



DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

“Kevin Rudd on how to avoid war between the U.S. and China”

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Guest:

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Episode Summary:

Former Australia Prime Minister Kevin Rudd, now president of Asia Society, discusses his new book, *The Avoidable War: The Dangers of a Catastrophic Conflict between the U.S. and Xi Jinping’s China* (Public Affairs, 2022). Rudd calls Taiwan the “core strategic tension” between China and the United States, discusses how the U.S. and China can manage strategic competition, looks at trade issues in the region, and describes China’s challenge to the current U.S.-led international order.

DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast Dollar and Sense. Today marks our 100th episode for this podcast and we're very happy to have a special guest, Kevin Rudd, former prime minister of Australia and current president of the Asia Society. Kevin has a new book called *The Avoidable War: The Dangers of a Catastrophic Conflict Between the U.S. and Xi Jinping's China*. And so what the U.S. and China must do to avoid war, that's really going to be our topic today. Before we get to our conversation, I'd like to introduce a new show from the Brookings Podcast Network with the catchy title Recession Remedies.

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DAVID WESSEL: I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. I'd like to introduce a new podcast series called Recession Remedies from The Hamilton Project and the Hutchins Center.

COVID-19 was, of course, devastating in terms of human lives. It also posed a serious threat to the economy, and that led to an unprecedented economic policy response from the federal government.

How successful was U.S. government support in sustaining households and businesses? Did expanded unemployment benefits discourage people from looking for jobs when the pandemic abated? What were the implications for kids, housing, state and local governments? And most importantly, what lessons did we learn that policymakers should remember when the next recession hits?

Join U.S. for Recession Remedies as we answer these questions and more. Recession Remedies is produced by the Brookings Podcast Network. You can download and listen to it on Apple, Spotify, or wherever you get your podcasts. To learn more about our project, visit Brookings dot edu slash Recession Remedies.

DOLLAR: Welcome to the show, Kevin.

RUDD: Thank you, David. And congratulations on the hundredth podcast. This is no small achievement, my friend. Dollars and sense, I hope you're making lots.

DOLLAR: Thank you, Kevin. So, your book is about how to avoid war between the U.S. and China. If we fail at that, the most likely reason would be conflict over Taiwan. So, can you sketch out what war between war over Taiwan would look like?

RUDD: David, your assumption is right. It's the core strategic tension between the United States and China structurally. There are other things which could become incendiary devices in the South China Sea, the East China Sea, even over the Korean Peninsula perhaps, and certainly in cyber and space. But the bulk of our strategic focus should be on Taiwan.

What would it look like if the balloon went up? There are multiple scenarios and I try to sketch these in the book and it depends on the nature of the Chinese initiation of, shall we say, hostilities. They could begin at the soft end. They could begin by imposing a trade embargo on Taiwan. They could begin by forcing that through a maritime blockade. They may seek to bring down key elements of Taiwanese economic and political infrastructure through massive cyber-attacks and disabling the telecom system and the computer systems of the country. They may try to salami slice Taiwan by beginning with a series of military occupations of Taiwan's much more vulnerable offshore islands, which are close to the Chinese mainland coast. Or it could be the full amphibious invasion, which would be the largest amphibious operation since the D-Day landings.

Each of these, however, in my judgment, runs the risk, probable risk, high probability, and in fact, almost inevitability of escalating into general war. And certainly a lot of the war planning on China's side takes into account the need to preemptively strike against U.S. forces currently positioned in Guam in order to prevent them from impeding China's military operation against the island. And then, of course, against U.S. forces in Okinawa. By virtue of that, you're automatically into a general war, which I describe as catastrophic in terms of its potential consequences.

DOLLAR: So, I think we can agree that's a catastrophic scenario. We really want to avoid that. So, what's really the short version of your book? What are the important steps needed to avoid this kind of catastrophic war?

RUDD: The book, *The Avoidable War*, David, is a deeply realist book. It doesn't believe that the U.S. and China can simply resolve the problems over Taiwan or the broader problems of China's rise and challenge to the U.S. position as the predominant global power by simple hand-holding and a kumbaya seminar in the corner arbitrated by some Swiss think tank. It's not going to work that way. You know that. I know that. We've been in the field too long observing this stuff.

Therefore, what I do is I take the core strategic redlines of both the United States and China as a given which can't be wished away. And what I seek to do in the book is to say that rather than simply have unmanaged strategic competition between the U.S. and China over these red lines and other elements of competition in the relationship where there are no guardrails, no rules of the road, no nothing, and therefore, with the continuing risk of crisis, escalation, conflict and war, far better to have managed strategic competitions with certain *de minima* guardrails, certain *de minima* rules of the road between Washington and Beijing so that least conflict by accident and the risk of that is reduced and hopefully eliminated.

On the structural question of will China change its mind over Taiwan, under Xi Jinping's leadership that's unlikely. What I'm seeking to do, however, is to navigate our way through the dangerous decade, the decade of living dangerously, which is the 2020s, when so many accidental crises could trigger a general conflict prematurely. The 2030s presents its own inherent strategic challenge, which is when China's own indigenous timetable for action against Taiwan may well be met unless other steps are taken in the meantime.

DOLLAR: So, there's a lot of speculation right now about what China is learning from the Ukraine war, whether or not that Ukraine war and the sanctions that have been imposed by the West and the response, et cetera. Does all this make conflict over Taiwan less or more likely, thinking about this dangerous decade that we're talking about, not necessarily long term, but next ten years or so? What are the Chinese leaders taking away from the Ukraine conflict?

RUDD: This is a an excellent question and for which some of the answers given in the U.S. domestic debate have been less than excellent. By which I mean China, in terms of its own strategic timetable under Xi Jinping for a move against Taiwan, is largely still operating against its own timetable. I am much less concerned about a Chinese preemptive action on Taiwan during the 2020s than I am when they believe that they will be in a much more robust position militarily, economically, and critically, financially by the time we hit the 2030s. So that, in my judgment, represents the real problem for the medium to long term.

On the way through, however, I operate on the assumption, and I think it's a valid one, that neither China nor the U.S. during the 2020s have an interest in war being triggered. Therefore, the machinery in order to reduce and hopefully eliminate that risk this decade is what the primary burden of the book is.

As for the 2030s, under Xi Jinping's leadership what would cause him to change his mind and offer a deep reflection on the Russia-Ukraine experience? David, I think it's this: one is if the military came in to Xi Jinping let's just say on the 1st of January 2030 and said, okay, boss, we've reached your political timetables for moving into Taiwan. There's a problem. We've done 17 case studies now on Ukraine and the difficulties in securing a military occupation of a neighboring state, which is adjacent as a land territory in relation to the Russian Federation, was simply too great and we needed a far greater preponderance of forces in order to secure that possibility over Taiwan, given that this is a maritime operation, not a land-based operation.

And secondly, we've made a detailed study of the impact of U.S. financial sanctions against Russia. They had a marginal impact at the beginning, but they ultimately ground down the Russian financial system into embers and dust, particularly after the Russian energy trade was finally quashed by the collective West. So boss, Xi Jinping, I'm not sure we are still in a financially robust enough position to undertake the risk of inbound primary financial sanctions against China, which the West would initiate in the event of us taking military action today. I think they're the two enduring sets of lessons.

DOLLAR: Yeah, I just want to say I completely agree with you that in some kind of invasion from the PLA in the next couple of years never seemed very likely, and now they're going to want to study both the military aspect and the financial sanctions. And if anything, I think this makes war over Taiwan less likely in this relatively short frame.

RUDD: I think for the period ahead, David, you and I are on the same ticket there. Xi Jinping, however, believes himself like Putin to be a man of history. And the problem with men of history when they start aging a little is that they sense the historical clock is winding down. And I always am deeply concerned when men of history run into mortality and what then happens in the last phase of their of their political tenure.

So, the collective decisions and deliberations of the rest of the Chinese leadership on the military and financial factors, as we just discussed, I think will be critical. But Xi Jinping's level of political resolve on this question should not be underestimated. We are still in a danger zone, but not an imminent one. As I said, it's medium term, not near term.

DOLLAR: So, the next question is one I really wanted to ask you for a while. It's about China and the global order. And it seems to me that China has arguably benefited more from the global order than just about anybody else. So why is China throwing its hat in with Putin challenging the international order? Do you think China wants to overthrow the order and build something completely new? Or does it want to reform it in a specific direction and this is its tactic?

RUDD: Well, David, for my sins I read the internal ideological documents of the Chinese Communist Party. And so, whereas other people get to read nice novels on the weekend, I get to read communiques of the Central Committee. And if you read these over a period of time, what becomes clear to me, particularly since 2017, is Xi Jinping's resolve to move towards two things for the future of the order. One, with the existing institutions of global governance, that is through the G20, Bretton Woods institutions, the UN, and all of their associated entities, China has sought to do a number of things: increase the power of their voice, increase the presence of their personnel, increase the impact of their funding for these various instrumentalities. And thereby increasingly influence the normative and institutional content and shape of the existing system with a bigger voice for an authoritarian China.

But at the same time, we cannot ignore the fact that China has sought to establish a parallel set of institutions around the outside of the existing rules based system, which were not universal in their reach, and nonetheless designed to have a more Sino-centric set of orders around them. The Belt and Road Initiative, as you well know, is principal among them. But there are a range of others through the Asian Infrastructure Investment Bank and through the various China Plus One arrangements, which it has with regional entities from Latin America through Africa, through Eastern Europe, and elsewhere in the world, and Southeast Asia, in order to elevate a more Sino-centric system.

And if you look at it ideologically, when Xi Jinping uses the term, and I quote, a community of common destiny for all humankind, unquote—which sounds much more impressive in Chinese than it does in English—the term becomes this omnibus concept into which everything else is rolled in order to ultimately give it some level of Sino-centric ideological coherence. But this is classic in the way in which China approaches institutional governance change offshore. Throw out a very wide concept, throw out a number of initiatives, operationalize them on the ground, see how far you can get, and then coalesce them around a new set of realities which are constructed by that particular institutional and normative set of initiatives.

DOLLAR: Even before the Ukraine war, Chinese leaders were talking a lot about self-sufficiency and becoming less dependent on Western technology, less dependent on natural resource imports. And presumably the whole experience around Ukraine is just encouraging that move towards self-sufficiency. But at the same time, China was a leading force in bringing agreement on the RCEP trade deal, the Regional Comprehensive Economic Partnership. It's applied to join the Trans-Pacific Partnership. It's negotiated an investment agreement with Europe—it's currently on hold, but the Chinese would like to see that come into force. So, I feel there's a contradiction between this talk about self-sufficiency and then going out and negotiating these trade deals. So which is it? Is China becoming more closed, or is China becoming more open?

RUDD: David, that's a wonderfully Cartesian question delivered to a system which doesn't ultimately accept Cartesian logic. Because in the Chinese system, prosecuting both sets of initiatives is not seen as either an ideological, political, or logical conundrum. What they see at the moment is an international system, in their view, in transition. And as a consequence, what they will seek to do and are seeking to do is to maximize the continued gains that they get through maximal access to the international economic, trade, and investment order through the sorts of instrumentalities that you've just listed.

And furthermore, there's an underpinning geopolitical dimension to each of them. For example, with RCEP, with the Trans-Pacific Partnership, and with the proposed agreement with the Europeans, the underlying geopolitical principle is the U.S. is not in any of them. And so you maximize the return to Chinese growth by maximizing your presence in international trade and investment architecture and institutional arrangements.

Secondly, you do so in a manner which marginalizes the role for the United States.

And then thirdly, over time, you use what Xi Jinping has wonderfully evocatively described as, quote, the gravitational pull, unquote, of the Chinese economy to then through those institutions, arrangements—both multilateral, regional and bilateral—cause the rest of the world to conclude that they are ultimately economically dependent on the great giant Chinese economic and financial juggernaut.

On the self-efficiency question, China's view, parallel to what I've just described, is that in all key core technologies and in all key areas of commodity supply, China will continue to prosecute a

strategy of national self-sufficiency, which has really been alive in the Chinese system under Xi Jinping since the China 2025 strategy was announced in 2015, well before Ukraine and well before any of the more recent, even the U.S.-China trade war. What the trade war with the United States under Trump did, and what the Ukraine war now through a Putin in Kiev or seeking to take Kiev, has done is turbocharge this predisposition towards core self-sufficiency in critical areas. But the Chinese do not see these pushes as being mutually contradictory.

DOLLAR: I would add that I think they're having mixed success in some of this effort to become more self-sufficient. In semiconductors, they're still pretty far from the frontier. It's quite difficult to just pick a technology and instruct your state firms to advance to technology. They're still very dependent on energy imports, and they're actually trying hard not to be dependent on food imports. But the logic of economics is they have a pretty serious water scarcity problem. So, they would actually be better off if they imported more grain. So, I think they're having kind of mixed results in terms of achieving this self-sufficiency.

RUDD: I think, David, you're absolutely right. If I was to look across the whole spectrum of Xi's changes to China's policy settings within its political economy, both prior to 2017 and the 19th Party Congress, but most particularly since then, if you put together the list, whether it's the national self-sufficiency drive; whether it's the rehabilitation of industrial policy at scale; thirdly, the rehabilitation of the significance of state owned enterprises, part of self-sufficiency, part of party state control over the overall economy.

On top of that, the political attack on the major tech companies in China, led by Alibaba and the rest allegedly around monopoly law and antitrust law, but politically driven in large part as well, because the Communist Party doesn't like large scale financial luminaries in the system who are not simply instruments of the Party.

And then more recently, of course, the Common Prosperity Agenda, which is an ideological push towards greater income equality and against obvious displays of wealth on the part of China's entrepreneurial class.

There is a whole separate argument which you and I can engage in as to whether this is good economics or bad economics. My argument is pretty simple. It's one of the core factors, one set of core factors, which is driving China's historically high economic growth rates much lower as private fixed capital investment—a huge driver of economic activity for some two decades—begins to retreat in terms of its level of growth.

Then, of course, you throw on the compounding factors of demography: peaking population, shrinking workforce, aging population, age dependency ratios.

And then of course, the last element in the jigsaw is your excellent question before about the consequences of one level or other of decoupling from the international free trade, free investment, free capital market system in the name of self-sufficiency or whatever.

All this ultimately impacts on growth drivers: population, workforce participation, productivity growth. They all get torpedoed amidstships.

So, describing Xi Jinping's strategy, as you and I have been doing in this podcast, is one thing. Analyzing the extent to which is actually China shooting a hole in its own foot is another. And I think there's a lot of hole shooting at the moment being undertaken by the Chinese system.

DOLLAR: Yeah, I think that's very shrewd analysis, Kevin. China is, their growth rate is going to be slowing down. That's pretty inevitable. The question is how much and you pointed to something important factors that'll take it down more than it would have to. I think they'll still likely to be in a world where they're growing at 4% or more. So, we're still likely to have the situation where China becomes the largest economy in the world at market exchange rates, but it won't be multiple times larger than the United States. If you're right and those policies persist, then you'd expect it to be growing just modestly faster than the United States.

RUDD: David, that's a profound point that you've touched on, which is given, let's call it the natural slowdown in a country's economic growth rate the more they advance on the let's call it the income scale—and the body of economic literature on that is long standing and extensive—and hence why we've expected China to move from double digit average growth over the first 30 years of its economic boom, consistent in part with the newly industrialized economies' experience of the seventies and eighties in the rest of East Asia, and slowing down to something in the vicinity of 5 to 6% growth over the subsequent decade would be to some extent anticipated.

The real question is the extent to which these policy induced errors and other, shall we say, legacy factors from much earlier policy decisions like on demography and the one child policy and the aging of the workforce and the quantity of the workforce, then take what is a natural slowdown in the growth rate and slow it down even further.

And so, therefore, if China continues to average 4% growth for the 2020s and into the 2030s and through to 2049, well, we're still looking at a very big Chinese global economy, significantly bigger than the United States.

But if these policy induced errors continue to compound and remain in place without significant policy correction, then it's not inconceivable to see four come down to three. And under those circumstances, you are looking at an aggregate economic outcome for the size of Chinese GDP, which maybe has a peak at about 120% the size of American GDP, but not a whole much larger than that, in which case, the underlying geoeconomic and geopolitical assumptions of much of the public debate the last four years gets turned on its head as China is a bit bigger than America, but not on a trajectory to become a lot bigger.

Furthermore, if it's America plus Europe and the collective economies of the free world, free economies, free societies, and free polities, then Europe plus America under those circumstances and a few of the rest of us thrown in like Australia, well, you start to still have a collective free world economy about twice the size of China's, which is quite an interesting, different set of projections to those which have informed a large part of the geopolitical debate around China's rise over the last several decades.

DOLLAR: Kevin, when we were talking about trade agreements you pointed out that the U.S. was not in any of those Asia-Pacific agreements or if China makes an agreement with Europe, that's mostly self-inflicted from the U.S. side. Trade has become a dirty word, so the Biden administration is not pursuing any new trade agreements. The Trump administration certainly didn't pursue and new trade agreements. Instead, the Biden administration will be offering up an economic framework for the Indo-Pacific, and we'll get more details in the next couple of weeks. But I wonder if you think there's much substance to that?

RUDD: You're right about U.S. and trade policy. These are largely self-induced, in my judgment, policy errors by the United States. And if Xi Jinping is in the process of shooting holes in his own feet through what I would describe as a range of increasingly Party-ist, statist, and implicitly mercantilist approaches to China's recent historical economic policy settings, then the American

equivalent of that is the fact that trade has indeed become a dirty word on both sides of the United States Congress.

I regard this as the single greatest gap in America's attempt to frame a coherent regional and global strategic response to China's rise. The United States, its national energy, its national economic strength, its national dynamism has been maximal in its history when it has had open borders to trade and open borders to immigration. Your population continues to grow. Your workforce continues to grow. The motivation for entrepreneurial competition within the country is maximized. And of course, through access to your own market, but critically, your access to global markets. So, America grows.

So, the great missing piece, the hole in the American armor moving into a strategic response to China's rise geopolitically and economically in Asia-Pacific and Indo-Pacific and globally, is the missing trade piece. How do you reconstitute the political will in the Republican Party and in the pro-free trade elements of the Democratic Party to reconstitute the political ballast which used to exist in the U.S. system, at least prior to Trump? I'm not sure. I'm not an American politician. But I think we've all got a responsibility to walk onto to Capitol Hill and say, Guys, trade is not a dirty word. It's a very clean word and it's a very good word. And it is basically underpinned America's power in the world for the better part of a century or more. Get real. Trans-Atlantic, Trans-Pacific, do that, then the China rise, the China challenge, frankly, is seen off relatively easily.

DOLLAR: Last question for you, Kevin, is how would you adjust U.S. policy toward China to take us down this path where war becomes really unthinkable?

RUDD: The recommendation I put in this book of mine, David, is called managed strategic competition. As I've indicated elsewhere, unmanaged strategic competition has a real problem because the potentiality of crisis, escalation, conflict, and war. And you as an economic historian and you as a person who understands how the world really works, if we end up in a war, particularly a general war, it rewrites fundamentally political and economic history. Look at 1919. Look at 1945.

So, therefore, what I recommend through managed strategic competition is a simple three part approach. The two governments, the two administrations at the most senior levels of private diplomacy, mutually exchange their views on their core strategic red lines and these five critical categories: of Taiwan, South China Sea, East China Sea, Korean Peninsula, cyber and space so that no one gets caught by surprise here. No one will agree to the other side's core strategic interests. That's just farfetched. But to be informed as to what would inevitably invite a massive reaction from the other side is, I think, stabilizing compared with the alternative, which is a series of pushes and shoves between the United States and China militarily in wider East Asia, West Pacific, each of which could trigger a crisis.

Then, second element of managed strategic competition is if you can achieve the first, then it's quite possible to embrace all forms of non-lethal strategic competition in the rest of, let's call it, national security policy, foreign policy, trade policy, investment policy, technology policy, and ideology—that is, the system of ideas which China believes should underpin the next international system if there is to be one based on its own form of state authoritarian capitalism versus liberal democratic capitalism of the type which the United States has traditionally led.

And the third element of managed strategic competition is to still carve out sufficient political and diplomatic space for the two countries to deal with massive national interests which require global collaboration still. Climate change being one, the next pandemic being the next. If anyone thinks that was the end of pandemics for history, they're very bad historians. And given how we screwed

up the last one so badly, how can we do better both for China's national interests and America's national interests to prevent the next one from escaping from the cage. And then thirdly, global financial stability. There's so much debt rolling around the global financial system at the moment that with the two largest economies and financial systems at play here, this requires a detailed exercise in continued central bank collaboration, not just between the U.S. and China, but through the Basel Committee, the Financial Stability Board, et cetera.

So, what I argue through this framework of managed strategic competition is not wishing away strategic problems and differences and difficulties, not just urging people in a normative sense to, quote, get on with each other. It's utterly realist in what it says, which is define where you could have a war and establish protocols around avoiding those wars; two, maximize your competition in everything else, non-lethal, and may the best system win. You may know from my own world view which system I'd be backing, but my the best system win. And thirdly, maximize collaboration in those areas which really matter for each country and the planet and which mandate collaboration rather than hostility.

DOLLAR: I'm David Dollar and we're wrapping up the 100th episode of Dollar and Sense. And it's been a real pleasure talking to Kevin Rudd, who's drawn on his decades of experience with China and with the United States, to write a really interesting book called *The Avoidable War*, going into China's economy, military, politics, and relations with the United States. So, I hope we take some of your advice, Kevin, and we avoid war between the United States and China. Thank you very much.

RUDD: David. Thank you so much for having me on your 100th podcast.

DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So if you haven't already, follow us wherever you get your podcasts and stay tuned. It's made possible by support from producer Fred Dews, audio engineer Colin Cruickshank, and other Brookings colleagues. If you have questions about the show or episode suggestions, you can email us at podcasts@Brookings.edu.

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Until next time, I'm David Dollar and this has been Dollar and Sense.