclical rather than structural and the underlying policy problem here for the Chinese economy is a structural one. Therefore, as you emerge into 2025 and the inauguration of the Trump administration on 20 January, China emerges with an economy that has been underperforming, that over the last three years has actually represented a declining proportion of the global economy rather than a continuing growth in China's significance as a global economic actor.

On the broader front, which is the political and military insecurity, over the last 12 months since Ifri was last convened, we have also seen an effort on the part of the Chinese government under Xi Jinping and the Biden administration, to stabilize the geopolitical relationship. In part, that has been a reflection of underlying weakness in China's domestic economic conditions but, in addition to that, China has also sought to stabilize its geopolitical relations more broadly with third countries and other regions, including Europe, Australia and various other parts of the world. We saw this come to a head at the Biden-Xi Jinping summit at Woodside near San Francisco on the margins of the APEC summit in November last year. Therefore, during the course of 2024 we have seen a decrease in the level of direct military to military friction between the US and China, an increase in the regularity of military dialogue between the Chinese and the US militaries. We have also seen the initiation of US-China dialogues on the question of Artificial Intelligence, and there have also been some other reopenings of political channels of communication.

This has all been part of the stabilization compact, but the open question is what will happen now into the future under Trump 2.0. I think we should just bear the following factors in mind. The incoming Trump administration contains within it a range of individuals who have a

longstanding hardline policy towards the Chinese Communist Party. Therefore, reconciling America's long-term economic objectives under the Trump administration against a weakening Chinese economy on the one hand, and against the national security environment I just described, is at present an open question in terms of which way President Trump and his team will go.

The final question I said I would address is how about viewing this relationship, that is the future of the US-China relationship, from the Beijing perspective as we embark on the period ahead under Trump 2.0. My experience of the Chinese Communist Party and the Chinese governments over 40 years or more now, is that the historical pattern will always be for the Chinese system to spend a lot of time in the course of the first year of any new US administration, analyzing that administration for real-word change in policy actions and behavior. In other words, they do not simply take a press statement as indicating where in fact a US policy will now lie in the future, they will observe what happens on the ground economically, militarily and technologically in terms of the increasingly vast array of limitations and bans on US high-technology exports to China. In my judgement, that will occur during the course of 2025.

However, the second point is that President Trump has already indicated in the pre-election period that he would proceed to impose a 60% tariff on Chinese goods. This is a significant tariff and if he proceeds with the announcement and implementation of that tariff, the open question for the Chinese system is how they respond. Do they see this and conclude it is an invitation to a negotiation? Or on the other hand, do they see this as something requiring an immediate set of retaliatory actions themselves and in turn, the implications of that for the overall trading environment and overall global economic growth? These are open questions for the future.

Thierry, I hope these three sets of reflections are of some use in your deliberations at Ifri this year. As I said, in China's domestic political economy it has been the question of how to restore economic growth through stimulus rather than fundamental policy change, which as you know can be a very difficult objective to achieve. Second, the Chinese system itself, under normal circumstances will spend at least 12 months examining the nature of the incoming Trump administration. The caveat there is what happens in the immediate term as far as China's reaction to tariff announcements by President Trump and his team immediately following the 20 January inauguration. Third, more broadly in terms of Trump's own strategy towards China, where does that land as they seek to reconcile President Trump's stated economic objectives in his national policy document released during the Republican National Convention, for the United States to prevail in its long-term strategic economic competition with the People's Republic of China? Then, how is that also reconciled with the continuing national security concerns in and around Taiwan?

I hope that has been some use, all the best to you all.