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**ТИХООКЕАНСКИЙ ВЕК: СМЕЩЕНИЕ ЦЕНТРА НА ВОСТОК**

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**P. Ingrassia:**

Well, let me welcome this small but dedicated group to what I hope will be a lively discussion. And I want to make it a discussion, really, among us up here on the stage, and all of you in the audience. My name is Paul Ingrassia, I am Managing Editor of Reuters. I am based in London, and I am really very honoured to be here with a very distinguished businessman and a very distinguished public figure, and I am referring, of course, to Ronnie Chan on the business front and the Honourable Kevin Rudd on the statesman front, if you will. Ronnie told me earlier today, when we were waiting for Kevin to arrive, that he is a reformed politician, so we will take his answers in that light, I hope! The title of this discussion is the Asia-Pacific Century and it is a fascinating topic, it has been bandied about for a while. America is supposedly pivoting to Asia, but that is not quite clear. There have been trade issues in the American Congress, the Chinese economy, which has been the growth engine for the world for the last decade or so is now slowing down a bit, and that is a major issue to people ranging from politicians to businesspeople, to academics, etc. So, I guess just to start out with a broad question, if you will, and let me start out with Ronnie Chan here, we are in Russia, which is one of the BRICS countries, obviously China is a major BRICS country. Ronnie has just recently been in India, another BRICS country. Does the concept of BRICS still make sense at this point, in terms of a cohesive group that has a lot in common, or is that a little bit outmoded?

**R. Chan:**

First of all, BRICS is the concoction of a friend of mine from Goldman Sachs, and anything from an investment bank, I take with ten grains of salt! It is a great way to sell research reports and so forth; it is nifty, B-R-I-C-S, BRICS, and there are, of course, some similarities in the sense that they are all emerging economies, and they are all pretty big. But apart from that, I think the similarity probably ends right there. But it does not matter, for convenience' sake, it is a nifty kind of thing

to use, so it never was really a cohesive whole, and neither will it ever be. But so be it. If Goldman Sachs wants to sell reports, that is fine with me!

**P. Ingrassia:**

Okay, well let us get your opinion on that, please, Kevin.

**K. Rudd:**

Let me just start off the day by partly disagreeing with Ronnie, just to make the morning lively!

**P. Ingrassia:**

A sign of things to come, I suspect.

**K. Rudd:**

Ronnie and I, whenever we speak, we share common views on 90% of questions, but we always emphasize the 10%! BRICS is more than just a piece of Goldman Sachs salesmanship. I remember when BRICS was launched as a term by Goldman Sachs, and people just all scratched their heads and wondered what, in fact, Brazil, Russia, and South Africa, for example had in common. But if you stand back from it all, I think it is a bit like this: they are not just emerging economies, but they also have, each of them, a deep structural concern about the current state of the global economic system, and the global political system. Take, for example, the UN. All of them would share a view that the currently constituted UN Security Council is probably not representative enough. That is certainly the view of the Brazilians, it is certainly the view of the Indians, it is certainly the view of the countries of Africa. And if you go to the Bretton Woods institutions, they would say that the emerging economies do not have a sufficient stake in them, and a sufficient allocation of power within them to reflect adequate decision-making influence. I think furthermore, while there is a lot of commentary

around about the internal disagreements within the BRICS – some are democracies, others are not – those commonalities I have just described are relatively strong, to the extent that the BRICS have decided now to establish their first financial institution, which we are all familiar with. So is it a naturally cohering group like, for example, the European Union? An interesting question on the day of a massive debate about Greece!

**P. Ingrassia:**

Yes, I am not sure the European Union is naturally cohesive today!

**K. Rudd:**

Well, if you read the literature on regionalisms and organizations, it is often held up as the exemplar of common culture, common civilization, common history and all the rest of it, despite the fact that most Europeans represented in it tried to kill each other a thousand times throughout history. BRICS is a different concept to that, but in terms of some core interests about the global political system and the global economic system, I think they have a common position which causes them to cohere.

**P. Ingrassia:**

Do you want to rebuff what he is saying?

**R. Chan:**

No, no, I do not want to rebuff it. I am a businessman, so I look at things from more of a business perspective. Kevin, my good friend, has a statesman background, and hence looks at it more from the political side of things. I certainly agree with Kevin that the togetherness of the four and other emerging economies represents a new voice in the political scene, to the extent that in the old days it was dominated by a few – the G7, if you will – you have now another

grouping that is rising, that wants to have more say in the political sphere, internationally speaking. But then, of course, you also have other dimensions to consider, and that is, out of the four, you have two that are natural resource rich, and you have two that are natural resource hungry. You have two that are already members of the Security Council, whereas the other two are aspiring to that. But nonetheless, I think the commonality of them all is the one that Kevin has just raised, and that is the desire to rebalance the decision-making of the world such that the economies that are emerging, the growing economies, would have more say. That is a tectonic shift in the world since Bretton Woods of the late 1940s.

**P. Ingrassia:**

Well, is there perhaps another grouping of nations that would be maybe more relevant or more cohesive, or more places to watch, including perhaps Australia, in the next 20 years? Is there another BRICS concept out there that people in public life and political service and in business, and journalists, really ought to be keeping their eyes on?

**K. Rudd:**

I think institutional arrangements, both regionally and globally, follow power, either economic power or political power or military power. That is the story of history. And so putting all these considerations to one side, let us go back to the fundamental analysis of what is happening in the Asia-Pacific region. Against most barometers of power, the centre of gravity has shifted to the Asia-Pacific region, certainly in terms of economic power. I mean, the APEC economies represent more than 60% of global output, and certainly when you go to global military expenditure, Asia today now, as of last year, expends more on military equipment than does Europe, as of last year. So, there is something of a global arms bazaar underway in Asia at the moment. And that is before you roll in the

continuing military power of the United States and the rising military power of China. So, the core fundamental set of considerations here is actually what is unfolding in the Asia-Pacific region in terms of the density of trade, the density of investment, the density of capital flows, the reality of military power, as well as, of course, some of the underpinning political concerns and territorial concerns which characterize that region as well. So, if that is the reality underneath it all, then you have to then look at institutional arrangements, and whether they adequately reflect it. I think what you have seen in the last 25 years is an attempt by those of us in the Asia-Pacific region to come together at one level, and I refer here to the institution called APEC. APEC is barely understood, I think, in Europe, and certainly in this part of the world, with the exception of Russia, for the simple reason that Russia is a member. But APEC has had frankly an extraordinary influence on reducing trade barriers across its member states over the last quarter of a century, and if you look at the way in which it has operated, it has been a key element in bringing about let us call it the wider East Asian economic miracle, because it has established a culture and a practice which says that trade barriers are no good for growth, let us bring the barriers down. One final point, though, is that where Asia lacks institutional arrangements today is in the security domain. And so we have, and you will see in the newspapers reported frequently, outstanding territorial disputes, whether it is on the Korean Peninsula, East China Sea, Taiwan, South China Sea, India-Pakistan over Kashmir, and these involving several of the world's nuclear powers, and involving, as well, a whole range of rising powers. And so, what we now face in the Asia-Pacific region is this. Do we try to craft new institutions in the Asia-Pacific region, which are able at a modest level to start building a culture of common security and collective security in the Asia-Pacific region, or do we allow the region to become increasingly split in security terms between allies of the United States on the one hand, and those who are now strongly in the gravitational pull, economically, of the People's

Republic of China? My argument is we need a new institution to prevent that bifurcation from occurring.

**P. Ingrassia:**

And what would that institution look like, Kevin? Is it a new international body, is it part of the United Nations?

**K. Rudd:**

No, it is not the UN. It is interesting, in our part of the world I think it is fair to say, Ronnie, the UN is actually barely visible, I think, when we look at the institutions of our region. But it is a bit like this: as I said, institutions follow shifts in power, economic or military. On the future of institutional arrangements in the Asia-Pacific region, we have a loose body established ten years ago called the East Asian Summit. The virtue of this is that it brings together probably the 18 principal countries of the region: ten in South-East Asia, three in North-East Asia (China, Japan, Korea); it brings together India for the first time together with Australia and New Zealand, and as of 2011, we brought in the United States and Russia. Now, if you look at the aggregate security of our region, these are the right countries with whom you must have a discussion around a common table. So, the proposal which I and others have been advancing for the last several years is how do we evolve that loose arrangement, established in 2005, into something which begins to approach what I describe as an Asia-Pacific community longer-term? I think, I conclude on this point, people in Asia say, "Well, how could you construct something which sounds like the European Union?" Answer: it is not. It is a much looser set of arrangements that we have in mind, but remember the political benefit of what came out of the Coal and Steel Agreement in the 1950s, the evolution of a Common Market, and the European Community. Its political objective, its security objective, was to prevent France and Germany from going to war again, and it succeeded. If you look at our region, if we can evolve an



institution which can cause China, Japan, the United States to reach parallel conclusions, this is not a bad thing. We do not need to repeat all of the mistakes of Europe in Asia.

**P. Ingrassia:**

This is actually an interesting point of departure for this discussion, I think, because the last couple of decades, even allowing for the financial crisis of six years ago, have been ones of enormous growth in global prosperity, global wealth, global development, especially for the Asia-Pacific region. But now we are at a time of political tensions on a variety of fronts: obviously between Russia and the West; China is growing more assertive in the South China Sea, which it regards as its right to do so, but there is pushback, not only from the United States, but from other countries in the region; and I do not even want to talk about the Middle-East this morning, because sadly, it is depressing. So, Ronnie, from your point of view as a businessperson, how do you look at these political conflicts? How do they affect your decision-making process on where to invest, etc.?

**R. Chan:**

Paul, let me comment, if I may, on a point or two that Kevin has raised. This is an APEC Business Travel Card. Two months ago, I entered St. Petersburg. I was detained for 45 minutes, because they had never seen this card. I go to Moscow quite often, and two years ago, I had a problem with this card. Now, it is slightly better. Yes, you are right, it says Russia on the back, so Russia is a member, and I am supposed to be able to enter without a Visas! But it does not work. Do you know why? Because there are so few people in this room. Asia-Pacific, if it is really going to be the future of the economic world and the political power that comes with it, then where is Russia? I looked at the book yesterday, and 90% of the speakers are Russians, and my Russian friend here, who lives in Shanghai,

Vladimir, tells me that all he hears is Russian in the corridors here, so this is heavily Russian people. And Russia, by the way, is the only other country, next to the United States, that has any kind of power projection on both oceans, the Atlantic and Pacific. The only other one. Canada, Mexico: nice, but you know what I mean. So, Asia is up for grabs, economically speaking. It is up to the Russians: what do you want to do with it? If you are not interested, too bad. And by the way, Asia will not suffer too much if Russia is not in Asia. But I am not sure if it is wise on the part of Russians to not take care of Asia. But anyway, that is it; back to your question. You know, I am a small guy. I stand 5'3". So ever since I was a kid, I have always known, I am nothing in the world. And if you are Yao Ming, who is also Chinese, but 7'6½", he walks into a room, everybody will notice him. And so, let us face it, in East Asia, unlike the EU, for example, where you have four countries which all have around 58 to 80 million people, roughly, they are the core of the EU. In Asia, the divergence is humungous. You have China with 1.37 billion people, India is more or less now trying to get in, so be it, 1.2 billion, the United States being more powerful in the North Pacific, and so really, APEC and all these things try to get countries together. We also have ASEAN, the ten countries of ASEAN, the South-East Asian countries. But the leader, which previously was Indonesia, is today not assuming its role, so a small country like Singapore, very powerful in its own small way, is more or less de facto playing more of a role, but it is not cohesive enough as a group, and as a result, really what happens in East Asia, like it or not, is at the end of the day up to the United States and China. And so how the United States will play its cards is everything in this part of the world, unlike in the EU. In the EU, those four major countries can move things in a particular direction, from the coal and steel in the old days, all the way to what it is today. And the United States is probably happy to see that happen, so the United States is stepping back and saying, "That is okay, we will help to the extent we can, but you guys are doing okay." But in my part of the world, that is not the case. In my part of the world, it is only China and

the US. Let me tell you what Zhu Rongji, the former Premier of China, said to me when he was premier one day. This is a very crude way of saying it, I think it will offend some people, so forgive me. He and I were talking about Japan, and he said, "There's no such thing as China–Japan relations. There is no such thing. Only China–US relations." He was brutally honest. So, like it or not, my part of the world is, in that sense, very simple. The EU is simple in the sense that you have four countries that put everything together. My part of the world is very divergent, you have very wealthy countries like Japan, you have emerging markets like Vietnam and Cambodia and Laos, places that I travel to a lot, and you have big countries, small countries. But at the end of the day, guys like me, 5'3", do not count. You need China and the United States. If they get things together: done. If they do not get things together: no deal.

**P. Ingrassia:**

Are you optimistic about them getting their act together, getting their relationship on a solid, productive footing, or are you not optimistic? What needs to be done?

**R. Chan:**

Two months ago, Kevin and I were sharing the podium in Washington DC, and he was supposed to interview me. I do not know why it was that arrangement, usually it is me interviewing him, he is a far more important person! (although, by the way, we belong to the same organization; both of us are associated with the Asia Society). Anyway, my opening statement was the following: that US–China will be okay. Why? Because China is very pragmatic. If you believe in Henry Kissinger, he says that China is probably the most predictable country. You figure out what makes China tick, what they aspire to, what they fear, you can figure out the next step of action basically in most situations. And China does not want trouble; China does not want to confront the United States. So China is a rather passive, reactive partner in this relationship. The United States, on the other

hand, as Winston Churchill said, “Will always do the right thing – but only after exhausting all other means.” And at the end of the day, America has enough problems somewhere else in the world, in particular the Middle East, which you do not want to talk about at all, right? And having to deal with Russia, and other problems. So, at the end of the day, the United States does not want trouble in our part of the world, in my part of the world, either. So, if you have two major parties that, at the end of the day, do not want to have a problem with each other, and, by the way, the region can accommodate both. I do not worry about China. I do worry about America from time to time, because America is bent on making China into an enemy. They have been trying their utmost best, in the last 10–20 years, to turn China into an enemy. How foolish that is! But anyway, you can never prevent other people’s foolishness, and America will always do the right thing, but after exhausting all foolish means! So, I think that the process will be a pretty rough one from time to time. The worse the rest of the world is, such as the Middle East, or the Greek problem, the better off Asia will be, because the United States will not have time to cause trouble in my part of the world. And if America is smart, Asia will be a wonderful, peaceful, and prosperous region. All those problems that you talk about are minor problems, the South China Sea, all that kind of stuff – all solvable problems. So, it is really up to Washington DC.

**P. Ingrassia:**

What is your comment on that?

**K. Rudd:**

I think the questioning and discussion before was about overall power realities in the Asia-Pacific region, economic power, military power, the profound shift underway, which my experience is most people in Europe are unconscious of. They may read the occasional article in *The Economist* or elsewhere, but by and large, they are unconscious of it. And similarly, when Ronnie and I appear,

usually for the token discussion on the Asia-Pacific, in places around Europe, it is as if this is a minor appendage to the much more central debates concerning Russia, Ukraine, ISIS, Grexit, Brexit, and that is like the beginning and end of the world. Well, looking at it through the lens of our part of the world, this is not the reality. And looking at it through the lens of objective reality, which is pure numbers, it is certainly not the reality. So, to agree with Ronnie's initial presentation just before, I think what continues to fascinate me is the almost wilful levels of ignorance about what happens in the Asia-Pacific region on the part of these enormously sophisticated countries in Europe, and Western Europe in particular. Now, as Ronnie also said, or inferred, it is a matter for those countries collectively to decide whether they wish to be engaged or not. But let me put it into one stark, historical frame. China in 2013–2014, in purchasing parity terms, purchasing parity pricing terms, became a larger economy than the United States. Within the next decade, according to market exchange rates, it will do the same: the two classical measures of economic size. When that occurs...

**R. Chan:**

It will do the same in nominal terms, is that what you mean?

**K. Rudd:**

Yes, and so, when that occurs, against both measures, then it will be the first time since George III was on the throne of England that a non-Western, non-English-speaking, non-democratic state is the largest economy in the world. Anybody who thinks that is not going to have an influence on the way in which the world unfolds for the decades ahead, I think has rocks in their head, because, whether you like it or not, the rules of regional and global systems follow who exercises power and influence within those systems. And I am not being prescriptive here; I am just being descriptive of what is unfolding. That is my second point. The third one is to go to the two elephants in the living room, one

called the United States of America, the other one called the People's Republic of China. I spent all of last year at the Harvard Kennedy School working on this one subject, which is alternative futures for US–China relations. If any of you are suffering sleep deprivation, go to the Asia Society website and you will see a 40-page report from me, in English and Chinese, but I regret to say not in Russian, on this subject.

**R. Chan:**

It is very good. I read it.

**K. Rudd:**

It has cartoons and everything (no, it does not really!). But what I say in that is, if you look at the future of China–US relations, we are looking at something which is not historically unprecedented, but something which is, shall I say, highly complex against any historical measure concerning the analysis of rising powers and established powers. You may have heard of a theory of international relations described as Thucydides' Trap, after the Greek historian Thucydides, in his analysis of what unfolded between Athens and Sparta in the Peloponnesian Wars. The analysis was, from Thucydides, that the reason why these two ended up going to war was because one feared the rise of the other, and regarded pre-emption as the better way of dealing with that, rather than waiting for the full maturation of the power of the other. The Thucydides' Trap analysis has now been the subject of application to 15 examples in the post-1500 period, basically since the period of the Reformation and the Wars of Religion here in Europe. In those 15 examples, which go right through to the end of the Cold War – hopefully not the beginning of the next Cold War – 12 out of 15 of those examples have resulted in war. Only three have been resolved amicably. By amicably, I mean without armed force. That is, when a rising power finds itself in a relationship with an established power. And if you look at the resolution of the Cold War between

the Soviet Union and the United States, it was resolved in the end, to the surprise of everybody, peacefully. One of the previous cases, also, was when Britain yielded power almost without a whimper, to the United States, around about the time of the First World War. But with the US and China, therefore, we are rowing against the tide of history. Therefore, the requirement for the most skilful statesmanship and diplomacy, to avoid the determinism of history, is even more acute. And the focus of my report is to say there is a way this can be done, which is not utopia, which is not idealism, but it is very practical. I call it “constructive realism” in the report, which identifies and manages the six or seven fundamental disagreements between China and the United States, and constructive engagement then occurs in about 20 or 30 other major areas of common interest between China and the United States. Thirdly, it is a bit like human beings. If you work with each other on common projects for a while, you start to build trust, and you use that trust over time to then start to fix some of the irreconcilable differences that you have at present. That, in a nutshell, is what I argue. And it has received a reasonable amount of positive support, both in China and the United States, in the six weeks or so since I released it.

**P. Ingrassia:**

Well, I want to open this up to the audience for questions in a minute, so if you have questions, you might get ready, but I would be remiss, honestly, if I did not ask about one of the breaking news developments really out of China, specifically Hong Kong, in the last couple of days, and that is the voting by the pro-democracy faction in the Hong Kong legislature against the electoral rules that are basically being mandated by the Beijing Government. Hong Kong’s legislature’s pro-democracy faction wants more freedom of choice in who is going to be on the ballot; the Beijing Government is happy to have the ballot but wants to essentially prescribe the list of candidates that goes on the ballot. Is this going to be damaging to China–US relations? Is it going to be a problem in terms of the

resolution of the Taiwan situation, or is this just a little blip that will be in the headlines for a few days and will disappear?

**K. Rudd:**

Well, Ronnie lives there, so over to you, my friend.

**R. Chan:**

Well, I think most people here do not know what you are talking about, Paul. You are a journalist, and you cover many things. Suffice to say that truly it is amazing how Beijing wants to give Hong Kong more democracy, and the pro-democracy people in Hong Kong have said, "That's not good enough for us, so we will not take it." That is basically, in one sentence, the summary of it. And it is how the world has turned around, where Beijing is trying to give Hong Kong more democracy, and Hong Kong rejected it. I think history may prove the folly of the decision the other day in this way. That is, it is possible for whatever happens in Hong Kong to become a precursor to what may happen in China 20 years, 30 years, 50 years, 100 years later. I think Hong Kong might have missed an opportunity to serve that function, but so be it! Let us not blow up the thing: it is not significant enough, it is neither here or there so, so be it, whatever happens, happens. You turn down the democracy package that Beijing promises, that is fine. But let me go back to the big issue if I may, Paul, about US–China relations. I share the concern of Kevin. Ten or fifteen years ago, I thought the Americans were more enlightened than they are, but increasingly in the last ten to fifteen years, I have come to the conclusion that America is as dumb as everybody else; that those fifteen times the existing power had a problem with a rising power, America is doing exactly the wrong thing vis-à-vis China. The reason for my optimism, if you can call it optimism, is that today the world is a globalized place and America has a lot of other things to worry about. I think before they can focus on Asia and totally ruin the China–US relations, somewhere else in the world – it



will not be Greece, perhaps in the Middle East somewhere – the world will blow up a lot faster than the relationship in East Asia will evolve. So I think that besides America, hopefully, always doing the right thing after trying all the wrong things, is the fact that the world is going to blow up somewhere else. Now, if not because of that, then what Winston Churchill said about America may not work. That is, America may not be given the luxury of doing the right thing finally, because the process can be so dangerous that things can blow up, such as mishaps. So America, I think, should take it seriously, although my final analysis, if I am a betting man, I would bet that the US–China relationship will be okay, let us be careful as well. America is as foolish as it can be, from what I can tell, vis-à-vis the Asia-Pacific, in particular vis-à-vis China. To start with, there is no strategic thinking, number one. Number two, there are very few true experts in the United States. Finally, if I may add a third point, that is, if anybody thinks that America has a free press, think twice. Because the press – I am sorry, Paul, you are from that industry – you know what Goebbels said one time? Mao Zedong repeated it, by the way. That is, “If you repeat a lie enough times, it will become the truth.” Now, I do not think that journalists want to propagate lies. I do not think so.

**P. Ingrassia:**

Thank you for that!

**R. Chan:**

But, if you have stupid, foolish analysis and you get on that high horse and begin to propagate that, think tank after think tank, newspaper after newspaper, it will become – so to speak – the truth. Last week, I heard a statement, I do not know whether to laugh or to weep, being the Co-Chair of the Asia Society globally, and that is, all the think tanks, all the reports in Washington DC these days about China are uniformly negative. The only one that is rational is that of the Asia

Society, and that is led by Kevin. Rational. It does not mean that we are necessarily pro this, pro that, but we are rational and look at the thing, rather than being illogical about it. I move about in the think tank field in America a lot, and in the last five, six, seven years, it has increasingly been moving in the wrong direction, because one builds on the other, you have to be more negative than the other guy, and so a few ideologically bent people can start something and that gets picked up here and there – it is a very, very dangerous thing. Where are the sensible voices, apart from the Asia Society and Kevin Rudd? And he is not an American, he is an Australian, we all know that. So, where are the sensible voices from America? It is truly amazing that the best geopolitical minds in the world are for the most part non-Americans. If you think that Henry Kissinger is good, do not forget that he grew up in Germany. Some people say Brzezinski. He is Polish. And so where are the top American strategic thinkers? Very few. Americans are great tacticians, but they are so wealthy, I suppose, that they never need to think strategically. And they react to things, rather than – not that I am proposing any grand scheme on the part of the United States, but in the face of different issues and problems in various parts of the world, there needs to be more strategic thinking in America, which is, I am sorry, wanting.

**P. Ingrassia:**

I take it then, Ronnie, you are not comforted by the fact that Donald Trump declared his candidacy for the presidency, then?

**R. Chan:**

He is a joke. It does not matter. It is an ant crawling on the... yes.

**K. Rudd:**

Just to add one thought before you go to questions, thirty seconds. You know, as we roll into the 21<sup>st</sup> century, we are in this age of globalization more in need of

bridge builders, people who build bridges around the world, than ever before. The thing about this phenomenon of globalization is that at one point we assumed it would simply converge global consciousness. In fact, what we have seen as a result is a collision of competing nationalisms, often, but not always. Therefore the need for the bridge builders today is larger than ever. So what we try to do in the institution we represent, which was created by an American, John D. Rockefeller III in 1956, who in 1956 said, "The 21<sup>st</sup> century will belong to Asia. Americans need to understand more about Asia, and that is what our society will be doing." That is a lot of foresight for someone writing in 1956, when the world was a radically different place. So what we try to do, as an institution now, despite all the clamour around the place, is to build bridges between the United States and China, in a very realist way. We do not sit around and have a seminar of general Kumbaya hand-holding, and believing that a bit of camp singing at night will solve all of our problems. We are not into that view. We are very realistic about what these countries have in common, what they do not have in common, and where the areas of genuine common effort are possible. Similarly, because in the Asia Society, we take the UN's definition of Asia, we seek to act now as bridge builders between the United States and Russia. Russia, in terms of Asian Russia, is part of our remit as well: everywhere east of the Urals. And so, in an age where we should be coming closer together, what I see in fact is so much of the world now being ripped back into traditional nationalisms. And so, bridge building is very important. Not many people in the world are interested or committed to building bridges. A whole bunch of people in the world seem to be interested in blowing up bridges. I am interested in building bridges.

**P. Ingrassia:**

I am going to spare everybody here the agony of a debate about whether America has a free press! But let me open it up for questions, please, from the audience. When you ask a question, just please identify yourself, if you would.

**D. Michael:**

Good morning. I am David Michael, I am a Senior Partner at the Boston Consulting Group. I am also a Professor at the 21<sup>st</sup> Century China Program at the University of California, San Diego, and I am on the World Economic Forum's Global Agenda Council on Economic Growth. So, Mr. Chan, you make it tough for me, as an American, to follow up on your comments, but the spin I would put on your comment about free press, which I really agree with, is that there is this power of these conventional wisdoms and ways of thinking which lazy people just slide into, and those are very disconnected from the realities of the world. I was at an iBanker talk the other day, and the iBanker got up there and said the biggest risk to the global economy is what happens in China. So I kind of got up and I said, "No, that's ridiculous, I think the biggest risks to the global economy are Japan and its demographic and debt time bomb, and Germany and how it manages the fate of the Eurozone. I tend to be fairly optimistic about China and we should not worry too much about it." I also, Mr. Rudd, pick up on your notion of bridge building, because I think, although I hope the presidential candidates read your report, I think that lack of understanding is not a monopoly of people in the US, and in my many years in Beijing, I found many a young Chinese person who was swept up in that nationalism and has a world view that is very different than what we might hope that they would aspire to. So I think your work is so important in that regard. I will just come back to my question, which is really the mindset and ambition of President Xi Jinping at the moment – how do you see what is in that mindset and world view, and in that context, how to interpret the various reforms that are underway and the anti-corruption campaign? How to think about how that will play out, and what is motivating those major initiatives?

**K. Rudd:**

By the way, before I just answer that, nationalisms of various forms are not an American monopoly. My concern is I see them re-emerging all over the world. As I said, we need bridge builders all around the world, because I think we have looked at where nationalisms out of control have taken us in history, and it has usually been a fairly difficult and destructive path. On the question of Xi Jinping, four points. One is, because China is so big, China's leaders have to explain their vision very simply. And for him, it is what is called 'The China Dream'. And the China Dream is in part a riposte to the American Dream, but only slightly. It is primarily explaining to the Chinese people what his aspirations for them personally and for the country at large, are. He then defines how that will work in terms of two upcoming anniversaries, one, as you know, in 2021–2022, on the anniversary of the foundation of the Chinese Communist Party, the second in 2049, which will be the centenary of the founding of the People's Republic. He essentially outlines a set of national aspirations whereby the individual living standards of the Chinese people will rise to that of an upper-middle-income country, like you see elsewhere in the world. The second part of the Dream is parallel to that, but at a national level. And he wants China to once again be accepted and respected as a great power in the international society of states, as China once unequivocally was before the British thought it was a moral thing to do to force it to buy opium in the First Opium Wars of 1842, which basically set the script for the subsequent 150 years. Not the noblest chapter in the history of the British Empire, for those of you who are students of history. And so, these are the two elements of the China Dream. Three points about his actual policy direction. One, you referred to the anti-corruption campaign. Xi Jinping's conclusion is the only political vehicle which is capable of delivering the China Dream is the Chinese Communist Party. He draws on Chinese tradition, the hierarchical nature of the Chinese Confucian tradition, and argues that, in fact, this resonates with China's past, but is necessary, too, for China's future. If you

do not have strong central government in a country of 1.4 billion people, then you will achieve nothing. And he points, for example, to the rollout of China's National Infrastructure Programme in the last 20 years as evidence of why strong central government is necessary if you are going to take a country like China in a defined economic direction. So, the anti-corruption campaign is primarily about the restoration of the political legitimacy of the Chinese Communist Party in the eyes of the Chinese people. The Chinese people, my Beijing taxi driver test, is that they love every time one of the large tigers, the large perpetrators of official corruption, bites the dust, because at many levels, they have seen this happen in China over some decades now, and it has been enormously reinforcing of Xi Jinping's personal political legitimacy. But the primary point is this: he reached a conclusion which he made clear in a public speech within a week of becoming General Secretary of the Chinese Communist Party, when he gave a speech at the Chinese Historical Museum in Beijing on China's renaissance, where he said, "Unless we reform the Chinese Communist Party, then it will collapse", so we should just frankly understand that this is central to his political project. The other element of his project in terms of party legitimacy but also the concrete elements of the China Dream, personal living standards and national economic power, is of course his National Economic Transformation Programme, outlined in the Third Plenum of the 18<sup>th</sup> Central Committee, a couple of years ago. It is a massive economic blueprint to take China from the economic model it had for the previous 35 years, based on labour-intensive, low-wage manufacturing for export, plus high levels of state investment in infrastructure, to a new model, based increasingly on high levels of personal consumption, an expanding Chinese private sector and an explosion of the services sector. There are some 66 sets of policy recommendations in that blueprint. So, for him, that is the nuts and bolts of how you bring about the China Economic Dream, and there will be a range of report cards about how successful or otherwise that has been, but as it is, two years down the track, I would probably accord the Chinese a solid pass mark for

what they have done so far. Then the third point I would simply make is: what is the final element of his aspiration for China in the world? For those of you who study China, or who are interested in China, he gave an extraordinary speech at the end of last year, November 31, to the Central Work Conference on Foreign Policy of the Chinese Communist Party. I read the published version of the speech very carefully: it is not complete, there is an internal version as well. But actually it uses language I have never seen before in my 35 years of study of Chinese politics and foreign policy. He talks about the need for a new type of international relations, for China to now act with a new Great Power diplomacy. He talks about the need to fundamentally reform the international system. He talks about China's place in the midst of this; he also says for this to come about, China must now pursue a much more activist foreign policy. Now, these are quite significant departures from the Chinese orthodoxy of Deng Xiaoping for the previous 35 years. And so when you see things like the AIIB emerge, I mean, I just think that is going to be the first of many. Frankly, I am quite relaxed about the AIIB, I think everyone should – as we would say in Australia – pop a mogadon, which means just have a calming piece of medication! But frankly, this indicates a much more activist Chinese foreign policy in the world. So, I think at those three levels you see the articulation of the China Dream.

**R. Chan:**

Can I supplement that, the last point Kevin made, and apply your question, Mr. Michael, to the international arena, which is of interest, I suppose, to this audience? The world has been asking some stupid questions, dumb questions. I mean, I cannot believe that brain-dead people would think of such questions. Such as: why would China want to have...

**K. Rudd:**

Tell us what you really think!

**R. Chan:**

Why would China need a blue-water navy? Brain dead. Fifteen years ago, less than 2% of China's energy need came from outside of China. Today, the number is 20–30% and rising. The projection is that it will be 50% in no time. And do not forget – Kevin reminded me of this a while ago – that in 1996, two US aircraft carriers streamed down the middle of the Taiwan Strait, and that was nothing at that time, and that is only 19 years ago, that the Chinese could do. Zero. So, one day, 100 years later, 50 years later, 150 years later, who cares? Taiwan will return to the motherland. There is nothing you can do, because the United States has two aircraft carriers that can stream right down the middle of the Taiwan Strait. And the energy needs and the commodity needs of China as it economically develops: what do you expect an oil tanker or whatever, a Chinese ship in the Indian Ocean to do after it leaves the Gulf of Hormuz and gets into trouble with Somali pirates or something – do you call the Seventh Fleet and say, “Please help”? And that is the exact Seventh Fleet that streamed down the middle of the Taiwan Strait? So, one has to coldly and calculatingly look at the world from many perspectives, but also from the people of a 7'6" guy called China. When it is now integrated into the international global economic system, as it grows, it has its needs, from exporting goods to importing materials, including energy. All that requires naval power to back it up. Especially when the United States has proven that they do not want to be your friend. So, the world has to get used to the fact that there is a country with 1.37 billion people rising very fast, given the economic GDP numbers that Kevin just gave us. It is a fact of the world – and the world changes. If anybody wants to freeze it at a certain time, you are going against history. And so, when China grows, it has many needs. My question to my American friends is what is the best way for you to influence Chinese actions? Is it to be China's friend, or is it to be China's foe? My answer is very simple: absolutely the United States should work with China and be friends. But



what I have seen in the last 10–20 years is the exact opposite. And so, as if the United States does not have enough problems in the world, and you are now picking on – not a small guy like me, my friends – you are picking on the big guy. It is not a wise thing. Moreover, as I said two months ago with Kevin in Washington DC, and the Chinese Ambassador to the United States was sitting in the audience, I said, “China is very happy to play second fiddle to the United States, no problem. The problem is that the United States made China into this behemoth, this evil, implicitly evil behemoth, and then shoots at it.” There is no need for you to make China into a behemoth as the number one of the world, and number two, you do not have to shoot at it. And so, afterwards – I will end with this – the Ambassador from China stood up and said, “Basically, I agree with Mr. Chan. We do not want to be number one, because it is very expensive. The best place to be is number three or number four. But that is not up to us, and we are now number two. And we found this very highly risky, to be number two, because number one always tries to shoot at you.” And so, America really ought to rethink its strategy vis-à-vis China. It is unnecessary – and that is the saddest part of it – to have bad US–China relations.

**P. Ingrassia:**

Okay, I promised to open it up for questions, and I have only opened it up for one question, so how about over here?

**A. Kasanov:**

Good morning, my name is Andrey Kasanov, I am from the *Rossiya Segodnya* news agency. First of all, welcome here to St. Petersburg and thank you for this wonderful, interesting conversation. My question is to Mr. Rudd. I would like to move to a topic not yet mentioned in this discussion, to the sanctions. My question is very simple. What is your position regarding these sanctions, and

would you apply the sanctions if you were Prime Minister of Australia today?  
Thank you very much.

**R. Chan:**

You mean the sanctions against the Russians?

**A. Kasanov:**

Yes.

**P. Ingrassia:**

That is a little off our topic, but I will...

**A. Kasanov:**

Probably I was a little bit late, unfortunately!

**K. Rudd:**

It is not a question whether you were late or not. We are here discussing the Asia-Pacific region. Look, I do not comment on Australian Government policy on these questions. I think one of the beginnings of wisdom once you leave political office is not to provide a rolling commentary on the policies adopted by your successors. And I just never engage in a commentary on my own government's approach to these questions. I will go back, however, to say a couple of more general things. One is this: to re-emphasize what I said before about the importance of bridge building, the easiest thing to do in politics, in my experience, is to highlight disagreement and difference. The hardest thing to do in politics is to identify common ground and the possibilities of compromise. That applies as much to international politics as it does to domestic politics. And so, for me, that is a principle which applies both in terms of China–US relations as it does to China–Russia relations and US–Russia relations. The second point I would make

is this: it is a much broader point about the nature of the international system. You may have read an American author called Tom Friedman, who wrote “The Lexus and the Olive Tree”, he has written “The World is Flat”; he is probably one of America’s more famous, shall I say, current affairs writers. He writes regularly in the New York Times. I was having a pleasant bottle of wine with Tom recently at the Chinese equivalent of this gathering: it is called the Boao Forum held in Hainan Island in February and March each year. We were sitting there, we were utterly bored by the session that we had just been to, and we decided that we needed several glasses of wine to recover. Being an Australian, I was happy to oblige. But we then began to talk about the essential nature of conflict. He made, I thought, an extraordinary observation, which I have reflected on in the three months since then – I think it is worthy of more global reflection as well – which is, if you look at the history of human conflict, including to this day, very few of those conflicts can be explained unless you take into account whether people have been humiliated or not. Humiliation, whether it is the Arab-Israeli conflict, whether it is so many other conflicts in the world, if a people feel humiliated, in one form or another, then it produces a psychology and a sociology within countries which becomes exceptionally difficult in international relations. If you look, for example, at the way in which the Nazis exploited Germany’s humiliation after the events of 1919, who stabbed Germany in the back, who allowed Germany to be humiliated, and then through that, the humiliation of the financial penalties against the Weimar Republic, humiliation created the dynamics of the political discourse of the 1920s, which produced so many of the political phenomena of the 1930s. Then we go to China. When China speaks of its Century of Humiliation, from the First Opium Wars in 1841–1842 – which, by the way, is how the British managed to get Hong Kong, as war reparations for their “principled war against China”, quote unquote, because the Chinese refused to buy British opium in order to offset the tea trade between China and Britain – Hong Kong was ceded, then we had the Second Opium War, and then you had a

series of foreign incursions, not just by the British, and then by the French, but by the so-called Eight Imperial Powers, by the time you got to 1899, the so-called Boxer Rising, and then you get to the 20<sup>th</sup> century, where the Japanese, having observed how successful the European colonialists had been in China, thought this was a smart thing to do as well. So you had the Japanese military occupation of China, beginning effectively with the war of 1895, when Taiwan and the Korean Peninsula were taken, and then through until the full-blooded invasion of China in the 1930s through until 1945. So, why did I say all of that? We can have this very detailed discussion about Chinese national interests and US and Western national interests. We can even have a discussion about Chinese values and Western values. I actually, the more I have been around in politics and international politics, the more I reflect on what actually underpins so much of these phenomena, which is people's sense of having been humiliated, and their natural human response to being humiliated. I am no expert on Russia: I am just not. So the beginning of the wisdom is to know what you know, and what you do not know. I know quite a lot about China, I speak Chinese, I have been in and out of the country for 35 years.

**R. Chan:**

Very good Chinese.

**K. Rudd:**

And I do not speak a word of Russian. Not a word of Russian. And I find this country fascinating, as an external student of its history. I spent yesterday morning wandering around your churches and museums, and the cathedral, which was built to commemorate the achievements of your Marshall in the 1812 campaign against Napoleon in the First Great Patriotic War. I mean, this is an extraordinary country with an extraordinary history. But I look at the events of the decade following the collapse of the Soviet Union, and I ask this question: did the

collective West properly analyse and understand how Russians felt in the period where the system they had known since 1917 collapsed? And did they properly analyse and understand how to best support Russia in that critical period of economic transformation from 1991? And when I ask myself the counterfactuals of history, had the collective West behaved more appropriately, in supporting a country which had peacefully ended the Cold War, in a period of phenomenally difficult political and economic transition, I wonder whether the history that has now unfolded would be a lot different. So, when I answer you and reflect on your question, I go back to more fundamental considerations about humiliation. Next time you are in Madrid, let me recommend you go to the Santa Sofia museum or the Prado, I cannot remember which museum it is, but there is a great painting by Velasquez, which is called "The Peace of Breda". It was painted in the 16<sup>th</sup> century, during the time of the Dutch revolt against the Spanish Empire. And in this particular battle at Breda, the forces of Philip II of Spain – whichever of the Philips of Spain it was, there were a stack of them – triumphed over the Protestant Dutch. It is a study by Velasquez of the conclusion of the battle, of the Spanish commander acting with magnanimity and grace towards the defeated Dutch. Now, we are not interested in the Spanish Empire, we are not interested in the Dutch Revolt. But it is an artistic reflection on how people who have won in a conflict of any form should behave to those who did not win. And it is an extraordinary painting. I think we need to see that painting hung in all the chanceries of the world, so that we can reflect upon the deep psychologies of humiliation and its alternative, which is magnanimity.

**R. Chan:**

One sentence, Paul, if I may? Last night, over dinner, my Russian friend and I were talking exactly about the same thing. Now I know, Kevin, you are great, because you agree with me! If the West had, in 1991, 1992, not been on a high horse of triumphalism, but instead had helped Russia rebuild, I think not only

Russia would be perhaps a better place, but the whole world would be a better place. And speaking as an ethnic Chinese, I know the sense of humiliation. Although for 3,000 years, China has built perhaps one of the world's most lasting civilizations, and glorious relative to the rest of the world, in particular Europe, the last 250 years have been horrific. And you do not want to be in a position of being humiliated. I think, by the way, the Chinese will handle humiliation okay, as long as the West, in particular the United States, does not stoke the fire of humiliation inside the Chinese. Like everywhere else, the man on the street in China is as unsophisticated as Americans anywhere in that country or any other country in the world, and it is easy to stoke up their nationalism and so forth. If the West, in particular the United States, is to be smart, you do not want to go in that direction, and then you can be friends. Again, today, with Russia, I say the same thing.

**P. Ingrassia:**

Okay, I am sorry to say that we are out of time here, we have gone over an hour and we have had a very lively conversation with probably some common themes about behaviour and history and economics and all that. So, with that, I want to thank Prime Minister Rudd and I want to thank Mr. Chan, and I really want to thank all of you, for being a good audience, and I am sorry I did not get more questions in, but we tried! Thank you.