

Andy Browne:

Greetings, and welcome to Bloomberg New Economy Conversations. I'm Andy Browne. Chinese authorities have launched an all-out assault on the country's own tech giants. National champions that are the only real rivals to Silicon Valley in areas from e-commerce to social media, gaming, and FinTech. This crackdown is being carried out in the name of common prosperity, the slogan that President Xi Jinping has adopted as part of his campaign to promote a level playing field for business as well as social equality.

Andy Browne:

Now, while that sounds reasonable enough, even laudable, the regulatory effort has a hard ideological edge. Its chief targets are in the private sector. Figures like Jack Ma, who revolutionized China's consumer economy, but whose business empire is now being taken apart. Foreign investors have lost a trillion dollars or more in stock market value. Is this a temporary disruption to the status quo, a readjustment of the rules of business, or a game-changing shift in president Xi's economic and political strategy?

Andy Browne:

With me to discuss the implications for China and the world is our panel of world-class experts. Keyu Jin is an associate professor of economics at the London School of Economics. She's from Beijing, China, and holds a BA, MA, and PhD from Harvard University. Her research focuses on international macroeconomics and the Chinese economy. It's great to have you here with us today, Keyu.

Keyu Jin:

Good to be with you, Andy.

Andy Browne:

Jim McGregor is chairman of APCO Worldwide's greater China region and the author of two highly-regarded books, *No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism*, and his earlier volume, *One Billion Customers: Lessons from the Front Lines of Doing Business in China*. Welcome to the program, Jim.

James McGregor:

Nice to see you, Andy.

Andy Browne:

Finally, The Honorable Kevin Rudd served as Australia's 26th Prime Minister from 2007 to 2010, and also in 2013. He served as foreign minister from 2010 to 2012. He joined the Asia Society Policy Institute in New York in January, 2015, and serves as its president and CEO. Thanks for taking part in this program today, Kevin.

The Hon. Kevin Rudd AC:

Good to be with you, Andy.

Andy Browne:

Kevin, I'd like to start with you. Before we get started, I want to thank you and the Asia Society for your help in inspiring and facilitating today's special installment of New Economy Conversations. I also want to let our audience know that there will be opportunities throughout this conversation for real-time input from you, the audience. I encourage you to submit questions in the text box, which you're going to find in the bottom-right of your screen, and I'll invite you to vote in live polling, which will appear on the top-right of your screen. If at any point you encounter technical difficulties, a simple refresh of your browser should help get things back on track.

Andy Browne:

Okay, Kevin, today you gave an address to the Asia Society called The Impact of Ideology, Demography and Decoupling on China's New Economic Policy Framework. Why don't you give us a brief understanding of how President Xi's recent policy decisions have rippled through the Chinese economy, and the consequences those decisions will likely have?

The Hon. Kevin Rudd AC:

Well, thanks, Andy. It's good to be with the Bloomberg New Economy Forum, and to join friends and colleagues like Jin Keyu and Jim McGregor. I think we're all trying to make sense of what Beijing's been doing over the last 6 to 12 months, and so that's why I put together this address to the Asia Society earlier today. It's on our website if people wish to look at it in greater detail, but I think the essence of it is along these lines. The shift in economic policy is significant. I describe it as a shift to the left, if in the left-right spectrum we have a reliance on markets at one end of the spectrum for the allocation of resources in and economy, and the other direction we have a reliance on the party and the state to make those decisions instead.

The Hon. Kevin Rudd AC:

This is a fairly interesting set of moves, which pushes the center of gravity more to the left. We see it in things like [inaudible 00:05:02] enterprise policy. We see it in Chinese industrial policy, particularly in the technology sector. We see it also in the application now, selectively, of China's anti-monopoly law against the sort of tech firms you've been describing before. We see it also with China's new data security law, and the new compliance regime that mandates for big tech platforms in particular, but also smaller producers of apps within the Chinese digital economy.

The Hon. Kevin Rudd AC:

And then probably the granddaddy of them all, which has been in the news most recently, which is what's called the new prosperity concept. This is essentially about income redistribution, and therefore it is about the adequacy of wages, salaries, the adequacy of working conditions. It's also a fairly direct attack on excessive remuneration levels for, let's call it, the Chinese billionaire class. It's a call for redistribution of income, and frankly pressure for these large firms to establish massive philanthropic funds as well. Put all that together, Xi Jinping puts a bow around the topic, calls it the New Development Concept, [Chinese 00:06:21], and it becomes, if you like, an umbrella term which puts all these things within it. It's been unfolding now really since the last 12 months, but its origins are probably going back to the 19th Party Congress in 2017.

The Hon. Kevin Rudd AC:

Let me just finish on this, in answer to your question, Andy. If we're looking for the drivers of this, I think it's a combination of Xi Jinping's approach to ideology, Marxism-Leninism, which is very much part of his

own worldview. That's the equality agenda that you see and the statist agenda that you see. He's concerned about demography, which is the new data in terms of China's fertility rate, which has it down to about 1.3. And the abolition of the One-Child Policy is not getting anywhere. What they need is greater personal disposable income in order to make having another kid possible.

The Hon. Kevin Rudd AC:

But the other big driver, I think, in bringing about some of these changes is Xi Jinping anticipating where America is going to go in terms of the future of America's own decoupling strategy vis-a-vis China itself. He doesn't want to be caught in a defensive posture on this, and therefore a lot of his approaches, particularly around national self-reliance, are on the offense. That is seeking to engineer a degree of decoupling on China's terms, rather than being in the passive position of being on the receiving end of that. And the dislocations writ large across the Chinese economy that we saw when the United States administration, for example, imposed unilateral bans on various categories of semiconductors, the assault on Huawei, the interruption of China's 5G rollout around the world, et cetera.

The Hon. Kevin Rudd AC:

The big question, and the last one, is the \$6,000 question, I think. Where will these changes, this move to what I describe as more the left as far as the center of gravity in Chinese economic policy decision-making, particularly compared with the Deng Xiaoping past, where will that leave private sector business confidence, private fixed capital investment outlays? And on top of that therefore, given the huge significance of the private sector in generating growth and innovation productivity, where will it leave China's aggregate growth numbers during the 2020s? In that sense it's a big economic policy gamble, although the politics of it will make a lot of ideological sense to Xi Jinping himself.

Andy Browne:

Thanks, Kevin. Let's spend a couple of minutes unpacking some of that analysis before throwing it over to the panel and indeed to our audience. Let me start by observing that the context that you put around this crackdown by Xi Jinping on the tech sector really is in striking contrast to the narrative that we hear coming out of Xi Jinping's China, which is really a triumphal narrative. The great rejuvenation of the Chinese nation, as Xi puts it. China moving closer to the center of the world stage, indeed redesigning that stage with globe-spanning initiatives like Belt and Road. In your formulation, Xi Jinping sees mounting crises. A crisis with demographics, a crisis in relations with the United States. It sounds as though he feels more vulnerable. This sounds defensive. How do you explain that contrast?

The Hon. Kevin Rudd AC:

Well, I think, Andy, Xi Jinping is both those things that you've just described. I've met the guy quite a number of times. He's a very confident, self-assured political leader. Knows his brief reasonably well, and certainly knows his politics and his ideology particularly well, and has a keen sense of national mission. So as a Marxist-Leninist, and we should always bear that in mind, a Marxist-Leninist with a Marxist-Leninist worldview, he actually sees and I think believes that China is on an inexorable path towards becoming a global great power. And that as a consequence of that, its time in the sun is about to come.

The Hon. Kevin Rudd AC:

However, Xi Jinping is also a political and policy realist. He understands intimately, sitting around the, as it were, cabinet table at Zhongnanhai in Beijing, what all the constraints are. Therefore, when you look

at what's arrayed against him domestically, politically to begin with, he's got to secure his own reelection or reappointment at the 20th Party Congress in 12 months' time, in November of 2022. No mean feat, because that's breaking the convention of two terms only. And if he gets it, it's effectively leader for life.

The Hon. Kevin Rudd AC:

Economically, it's along these lines. What do I do about the double tension here between having to rely upon the private sector for growth, and productivity, and innovation, but not allow the private sector to become, as it were, the real masters of Chinese politics and society? Which, in Xi Jinping's view, they were in danger of becoming under his predecessor's regime.

The Hon. Kevin Rudd AC:

Finally, I, Xi Jinping, sitting in Zhongnanhai, I'm looking at all this unfolding drama in the United States. Despite the chaos of the pandemic, the chaos of the Trump years, despite the American decision over Afghanistan, I still see a formidable adversary which still controls global capital markets through the agency of the US dollar. And I, Xi Jinping, therefore want to ensure that I am not put in a defensive position where I could suffer considerably if in fact, for example, financial sanctions dollar-denominated were taken against me by the Biden administration. So he is both macro-confident, he believes the forces of determinism are with him in a Marxist-Leninist way, but at the same time he sees threat and threat and threat at the same time.

Andy Browne:

Nevertheless, Kevin, your formulation of Xi Jinping moving to the left on politics, moving to the left on the economy, and then moving right on nationalism is a colossal gamble. No country in the world has ever made the transition from middle-income status to rich-country status without first going through some kind of process of democracy, and without making a decisive shift away from statism towards markets. First of all, can he pull it off? And if he can't and it all blows up, what happens on the right? What happens on the nationalism side?

The Hon. Kevin Rudd AC:

Well, it's an excellent question, Andy. It goes to the sources of political legitimacy in part, which is the Chinese Communist Party have three sources of legitimacy. One is ideology, Marxism-Leninism, which coheres this 95-million-member Chinese Communist Party together with what I describe as common bands of meaning. A term which was first coined, I think, by Kerry Brown, a highly successful British sinologist.

The Hon. Kevin Rudd AC:

The second source of legitimacy, particularly in the post-Cultural Revolution period, has been prosperity. The social contract under Deng was, "We'll retain political control, we'll extend only limited political rights to you as Chinese citizens, but we're going to deliver back to you economic prosperity." That's essentially the Deng-ist contract.

The Hon. Kevin Rudd AC:

The third one is nationalism. That is, "We, the Communist Party, have delivered to you a more powerful Chinese nation state, a more respected and even feared country in the world. Look at what we're doing in landing spacecraft on the moon. Look at what we're doing in terms of our national scientific

achievements. Look at the number of medals we win at the Olympics, and look at now the extraordinary power of the Chinese military." So, this nationalism card is there as well.

The Hon. Kevin Rudd AC:

But Chinese legitimacy in politics at its optimum hangs these three things together. But if the economy card starts to play badly, it's a bit like this. Out there with 1.3 billion people that aren't all that keen on Marxism-Leninism and don't read it every night before they go to bed, party members might. Secondly, if income levels are not going up and if jobs are not going to be available for my kid, then I'm [inaudible 00:15:14] going to become a bit jaded. So, the third pillar remaining is the nationalist one. Hence, what I've put as the compact, which I best analyzed China as being at the moment, is moving to the left on politics, moving to the left on the economy, but to the right on nationalism. A more assertive view of China's place in the region and the world.

Andy Browne:

One last question. I've got to ask you this before we move to the panel discussion. How does this crackdown on the tech sector play into the 20th Party Congress next year when Xi Jinping is expected to go and secure a third term, and essentially ended up ruling indefinitely?

The Hon. Kevin Rudd AC:

Well, you see, the tech sector has different reputations in China. It's obviously the epicenter of China's own-

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The Hon. Kevin Rudd AC:

Yeah. It's obviously the epicenter of China's own gig economy, but it's also the epicenter of what is called in China, [Chinese language 00:16:08], 996. I work 12 hours a day from 9:00 till 9:00, and I work six days a week, 996. And frankly, that delivers me a lousy life. I don't have secure income. The guys at the top are getting all the money. I'm working like a dog and I can't have a decent family life, get married, find a house and have kids. So what Xi Jinping is doing to re-secure is I think reappointment longterm is creating a whole new constituency. Let's call it a populous constituency out there in the wider Chinese community saying, "I'm on your side and I want to redistribute some of that wealth from the billionaire class to you."

The Hon. Kevin Rudd AC:

Can he deliver? Open question, but I think his vulnerability going into the 20th party Congress, Andy, above anything else is does the economy in terms of its real growth levels begin to falter? That is the vulnerability. I don't think it's going to become evident in the data before November next year, but could it become more evident following that if these moves to the left on economic policy take whole and private sector confidence, innovation, and productivity begin to fall, that I think is the \$6,000 question for the duration of the 2020s.

Andy Browne:

Okay. So before we get to the panel, let's bring up our first audience poll. In regulating big tech, China is A, making a dire mistake that will dampen innovation, two, leading by example if only regulators in the west have the ability to do something similar, three, acting justifiably, big tech needs to be reigned in,

but these measures are a step too far, last one, hurting the competitiveness of Chinese private sector firms, internationally fueling assumptions that they are somehow state actors. Okay. While we wait for the audience to submit their answers to the poll, I want to start by asking Keyu, what do you see as the logic behind Xi Jinping's crackdown on the tech sector?

Keyu Jin:

Well, I think as Kevin gave a very balanced and accurate view of what exactly is going on politically, socially, I would just emphasize a bit more that there is a real intention, good intention to raise consumer welfare, protect consumer interests that really wasn't the focus in the last old model of Chinese growth. While growth was high and firms grew autonomously, but sometimes illegally and the government countenance all sorts of illicit behaviors, including corruption because it was after the results. And that has fundamentally changed. The emphasis is now on equity, as much as efficiency, morals, as much as markets and welfare, which includes issues like data protection and consumer interest. And in the last few years, there has been genuine anxiety amongst consumers from what the big tech companies are doing, how they're being exploited, how their data is misused and misappropriated.

Keyu Jin:

And I would say that President Xi is a highly sensitive politician to these lurking social issues, including the grand irony in Chinese society of hyper-competition in the education sector where students are lugging around suitcases every morning and really learning, not really that much, all that much to be useful in society one day. That has been one of the most common factors reducing people's happiness levels and President Xi is highly sensitive to these social mounting, social issues. Now there are genuine economic reasons to reign in big tech. That is a transnational issue, not just a Chinese issue. These very powerful companies have been caught doing a number of illicit things and have been repeatedly warned. Even educational sector has been repeatedly warned before the dramatic crackdown had occurred. So this was not altogether unexpected.

Keyu Jin:

I think I want to emphasize three things or a phrase that's been put forth. It's called [Chinese language 00:20:54]. It means legal, but also empathetic and reasonable. So being legal is not enough. Abiding by the law is no longer enough. You need to have ethical considerations and you need to be reasonable. So that might scare everyone a little bit because it's ambiguous, ambivalent, and amorphous, and that is for us to judge down the road, but there's a distinct shift away from growth, hypergrowth and power, economic power and efficiency to more equity, ethics, monitoring, regulation, which includes a lot of the good things, including environmental standards and more fair opportunities.

Andy Browne:

Let's go to the results of our poll, which actually shows a good deal of support for your contention that what Xi Jinping is doing is indeed justifiable and ethical and empathetic and so on. Or rather 21% think that he's doing the right thing, 28% think he's going a bit too far, 37%, by far the most number, believe that he's actually hurting the private sector. So Keyu, you see logic and forethought and long-term planning in these moves yet to many people, it seems somewhat random and chaotic, even manic going after so many targets all at the same time. We have a question here from Maryanne Lee, who is the director of research at [Shilling 00:22:37] Capital in Berlin. And she asks, "How long will this regulatory assault continue? And what industries will be targeted next?"

Keyu Jin:

Well, before I answer that, Andy, I wanted to respond to the very important question you highlighted is what is the impact on innovation entrepreneurship? And here, I have a very different take, if we were talking from a pure economic perspective. I don't think it's going to suppress innovation. It might very well encourage more innovation. And the reason is that we have seen with lots of evidence, big tech companies in the U.S., the big three, the giants buying up smaller companies before they can actually become competitive ones and that has reduced innovation to a certain extent because of the monopoly powers in the U.S. And the same thing has... That pattern has also surfaced in China in the last 20 years, although there are, if you look at the data, more \$1 billion size unicorn companies more in China than in the U.S. There are just going to be more of that.

Keyu Jin:

There will be more of that. The venture capitalists will go around finding more of these smaller scale, experts-driven, more refined companies. These are the three words that the government emphasized to promote in the entrepreneurial sector, rather than burning lots of cash to get 800 million customers on a platform and subsidizing them until they win. That was not the model that they encourage. And secondly, second reason if I may, Andy-

Andy Browne:

Please, yes.

Keyu Jin:

... is entrepreneurship in China has always had to deal with policy changes all the time. A good entrepreneur is equipped with the agility, the smartness and nimble response to changes in policy direction. And we've seen that in the manufacturing sector, we've seen that in the property sector, all kinds of strategic industrial shifts. Good entrepreneurs will be able to respond. And I believe that a lot of these education companies and tech companies with the right CEOs and right team would be able to remold themselves into something that is more aligned with policy.

Andy Browne:

Well, it's certainly true that China's entrepreneurs are being tested by fire right now. Jim, you've been in your long career in China. You've also done investing in high-tech companies. What's your view? What will be the impact on invention?

James McGregor:

Well, I think it'll work out in the long run, but in the short term, it's interesting that this is almost a class struggle. Look at this leftist blogger, Li Guangman, I think his name is. State media outlets started running this blog he wrote that this was a profound revolution. Very leftists stuff which almost portrayed these entrepreneurs, these billionaires as class enemies. Of course, now they're dialing that back and talking about how things are going to be open and entrepreneurs... And this is not an attack on money or entrepreneurs, but why is that happening? If those state outlets come up with that, they had to go very high for that to happen. So there is some confusion going on. Now, Andy, if you look at innovation being driven by investors, I don't worry about investment coming back.

James McGregor:

Look what happened? What did we lose? A trillion dollars in market cap on these companies listed in the U.S.? I think there was 330 billion just from Tencent and Alibaba's market cap because of this. I think China is very confident that the foreign investors will always come back. You got to remember the global financial crisis, [inaudible 00:26:39], they're having a meal with a bunch of Germans CEOs and he knew them all in the around the table. They're starting to complain about their problems in China and he said, "Look, I'm not listening to this anymore. You always have problems, but you're always going to keep investing." And I think China is very confident that all these investors are going to come back and they are going to continue to fuel the entrepreneurs.

Andy Browne:

Other figure like Masayoshi Son who's saying that he's not going to take a pause from investment in China. He's been investing in China's tech sector since the beginning. You have some of the savviest investors on China in the world who were terribly burned by this essentially elimination of the ed-tech industry. Investors like Temasek in Singapore, Hillhouse Capital in China. Investors are clearly going to be rattled. I understand that you have to be in the China market, but this surely is making some people have second thoughts about at least in the short term, stability of the Chinese economy.

James McGregor:

Yeah, but that's all true. I don't think there are a constituency that Xi Jinping spends a lot of time thinking about. Who did he go with... In doing what he did, he went after the tycoons and nobody else in his own country. It was just foreign investors. It was the tycoons who was hurt and he wanted to show them that, "Who's your daddy?" You got to remember that the Communist Party east, west, north, south reigns over everything. And I think he's also looked at the United States and other countries, especially the United States where he sees billionaires having an outsized influence and controlling politics. And he doesn't want that coming his way. And when Jack Ma lectured these guys on financial reforms, and then you cancel that \$34 billion IPO, that was a signal to everybody on, "Who's your daddy?"

Andy Browne:

That's a great point, Jim. And to that point, we have a question here from Bud Hoffman, who is one of the most knowledgeable observers of the Chinese economy. Worked for a long time in China with the World Bank. He's now a director of National University, Singapore. I believe the Asia Center down there. He says, "Leaving aside the abrupt way in which regulations shifted, is the new landscape for tech better for society than before? If so, should similar regulations on e-commerce, data, fintech, et cetera, be considered for other countries?" Keyu, is this a learning moment for other economies? Is this a teachable moment from China?

Keyu Jin:

Well, as we all know, different countries have different cultural preferences and different sets of values and on the spectrum between order and freedom, we're all standing on a very different position, markets versus regulation. We have to remember that a cultural factor is, I wouldn't say a compliant population, but at least a population that is readily acceptable, accepting of lots of paternalism, control, and tightening, and this and this and that, not only at the state people level, but also in the families. If they believe the intentions are good, they believe that the mass population will benefit, then they are willing to accept a lot of this, even those who are hurt without too much complaint. I'm not sure that

level of compliance can be observed and other societies value a lot more control and liberalism. So I'm not really sure it is a lesson for others.

Andy Browne:

Kevin, I want to get back to you. We're hearing profoundly conflicting signals coming out of China. On the one hand, as you say, Xi Jinping is taking the economy left. He's stressing state-owned enterprise. They are going to be the spearhead of the great rejuvenation and yet, just in the last couple of days, President Xi has announced the creation of a new stock exchange in Beijing for tech companies. His chief Lieutenant on the economic side, Liu He, categorically denies that there's any attempt to limit private enterprise, which he points out himself is responsible for 60% of GDP and 80% of job creation. How do we understand these contradictory voices now coming out of China?

The Hon. Kevin Rudd AC:

Well, welcome to the inherent dilemma of Chinese politics, which as Jim pointed out before, we sail around in our analysis for those in China, like Keyu navigate on a daily basis. In part, we have a problem in Chinese politics, which is when the leader speaks, those beneath the leader then interpret what the leader says.

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The Hon. Kevin Rudd AC:

Those beneath the leader then interpret what the leader says, and in the Xi Jinping system, you tend to get rewarded by over-interpreting what the leader has said, rather than under-interpreting what the leader has said. And so therefore, Jim referred to before, I think quite effectively, the fact that you had a series of policy measures, obviously done through central coordinated mechanisms of the Chinese party and state, about SOEs, about common prosperity, about industrial policy, about the deal circulation economy, and about the rest.

The Hon. Kevin Rudd AC:

And then you have this ... we call it this blogger, who gets this period in the sun to basically unleash a much broader cultural attack against the billionaire class and the whole idea of getting rich. And then you have a counter-correction from Keyu saying, "Hang on, we really love you guys, and you have our unwavering support." And so this ideological phenomenon in China, which again, I think, proceeds on the basis of this broad band of meaning, is that when you shift the band of meaning from let's call it the center right to the center left in the overall center of gravity of Chinese politics and economics, you're going to have a whole series of interpretive exercises, which pushed this in more extreme directions, perhaps, than may have been originally intended.

The Hon. Kevin Rudd AC:

I think that's what's happening here. If I could just close my remark there though, Andy, by saying this, where I agree completely with Keyu's observation is that we cannot necessarily assume that the Chinese entrepreneurial and innovation class is now just going to roll over and die. That's not going to happen at all. When I have said to senior Chinese regulators over the last 12 months, "Aren't you going to kill the goose that laid the golden egg here once you take on big tech, given they represent such a huge slice on investment activity domestically?", to which the response from my Chinese interlocutors has been, "Yeah, there's a bunch of billionaires who are unhappy. There's a whole bunch of millionaires who are

very happy, and they want to become billionaires, but they're going to become, shall we say, more respectful billionaires than we've had so far," and that's where the innovation, they hope, will occur.

The Hon. Kevin Rudd AC:

But the signaling to the private sector, so far, has not been well finessed, and the private sector, I think, will look at the events of the last few weeks and months and say, "How do I navigate this?" As Keyu said, they're used to navigating policy changes. But my submission is this is the single biggest set of policy changes affecting the private sector that we've seen in 35 years. This is the new era under Xi Jinping, and it's different.

Andy Browne:

It is also nevertheless true that the measures that he's taken have gone down quite well with the so-called Chinese masses. Quite popular, bringing down a figure like Jack Ma. Let me go back to your original analysis, Kevin. The problems that you outlined, the demographic problems, the problems with the US, these are intractable problems. The experience of countries all over the world, from Japan to Singapore to Spain to Italy, is that there's not a whole lot that you can do about falling fertility rates.

Andy Browne:

As far as decoupling from the US is concerned, China is going to be dependent on key US technological inputs like semiconductors for an awful long time. Is there a sense in which Xi Jinping recognizes that these are long-term problems that are not going to be solved easily, and that's before we've even spoken about structural slowdown in the Chinese economy and the environmental crisis, that he's seeing all this and saying, "Okay, I've got to make a nationalist play here"? This is all a populist play because he knows that shaking down billionaires for a few billion dollars in charitable contributions is not going to resolve these big problems of wealth gaps in China, that this is something far more fundamental needs to occur, which is actually going to lead China into a very difficult place.

The Hon. Kevin Rudd AC:

Xi Jinping, as I have known him and have observed him, is what I would describe as a rational optimist, and that's partly the product of his own Marxist-Leninist background. He sees himself as leading this party, this movement, and this nation genuinely towards some form of national rejuvenation. Each of the objective policy problems, Andy, you've just described, from let's call it population growth, decoupling initiated by the Americans, as well as the problem/opportunity of the private sector within China, he is fully familiar with. But here is where I think he differs from the analysis you just suggested. He actually does believe these problems are solvable because he believes the party is capable of solving them through effective leadership. Now, you and I may disagree about whether the party is capable of doing that, but in an analysis of Xi Jinping's worldview, he certainly has that view.

The Hon. Kevin Rudd AC:

So I do not believe it's, shall we say, an entirely cynical exercise at all. This is what he's seeking to do. But secondly, being an experienced politician that he is, he's also strongly of the view that in terms of his bases for legitimacy, his combination of ideology, of prosperity, and of nationalism, I think he fully accepts that he's going to need to be able to wave the nationalist card more strongly in the future if the other pillars of party legitimacy begin to waiver, if the economy begins to have, shall we say, less than optimal growth during the 2020s because of a private sector which failed to get the message accurately. So I think it's both a question of genuine belief on his part, but also an acceptance of the reality that as

the other pillars of legitimacy begin to shake, I'm going to need to make average Chinese feel pride in their country in order to sustain my personal standing as leader and the party's standing in the community, as well.

Andy Browne:

Jim, let me, let me follow up on that with you. Xi Jinping also has a very profound faith in science and technology, and there is a strand of analysis that says that his purpose in cracking down on these big consumer digital platforms, Alibaba, Tencent, and so on, is to drive more investment into so-called [foreign language 00:38:41] areas where China really does suffer vulnerabilities, like semiconductors. Do you think that's the case, and if so, what are the implications for foreign investors in the market? Does that give them new opportunities, even as, perhaps, some of the older, more mature parts of the economy close down to foreign investment?

James McGregor:

Well, actually, that's a good point, Andy, because these internet platforms are what they are. They're e-commerce, they're communications, they do a lot of things, but they're not the hard technology for high-end manufacturing, and Xi Jinping ... There's some analysts who are saying this, and I actually agree, that China's transitioning from a focus on the US model in services to the German model in holding onto your manufacturing and staying ahead in high-end manufacturing. I think they saw what happened with COVID and the disruption of supply chains for the US. They've also seen the unemployment in the US and what these manufacturing jobs going overseas, what that has done to the turmoil of our politics. And so the dual circulation economic policy is about making China less dependent on the world and making the world selectively more dependent on China.

James McGregor:

And so companies that have high-end supply chains, materials, technologies, services, logistics, they're going to have more opportunities in China because China wants more of that coming in. And also, on the outside, you talk about decoupling, China's recoupling. China is looking at what are our connections with the world, with allowing people in to do business, how we do business outside, how we do trade, and they're looking to realign that for things that are good for China and things that protect China from what he sees as an opportunity, a once in a century opportunity because of the disorder in the west, but also he sees it as a long-term hostility, and how do you defend against that?

Andy Browne:

Quick question before I get back to Keyu, and this question is from Warren Wimmer, who is the principal of Wimmer Associates in California. Warren asks is China un-investible, as George Soros has recently asserted? Actually, George Soros went even further than that, and he asserted that those Wall Street investors who are now pumping money into China are actually serving as some kind of a fifth column and helping China's strategic rival. Anyway, what's your view on that, Jim? Un-investible or not?

James McGregor:

The foreign investors will be back because China will figure out that what do they need to do to have them come back. But also, he has a point. Part of the whole dual circulation on making the world more dependent on China is to give big companies opportunities. Look what they're doing in the financial sector right now. They are giving wealth managers slivers of the China market so that they will come in, they will help build the wealth management, which China's not very good at, but they will also have a

market share. They will go be going to their home governments, and they will be saying, "Don't push back on China. You can't. You're going to mess up my market share." That's what happened all through the 2000s, when China would be taking technology and doing other things in the narrowing market share. Companies would go to USTR and Commerce and say, "Don't do anything." They're trying to rebuild that China lobby in that way also.

Andy Browne:

Yeah. Keyu, the \$60,000 question, will Xi Jinping succeed? Is it possible, do you think, that 10 years from now, we're going to look back at this moment as a turning point, when China moved decisively toward a new economic model that managed somehow to harness powerful trends in technology and marry it to a uniquely Chinese governance model? In other words, is Xi Jinping's China the future?

Keyu Jin:

I think it's a coming of age of the Chinese economy. I think the ultimate results will be subtle, and that should not be a bad thing, because I don't think there will be extreme measures taken. We have put on so much emphasis, at least in this dialogue, about taking down billionaires, but it's really not about that, right? It's about providing housing, increasing the supply of housing, affordable housing, for the poor. It's about kind of redirecting certain resources to other technology sectors. It's about reducing regional inequality, pairing twin cities, one rich, one poor, within the same province to see how they can bridge the gaps and get more investment flows into other places. I don't think any extreme measures will be taken, and thus, I don't think we're going to see any dramatic effects. I think it would be even surprising that we can see income inequality really shrinking significantly.

Keyu Jin:

I think it's not really about that. It's about more equal opportunities, more meritocracy, reforms in the education sector, because a lot of income inequality is actually fair. Some of it is unfair, and that's what is being tackled, but a lot of the fair economic inequality is what motivates individuals to strive for a better life. So I think if done well, and again, I think that's a big if ... What are the methods? It could be that we're seeing more dramatic moves now, that there will be a dialing back and shifts and adjustments over time, as it has an impact on economic growth, and some things will be dialed back and there will be lots of adjustments made. I think that's how we have observed the Chinese economy operating, independent of all these political slogans and social developments. But even look at the Belt Road. There was a big key message there, and it had to be a real commitment, and everybody had to be very aware of it, but the progress is not dramatic. So that would be my conjecture, and it's only a conjecture.

Andy Browne:

Why do you have to take down the billionaires to start with? Why can't you simply move towards the areas that Xi Jinping is focused on, manufacturing, high-tech, while acknowledging the contribution that these entrepreneurs have made to China's recent prosperity? I mean, it was only a few years ago that Jack Ma was being celebrated for rejuvenating, in fact, inventing an entire new consumer model for China, bringing prosperity to Alibaba villages who were manufacturing widgets to sell on Taobao, and now he's a villain of the peace. I don't understand the punishment for China's most successful capitalists, and why send that negative signal? Why not simply [crosstalk 00:46:38]?

Keyu Jin:

Andy, one billionaire. Pony Ma is fine. William Ding and all others who have been more cooperative with the government, have even taken preemptive moves, are all fine. Jack Ma is a very unique figure. Jack Ma's celebrity status, as you mentioned, and even arrogance, as Kevin has described, and many other attributes that goes along with his highly charismatic figure and also garnering political influence through media and social media, this is not really tolerable for the Chinese government. But lots of other billionaires have not taken that approach at all, and they're totally fine.

Keyu Jin:

So that's why I want to say let's not put the emphasis on taking down billionaires. I don't think that's the right ... that that's actually what's happening. They're not even forced to hand over directly their personal wealth. They're encouraged to do more philanthropy, some of them are, and some of them should be doing more of that. It is really just about ... well, there's a political aspect, which is what we talked about, the influence, not garnering too much influence. There is also the social and economic roots of that, as well. All of these things are working together, but I ...

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Keyu Jin:

... The roots of that as well. All of these things are working together, but I don't think it's correct to say we're just tackling the billionaires.

Andy Browne:

Jim, do you agree with that? I mean, there seem to be an awful lot of tech company CEOs stepping down now and coming out publicly, very humbly, to hand over billions of dollars to rural charities. What does this do to animal...? To the country's animal spirits? I mean, sure Jack Ma perhaps was, in the Chinese context, too big for his boots as it were. But isn't that basically the way tech entrepreneurs are? Elon Musk is not known for his bashfulness.

James McGregor:

Well actually, if Elon Musk was Chinese, he would probably be in the same boat as Jack Ma. You remember a number of years ago, Jack Ma made the declaration that he had discovered a new way of government relations. Remember when an agency in Beijing came out or the report that said that Ali Baba had too many pirated goods on its site, and he went to Beijing and he got that report taken off their site? And then he thought that he had that much power. So, I kind of agree on Jack Ma.

James McGregor:

On these others though, they are being discouraged. And it's been going on for quite a while, and I don't think that's good. Again, this Li Guangman thing, that they're looked at as class enemies. They're looked at as people that are too rich, they only care about money. What Xi Jinping is doing, he's saying capitalism, it can't be about making money. It's got to be about making money and serving the system, not the system serving you making money. He's just turned that on its head. And he's put a little more socialism into the socialist market economy.

Andy Browne:

I don't know if we've lost Kevin from the conversation. Perhaps his connection has dropped. Let me ask you, Keyu. When at the beginning of the Xi Jinping administration... I was going to ask Kevin this, but

perhaps you could have a go at this and explain. He came up with a 60 point economic plan which was designed to move China, as he put it, decisively towards the market. That the market would be... Play a decisive role in the allocation of resources. And he seems to have moved backwards from that. What has accounted for, do you think, what Kevin portrays as being a leftist shift in Chinese economic management, away from the market and towards the state?

Keyu Jin:

Well, first of all, Xi Jinping's goal, maybe the number one goal, is still to make the Chinese economy the largest in the world during his term. So, we shouldn't forget that economic prosperity, economic growth, is still very much important. And therefore, he has limits to the kind of methods he can adopt to bring more equity into society. In terms of market mechanisms, I don't think there's a conflict at this point. Markets have the right to allocate resources. Of course, the state still plays a big role, but that hasn't really changed. It has in the past and still will. Price is determined by supply and demand. Incentives are... People are rewarded for their work, and there are plenty of incentives.

Keyu Jin:

I'm of the view that all of this that's happening is not going to discourage the entrepreneurs. Even the very top ones. They're just going to be much more prudent and much more careful. Not because there's going to be a higher wealth tax that they're going to start working less and trying to do less of the great work. That's just not how the Chinese people think. So, I think some of the fundamental market mechanisms are there, including opening up to foreign investors, including opening up to foreign institutions, especially financial institutions. It's about afterwards. What happens afterwards? What is the state going to do to reallocate resources ex-post, and use some of the coffers, and leverage its powers in mobilizational capacity and organizational capacity to do more for society. So, I don't think the fundamental market mechanisms are under attack.

Andy Browne:

Question here. I'd like to put both to Keyu and to Jim from Massimo Vanny, who was an analyst at KLO Financial Services in Ireland and asks, are we heading towards the eventual decoupling of the U.S. and Chinese capital markets? Jim?

James McGregor:

No. No. I think that they want it to be more organized. They want to be more predictable. I think... Look at the education companies, what was happening with that. That was just way too much capital going in during COVID. I don't think they're going to decouple, but I think it's not going to be what it was. It's all about control with Xi Jinping, and he wants to make sure that any market he sees has to be something that isn't too much like a market. It's something that it can be kept within certain parameters.

Andy Browne:

Keyu, what's your view on capital market decoupling?

Keyu Jin:

I think they will move in a parallel. Are we talking about capital markets or tech?

Andy Browne:

The question from our audience was about capital markets.

Keyu Jin:

Oh. No.

Andy Browne:

But we can certainly extend it into the area of tech.

Keyu Jin:

No.

Andy Browne:

That indeed is what we're seeing now, is a certain degree... Quite a high degree of decoupling now in the tech sector. But Kevin [crosstalk 00:53:50].

Keyu Jin:

Well, there is [crosstalk 00:53:50]. Yeah. I don't believe there'll be a capital market decoupling. I think in terms of tech systems, both systems one move in parallel.

Andy Browne:

Kevin, back to you. We lost you for a moment. I was going to ask you about this status lurch in Xi Jinping's economic policy. He comes to power, he publishes this 60 point reformist agenda. He seemed to agree with those who believe that the pathway to a wealthy society lay through the market rather than state control, but he's flipped. What accounts for this change of direction?

The Hon. Kevin Rudd AC:

Well, I think Xi Jinping fundamentally has always been a Marxist-Leninist. That's his frame of reference, that's his worldview, that's his analytical paradigm, that's how he analyzes reality. Secondly, when he became later in 2012, and president in 2013, he effectively in that year, in the third plenum of... What was it the 18 central committee adopted, as you know, the decision on the future series of market-based economic reforms for China.

The Hon. Kevin Rudd AC:

But I think over the years which followed, he went through the stock market implosion in China in 2015, which punched a huge hole and his own personal confidence that his own economic regulators knew exactly what they were doing. Then you had a further series of encounters with the trade war with the United States. Then of course, with the pandemic. And now with, shall we say, the ongoing risk of decoupling from the United States altogether. Each of these events, the three or four I've just mentioned, encourage in his mind his fundamentalism with statused and party related orientation, that the party ultimately knows best. And therefore, that's his deep wiring. And that's what actually governs his approach.

The Hon. Kevin Rudd AC:

So yes, there's been a change vis a vis that original set of decisions. The implementation of the, let's call it, the group of 60 was at best marginal, and at worst negligible. But now we are left with this, shall we

say, state private hybrid model, the mixed economy model, of the current period. What Xi Jinping more broadly describes as the new development concept. And therefore, is he going to be able to make this work and reality on the ground? Or is he not? I agree with Jin Keyu that this is the big open question.

The Hon. Kevin Rudd AC:

What I'm concerned about, however, Keyu said before, private sector always comes back. What Jim said before, foreign investors and foreign corporate leaders come back because they're attracted to the scale of doing business in China. But there is a problem when you fracture trust in marketplaces, whether it's domestic or foreign, is they do ultimately you have sufficient confidence to return to the same sort of posture and presence in the market, putting all your capital on the line yet again for innovation, and access, and the rest, only to be always concerned about the flip-flop in, let's call it, macro economic policy settings.

The Hon. Kevin Rudd AC:

That's what this current administration Beijing needs to be concerned about. And that's where I think, if they do adjust back towards the center, back in a more pro-market direction, notwithstanding everything that Keyu has just said about its good social policy purposes, world trust in part have been damaged on the way through. And as we all know from all of our economies, trust is essential for confidence and investment activity in the future.

Andy Browne:

Jim, final question. What advice are you giving to foreign companies on how to navigate this new normal in the Chinese economy with, as Kevin says, this fractured trust and confidence?

James McGregor:

Foreign companies investing in China, I'm just telling them there's two kinds of foreign companies in China. There's foreign companies that need China, and foreign companies that China needs. If China needs you, you're going to have opportunities, but keep both eyes open because there's a lot of self-reliance at the end where they would like to do a lot of this themselves. And foreign companies that need China, they will use that leverage in any way they can so that your market share serves their needs. It's very clear with Xi Jinping on... China is all about leverage, and they know what leverage they have with you.

Andy Browne:

Keyu, how would you advise Chinese companies on how to get on board with the new economic program, and how to flourish in the new environment?

Keyu Jin:

Keep the entrepreneurial spirit and the incentive, that much I'm confident. Be very careful about abiding by the rules and towing the policy line. And just behaving normally, honestly. Legally, empathetically, and reasonably.

Andy Browne:

Thank you. We're going to have to leave it there. Unfortunately, we've run out of time. Keyu Jin, Jim McGregor and Kevin Rudd. Thank you again for joining us today. We're grateful for your participation

and your perspectives. Special thanks again to Kevin and the folks at the Asia Society for inspiring today's conversation. And to our audience, both within and beyond the Bloomberg New Economy community. Thanks for joining us. You can continue the conversation with @BBGNewEconomy on Twitter, or like us on Facebook. And join us back here on September 28th for our next conversation, Getting to Net Zero, featuring HSBC Group chief executive Noel Quinn. Until then, stay well.

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