



CARNEGIE
MOSCOW CENTER

Transcript

KEVIN RUDD'S REMARKS ON CHINESE FOREIGN POLICY UNDER XI JINPING

February 18, 2016 | Moscow

Kevin Rudd
is the president of the Asia Society
Policy Institute

It's good to be in Moscow. I've been here a number of times before, and I always enjoy the intellectual tradition of this country....It's good that we're here also to talk about China. China dominates the thinking of many foreign ministries and many chancelleries right around the world. You know that; I know that; and the world knows that. And it's the product primarily of China's size in every dimension; and the product of the changing nature of its political leadership as well.

So let me talk about firstly Xi Jinping. In the Chinese political system, Xi Jinping is of course the number one. Xi Jinping is unlike many other Chinese leaders. Xi Jinping is a person who has more personal authority in the Chinese political system than probably any previous Chinese political leader since Mao. There's been some debate in China whether, in fact, he is comparable to Deng or whether he's comparable to Mao. Various American sinologists have pointed to the fact that what makes him different to Deng and more similar to Mao is this: with Deng Xiaoping and his Politburo, there were many individuals who were contemporaries of Deng Xiaoping and of similar revolutionary experience, chief among which was Chen Yun and others in that generation of Chinese leadership who saw Deng as equals. And Deng saw them as equals.

In the case of Xi Jinping's Politburo and his Standing Committee, that is not the case. Xi Jinping is the number one—undisputedly in the eyes of his colleagues. And therefore, it becomes very important for us to understand what his world view is, in understanding carefully, therefore, what China's world view is.

Secondly, in the period that Xi Jinping has been in office, which is now effectively three years, his political authority has become more entrenched. It's become more entrenched through a number of decisions he has taken, principally his campaign against corruption in the Chinese Communist Party, which is now almost three years old itself. For those of you who are students of China, you all know that this anti-corruption campaign is the single largest of its type in post-'49 history. Large in scale, large in length, and large in the number of very senior individuals who have become its target. And this has further consolidated Xi Jinping's global authority.

There's also another factor about Xi Jinping which we need to understand. In the history of the Chinese Communist Party, many of its leaders have been scientists and engineers. Something I think they've learned from this great country in previous periods is in the great tradition of the hard sciences and the critical nature of the applied sciences, including engineering. Certainly when you talk to Hu Jintao and Li Peng and you talk to that generation of leaders, their technical background was, technical.

Xi Jinping by training is a lawyer, by instinct is an historian and a philosopher. His mind, therefore, ranges far more broadly than the narrower, technocratic concerns of those leaders who have in recent times preceded him. Certainly in my experience with Xi Jinping personally, he's a person who is deeply read not only in Chinese history and classical history, but also deeply read in international history as well. History, I think, is one of his passions, and so that provides him with a historical framework for where he sees his role in China today.

On top of that, Xi Jinping also has an acute sense of his own personal mission as a Chinese political leader. Those of you who are students of China will know that the pursuit of Chinese national wealth and power, *fuqiang*, has been a Chinese national priority since the 1890s, since the first attempted reform movements and toward the end of the Qing dynasty. And we've seen the

failure of many previous attempts to bring about Chinese national wealth and power to deal with the challenges being faced at home and abroad.

Xi Jinping arrives on the political scene at a time when Deng Xiaoping's core reforms of the late 1970s on the economy had borne their full fruit. And for China therefore acquiring the safeness of being the world's largest economy in purchasing power parity pricing, and the second largest economy in market exchange rate pricing, is a reflection of China's success in obtaining wealth, if not complete power. Xi Jinping sees his national mission as completing that task in large part.

He sums up his mission, as you know, in language associated with the China Dream, *Zhongguo Meng*. And when you ask Chinese leaders, "well, what is the *Zhongguo Meng*, the China Dream," they immediately point to two impending anniversaries. The anniversary in 2021 of the foundation of the Chinese Communist Party, which was founded in 1921 in Shanghai, and then the centenary of the founding of the People's Republic, which would be in 2049. And Xi Jinping and the entire national leadership have this China Dream and these two anniversaries anchoring their view of the completion of the tasks of China's wealth and power, and becoming a truly global power; not just in terms of the per capita income of China, becoming a fully developed economy by the latter anniversary, but also having sufficient national power to sit comfortably in the castles of the world as one of the world's great powers. And all that you see in terms of China's policy direction on national economic policy, foreign policy direction, and national security policy is seen through those premises. It's important therefore to understand very much the nature of Xi Jinping and his world view.

The second thing I would say is when we ask the question about China's foreign policy direction under Xi Jinping, we should do so very mindful of Xi Jinping's domestic constraints and domestic priorities. His first priority, like previous Chinese leaders, has been to ensure the Chinese Communist Party remains in power. Xi Jinping does not see himself as presiding over some form of long-term democratic transition process. Xi Jinping believes in the long-term role of the Communist Party. And he speaks of it in terms of a party which is uniquely capable of holding the country together and completing its modernization process in order to deliver the China Dream of national wealth and power.

If you were to describe what his conceptual model is for the future of China, with the Communist Party at the center, I would best describe it as a state capitalist model. And that is, the state firmly in control of the Chinese Communist Party—in firm political control, and an economic model which sticks to increasingly yield the economy not just to state-owned enterprises but to private firms. Whether he succeeds in the execution of that model, I'll come to in a minute. If I was describing what I believe his model to be, and that is I think an accurate description. The second element of his domestic priority, like his predecessors, is to hold the country together. It's enormous sensitivity which Chinese leaders attach and have always attached to Xinjiang, Tibet, Taiwan, and more recently, its offshore territorial claims in the East China Sea and South China Sea. These are very much part of the Chinese national and nationalist narrative.

I think the third factor which constitutes a core priority for the Chinese government under Xi Jinping is to complete the transformation of this domestic economic model. I said before the architecture is well known—state capitalism—but within the economic component of state capitalism, moving from an old economic model as we know, based on high levels of state investment, labor-intensive, low-wage manufacturing for export—needing to yield to an economic model which is rooted increasingly into domestic private consumption, and an increased role of

private firms in the economy, as opposed to state-owned enterprises. And within that, an absolute priority for the services sector as a more intense generator of employment and growth in the future. And fourthly, to do so in a manner which is environmentally sustainable, given the massive public reaction in China and across China to environmental pollution, principally but not exclusively air pollution.

The difficulty of this economic transformation task is acute, it is doubly difficult at a time when China finds itself in the midst of a highly unstable global economy. The global economy which is generating sluggish growth; the global economy whose financial markets are not stable; a global economy where China's transition framework of continuing to be able to rely on high levels of manufactured exports to provide the economic buffer through the period of transformation to a domestic consumption model is challenged by the fact that global trade itself is challenged. So the degree of difficulty in executing the transformation task is very high. It would be very high under normal circumstances, it's very, very high under these, let's call them 'abnormal economic circumstances' in which we find ourselves still seven years after the global financial crisis.

I say those things in order to remind ourselves what are the domestic policy priorities which in fact dominate the considerations of the Chinese Politburo and Standing Committee in leadership.

Which brings me on to the next point I'll address in my opening remarks before we throw it open to questions.

Therefore, given the above, what sort of foreign policy and what sort of national security policy does this leader, Xi Jinping, given his characteristics, and given his domestic policy constraints and challenges, what sort of foreign and security policy does he want? First and foremost, we need to understand that China in its own region does not want to risk the prospect of armed conflict or war with either Japan or the United States.

I say that because it would be very bad for business. It would be very bad for the economy, it would be very bad for wider regional stability. And it's also because in China's own calculation, its own military capabilities are not anywhere within range of being able to deal with such military and security contingencies at this time. I think it's important to say that, given there's so much loose commentary in the world about impending security crises in East Asia around the East and South China Sea.

Second, China nonetheless, consistent with its history, wishes to have stable and benign, and if possible, positive relationships with each of its 14 neighbors. As you know, China has the largest number of land borders with foreign countries as you in Russia do, 14. In Australia we have none. In dealing with 14, you have a challenge in this country; the Chinese have a challenge as well. And if you go around the map from north to west, to the southwest, and to the south, before you get to the maritime domain, China finds itself with a number of challenging relationships among its neighbors. And so a core element of Chinese foreign policy doctrine, both historical and continuing under Xi Jinping, is to attach priority to its neighboring relations and not push them to the degree that you would invite a negative, to use an old Soviet term, 'correlation of forces' against you.

Thirdly, if you look at China's posture more regionally, by which I mean the Asia-Pacific region at large, China in its ideal foreign policy and security policy scenario would like to see the retirement

of the entrenchment of the U.S. military alliances in Asia. China says it wishes to have a more multipolar region and a more multipolar world. If you look at the official literature produced by Chinese think tanks, and also alive in other statements by the Chinese government, in an ideal world, they would like to see each of those alliance structures diminish and decline and ultimately disappear. In order of priority, that with South Korea; Japan; the particular obligations which the United States says it has under a Taiwan relationship, the Taiwan Relations Act; as well as U.S. security relationships with Thailand and the Philippines. And last in that list would be Australia and New Zealand.

This brings to a sharp edge the nature of the new investment by China in its own naval modernization, and if you look most clearly at China's most recent defense plan, it's quite a plan. We're beginning to see the reallocation at a large scale of Chinese budgetary resources away from a mass land army to a much broader and more sophisticated naval capability in all the subcategories, driven by the interest that I've just described. And not just in the East Asia and the West Pacific, but to some extent in the future, into the Indian Ocean as well.

Which brings me to my final introductory remark about China's foreign and security policy priorities. I've spoken about China's desire for regional stability, to underpin regional growth, the need to consolidate relationships with its fourteen neighbors, and yet at the same time its desire to remove the American alliance presence in East Asia and the West Pacific. On a global scale, through its global multilateral diplomacy, China now seeks to become increasingly activist. For those of you who follow the Chinese debates carefully, I believe a critical speech was given by Xi Jinping at a national conference, a work conference on foreign policy in November of 2014. Those of you who follow these debates will know precisely the text I am referring to. It's only been partially released to the public; it partly remains an internal document. But from the published components of the speech it's quite clear that when Xi Jinping speaks there of a need for a new type of international relations for more activist Chinese foreign policy around the world, for the need for a new type of great power relationships in the world. And if we look at the manifestation of some of that activism in such institutions as the Asian Infrastructure Investment Bank, the New Development Bank, One Belt One Road, I think this is the very beginning of a much larger phase of Chinese global foreign policy activism through the institutions which exist multilaterally, the United Nations and Bretton Woods machinery, but were necessary in China's judgement in addition to that as well.

It's not often noted that China has now become one of the larger troop contributors to UN peacekeeping operations, certainly amongst the P5 it is the biggest. And there is a full Chinese battalion currently at work in peacekeeping operations in Africa in some of the more difficult environments. Xi Jinping announced to the United Nations last September that he'd be making a ready reaction force of 8,000 available to the UN for deployment whenever and wherever. Xi Jinping has also indicated that China begin to deploy aid not just bilaterally, but also through some of the multilateral development agencies. China will now seek to have a greater voice in the World Bank and the IMF, and of course on the latter you will see the inclusion of the renminbi in the global basket of reserve currencies. All this points to a higher degree of foreign policy activism and international policy activism more broadly. And also in regions of the world which are not easily mapped by others, Latin America and Africa, and across Western Europe, where China increasingly looms as what I would describe as the indispensable economic power to so many economies.

To conclude, of course there is one core question mark which remains in the mind of decision makers around the world, and one core question which more fundamentally lies in the minds of analysts around the world. And that is despite these Chinese aspirations that I've just described in the last fifteen minutes, will China succeed in its economic transformation given the current state of the challenges facing the Chinese economy? This is a vastly complex subject.

But I would make two points to close. One: I think that much of the fashionable Western economic commentary that the Chinese economy or financial system is on the verge of implosion or collapse is grossly exaggerated, farfetched, and in some cases the product of wishful thinking. The reason I say that is if you look at the barometers of the transformation which the Chinese are seeking to bring about in the Chinese economy, two or three come to mind. One is the fact that as the Chinese intend, the role of private domestic consumption within the Chinese economy continues to rise. Perhaps not as spectacularly as China's economic planners would like, but each year, up and up and up. And that is in turn producing a serious explosion in Chinese services industries across the country, which are exclusively domestically focused. And while it's fashionable to point to the decline in Chinese manufacturing exports, and the contraction of employment in manufacturing, the labor-intensity of a million dollars of investment activity in the service industry is much greater than that which applies to a million dollars of investment in manufacturing. And so Chinese employment levels remain positive.

The second point I would make is that the second engine of the transformation, or manifestation of the transformation, is the role of the private sector. And again, if you look at the role of the private sector as a proportion of total domestic consumption, it continues to rise and rise and rise. Primarily through the agency of the services sector explosion I referred to before.

And parallel to that, the third point I'd make, is the role of SOEs, state-owned enterprises, often debated in international media, is as a proportion of total production becoming less and less and less. Leading to genuine questions about the creditworthiness of some and the stresses that it in turn places on the Chinese financial system. But that's a subject for further discussion. So I'd say this on the success over time of the Chinese economic transformation, against these three core barometers, while not a perfect report card, it is reasonable. On the more immediate problems facing the Chinese economy which we talk about—the growth rate, which follows interventions in financial markets, including two unsuccessful interventions to arrest normal activity in the equities market last August and again this January, and on top of that, the decision to devalue the renminbi. Each of these invites a separate technical discussion. Chinese economic leadership is deeply focused on each of these, and it would be wrong of me to say that their response on each of them has been copybook or textbook. In fact it hasn't been. And this has led to a huge amount of domestic focus again on getting these core decisions right.

But I will say this then: the Chinese leadership internally concludes that the minimum growth level it can sustain in order to guarantee social stability is around six percent. The stated goal for the year ahead and for the five year plan period is somewhere between 6.5 and 7. If the real growth rate falls below six, and some analysts conclude at present it may have, then I have no doubts in my mind that China still has the national capacity, economic capacity, to intervene to the extent necessary to plug the gap between the real growth rate and six percent.

You already see evidence of that in terms of Chinese monetary policy actions; you see evidence of that in terms of Chinese credit policy as directed towards private firms and state-owned

enterprises. And we should watch carefully what further happens with Chinese fiscal policy as well.

But my overall point is this: if the growth rate is fundamentally threatened by the impact of the global economy, or the transformation process, or by other factors, then there is still sufficient capacity within China to act, and to act decisively. Not to act indefinitely, but at least for a number of years in order to secure what the Chinese hope to be the completion of its transition process.