

[Transcript] The Rest Is Politics / 185. Global perceptions of Israel-Gaza, Labour-Lib Dem bad blood, and Chinese economic crisis

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Welcome to The Rest is Politics with me, Alistair Campbell.

And with me, Rory Stewart.

Now this is our first main episode since the bi-elections. We should talk about that.

Obviously, the world, media and political debate is still dominated by the Middle East, so lots on that. And we both want to talk about China. You've been going on for some time about the Chinese economy. And I do think one of the most interesting, barely noticed things last week was the 10th anniversary of the Belt and Road Initiative, where Xi Jinping and Vladimir Putin had yet another major love-in. So we'll talk about that as well.

Very good.

Should we kick off with the bi-elections?

Yeah, start with the bi-elections. So just to remind people, these were two bi-elections one of them caused by a very controversial thing. Chris Pinscher, who'd been the MP for Tamworth, was essentially the figure who was the final straw that broke the camel's back of Boris Johnson's government. He was a man who had been accused, it seems, quite clearly. And Boris Johnson was aware of it, of some form of sexism, propriety or assault. And Boris Johnson made a joke about it, continued leaving him in government. And then there was a second episode, which led to him being suspended from the Conservative Party and was the thing that triggered the final rebellion against Boris Johnson. So it's the bi-election in his seat.

And the other bi-election is the bi-election to replace Nadine Doris. Now, Nadine Doris will be familiar to many, many listeners, but for international listeners, she is a Conservative member of Parliament who was very much from the self-identified working-class, blue-collar, right wing of the Conservative Party,

hated David Cameron, George Osborne, and what she saw as this kind of elitist, centrist version of the Conservative Party, felt that all her Christmases had come at once when Boris Johnson became Prime Minister. She was one of his very earliest supporters and remains to this

day, a passionate supporter. She's controversial. In other ways, she was very, very outspoken as a culture secretary. She made a number of gaffes, very unpopular with a lot of the media. She went on, I'm a celebrity. And this was controversial again, because it involves her taking time off Parliament to go on a reality TV show.

And he's fair to say her commitment to her constituency was best limited.

Well, that definitely was a lot of the excuses. But she also has a certain kind of support.

I mean, she definitely appealed to a certain kind of voter. I don't know how many. And she has a prominent role presenting a TV program on talk TV and is a big, big figure. She's a sort of minor celebrity, I guess, in British politics. She tried to trigger a by-election basically to damage Rishi Sunak, because the only person she dislikes more than David Cameron is Rishi Sunak. So she wasn't prepared to have a by-election at the time as all the others. Essentially, I think the Conservative Party and talk about Chinese banks later, but China got out of its debt crisis in the 1990s by moving all its bad debt into a new vehicle and getting it all out of the way at once. So I think they were hoping to do that with their by-elections. But she was

absolutely damned if she was going to give him anything, not least because he scotched her getting an opportunity to get into the House of Lords. So she's tried to choose the maximum moment of pain, tried to time it to coincide with the release of her book. But her book was then delayed. Anyway, those were the elections. And what happened in these by-elections?

Labour trounced them. And your good friend, Jillian Keegan, the education secretary, now she's education, maths is a big part of education, Rory. How can she possibly say, quote, there was no swing to Labour? Yeah, that's unfortunate. Yeah, it's unfortunate.

The swing, we've now had four by-elections in a row. Selbian up in North of England, Rutherglen in Scotland, and now these two, where the swing to Labour, three of them from the Conservatives, one from the SMP has been over 20%. And the exception was Uxbridge. So the reason

everyone was looking at this carefully is that Uxbridge, which was Boris Johnson's old constituency, the swing was only 6% and the Conservatives held the seat. It was astonished everybody. And there was a brief moment of sort of hope with Rutherglen Conservative Party thought, oh, we're made a second. We were expecting to lose Uxbridge by land side. We didn't. Maybe there's some clever formula here. And it tempted them down the route of saying, maybe we kept Uxbridge because we went

hard against the ultra-low emission zone. And maybe if we attack green environmental policies, we may be able to hold our base here. But all of that seems sort of backfire.

I think so. And, you know, I don't know where they go from here because, look, I thought Labour, Peter Cowell and Pat McFadden, who were running the campaigns, we liked Peter Cowell and we like

Pat McFadden, but they both were absolutely clear in victory that they understood there was still an awful lot of work to do because a lot of tourists stayed at home.

I hope I'm not speaking out of school here, but was there not actually a moment of doubt where on the eve of the poll, people were like, whoa, is this really going to work?

Absolutely. I went to bed because one of them said to me, it looks like we're only going to win Tamworth, not Mid-Beds. And what do you think it was that briefly panicked them? In the worst case scenario when they thought they weren't going to get a 20-point swing, what was it that they thought might have meant that they might not take Mid-Beds? I think it was the Lib Dems. I think actually there's a bit of repair work to be done between Keir Star and Ed Davy. Peter Cowell was really angry at the Lib Dems because they talked the talk about tactical voting and pulling out their punches. They went through the entire campaign saying they were convinced they could win it. The numbers at the start suggested Labour was the only party that could beat the Tories, but the truth is the Lib Dems really fought a hard campaign against focused on Labour and quite nasty at points. I don't want to go into the details of this, but anyway, it felt like a nasty campaign in which certainly the Labour candidate felt that the Lib Dems were getting quite personal going after his private life, quite a lot of cultural abuse. And that is actually, this is one of the reasons, as listeners will know, that people from the Conservative Party or the Labour Party, when we grumble about the Lib Dems, often what we say is that they seem

very nice, but when you're actually down on the ground because it's your campaign, they're often the nastiest street fighters of all. And listen, I don't mind tough fighting in a campaign. I think

both of them need to accept, and I think theoretically they do, that this next election, there is an opportunity really to do real damage to the Conservatives. And that is obviously in interest of both Labour and the Liberal Democrats to do that. And I think that if you talk to both Ed David and Keir Starmer, as we have on the podcast, they both go around with the lists in their pockets of the seats that they know they have to go for. Labour have probably started to extend that list a little bit, particularly given what's happened in Scotland. But at the same time, they know where the focus has got to be. And this was quite a nasty traditional three-way marginal fight. So I think just final things to wrap this up, because the top line is absolutely right, huge swings towards Labour and confirms basically what we've been seeing in the opinion polls for a year now, which is 15 points at least, Labour lead over the Conservatives, a couple of small things. One of them is that one of these seats was a very heavy leave voting seat voted for Brexit in 2016. And people thought maybe that might mean the Conservatives would have more of a chance, didn't make any difference. The other thing is that we were up in Scotland together on Friday. It was an amazing event, actually, for listeners. Alistair invited me along to an event for the Journalist Charity. And it's a lovely, lovely charity which supports, I suppose, journalists who are on their uppers. And somebody made a joke about whether that's likely to be the most popular charity in the world. I think a charity for politicians on their uppers could be the second least popular charity. Yeah, Boris Johnson could help a few of those out with all the money he's making. Anyway, in that, somebody pointed out, I think that, in fact, it was Anna Sawa, the Labour leader in Scotland who I was sitting next to, said to me that- Did you like my seating plan? It was your seating plan. I was going to be sitting next to Hamza Yusuf, but he got stuck in the storm. It was a Boris Johnson moment in the sense for Hamza Yusuf, which is that he'd put out a warning as the Scottish government saying- Do not travel unless absolutely essential. Absolutely so.

I can't believe you didn't think that sitting, having lunch with those was essential anyway. Sorry, I'm glad he followed his own rules. So what was Anna saying?

So Anna said that if Labour manages to take 25 seats in Scotland at the next election, they only need a 5% swing in their favour in England to get a majority. If, on the other hand, they were not to perform well in Scotland, they'd need a 15-point swing in England to secure a majority. So Scotland is really central as a battleground because it has a really disproportionate impact on the result. What did you make of Anna's, by the way? I thought that that was a deliberate seating plan. Well, my interview actually, I'm rather fond of him. I think he's got a lot going for him. He's also, though, got a real trademark cheeky-chappy jokes going on, a great deal. There's a lot of charming jokes going on. So I need to get down to the substance of it. Yeah, he's got a lot of charm. I thought it was interesting. We did our show of hands thing. We did the one that we always do in the UK where there was a majority saying, Keir's going to be Prime Minister. And this was mainly a business and media audience. And there was also a slight majority for Anna's as the next First Minister as well.

There we are. There you go. Right, let's turn to the Middle East and what's going on there. I've actually been looking in the last 48 hours at quite a lot of the Israeli and Arab media and quite a different tone to a lot of it. And so just to remind listeners, I mean, obviously, Israeli media means a lot of things. There's quite a tradition left-wing Israeli media. I'm talking about sort of Harretts and Jerusalem Post and the sort of main titles that people

know about. Those are titles that have traditionally been quite critical of Netanyahu. And they still are. And that's the point is that I think Netanyahu is in a lot of our media. It's like we're kind of forgetting. We're deliberately forgetting a lot of the things that we were saying about him not that long ago. Interestingly, his meeting with Joe Biden, it's not that long ago that Joe Biden was saying Netanyahu is not welcome in the White House. This is the kind of thing that people have been reminded. And but the thing that really struck me was the coverage of the summit that King Abdullah, where because of the attack on the hospital, the meeting with Biden was canceled, but these meetings went ahead with some of the Arab leaders. And the language that was being used about Israel was just of a different level to what we're hearing from our own leaders and politicians. So King Abdullah talked about war crimes, one or two of the voices they talked about genocide. And there was a real feeling that King Abdullah said in terms, the sense we're getting in the Arab world is that Arab lives do not matter as much as Israeli lives.

And just again, for listeners to remember that this is existential, the Palestinian issue for Jordan, because at least half the population of Jordan are Palestinian. But it was, I mean, and King Abdullah, who is kind of faded in different parts of the world as the moderate guy, but his language was very, very strong. And I think that it'd be interesting maybe to pick through Joe Biden's visit. It was I don't know if you watched his arrival, but it struck me that he was set there for the he obviously absolutely supportive of Israel has he's been in all of his public statements. But it's very interesting, I sense that Joe Biden was about to sort of grab Netanyahu from Manly handshake, and Netanyahu sort of pulled them into this great bear hug. And, you know, we talked last night to Syed Avasi, former Tory cabinet minister, who was very, very critical of Netanyahu. And that's for an episode of leading that we're putting out later this week. But I think that we've just got to be careful, because I've worried about this from the word go, that Netanyahu will take all the support, and he will use that to kind of do the things that he thinks he has to do, not least to appease this very right-wing government of his. And meanwhile, the world leaders get trapped into this place where they can't criticize or they can't even call out without it being a massive diplomatic moment. So listeners have been asking for some recommendations on things to read. King Abdullah's book Last Chance for Peace is definitely worth reading. That was a previous Last Chance for Peace. Yeah, previous Last Chance for Peace, thoughtful, serious account of the peace process. Tom Friedman, always worth paying attention to from Beirut to Jerusalem, good primer on this conflict. And actually, Tom Friedman's been very interesting over the last few days. So... He's a New York Times guy. New York Times guy, New York Times columnist, bit of a kind of celebrity columnist. And when people were being particularly mean to him in the glory days of Tom Friedman being the most sort of famous commentator in the world, there was actually something you could go online called a Tom Friedman column generator, where you'd press a button and it would just write a Tom Friedman column for you that always began with, I was sitting in a taxi in Beirut and my taxi driver sat up. The phone went, it was a world leader. Yeah, if one wanted to tease Tom Friedman, he's just been on, it's a very worth listening to, but he's just been on a New York Times interview where along with saying some very, very thoughtful, serious things, he also says, and one other thing I want to say is that I know literally

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everybody in Israel, but I don't know anybody in this cabinet. And he says, and that's why I would not trust them prosecuting this war. So he knows everybody apart from the people who run the country.

Yeah, yeah. So he's very cross about that. Anyway, one of the things that he said though, is that Biden has announced that he's going to be giving financial aid to Israel. And Tom Friedman said... Conditional. Absolutely. And he said conditional on not a single brick of another settlement being built. Yeah. And this is the fact that after 1967, and after the Ozzos Accords, which was the peace agreements in the 1990s, there was a clear attempt to define a two-state solution, which meant supposed to be territory, which was Palestinian territory separate from Israeli territory, but a settler movement that began in the 1970s began planting Israeli housing in Palestinian territory. And once it's planted, the Israeli army then came in to protect those settlers. And that's one of the reasons that the Palestinian state has been broken into lots of little chunks. And a lot of the fences and wires and roads are there to enable these settlements. And it's also fundamentally why it's very difficult to imagine a two-state solution, because to return to Ozzos, you would have to remove literally hundreds of thousands of Israelis who have deliberately gone out to settle those areas. And they're sort of colonizing those areas. And Smotrich is one of these people, he comes from one of these communities,

because they believe they have a historic destiny to make these Palestinian areas Israeli. And Tom Friedman said... Actually, Tom Friedman swears, he says, if he fucking gives my taxpayer's dollars to allow BB to continue on this path of building more settlements, fuck him. I want, he says, Netanyahu to put the taxes up to 50% if he's going to try to prosecute a war and try to build settlements.

I mean, that again was something that came through our chat with Saeed is that the world has turned

its eyes away from this and the importance of these settlements has been going on. And people like Ben Gvir and Smotrich in the Israeli cabinet, that has been the purpose of their political life is to grow these settlements. And of course, Netanyahu has been totally cynical. He needs these people for his government. And so his whole move, which we talked about in our interview with Yovano Harari a few weeks ago, these moves against the Supreme Court have basically

been because the Supreme Court has been blocking settlements. I mean, not much, not half as much as it should have been. There's an enormous amount of illegal settlement take place, but it's blocked some of them. And the settlers represented by people like Smotrich want to be doing much more. And secondly, it's been taking steps to try to hold the root of law and Israeli law on the ultra-orthodox and their military participation. And those are the two bits of the coalition that Netanyahu wants. And at the core of the whole problem is that Netanyahu's entire political beliefs really at now seems, insofar as he has them, because he's also a great political entrepreneur for 40, 50 years, has been the idea that he can have a rapprochement and understanding with the other Arab states without actually having to grant any form of serious Palestinian statehood, that he can sort of ignore the Palestinian issue, normalize with the other Arab states. And more than that, and this is something that Sayed Awasi was talking about, he has deliberately facilitated and supported Hamas because he has felt that the way to

discredit

the Palestinian movement is to make everybody focus on Hamas. And he's been able to say for 10 years, how can I possibly negotiate with these people? The Palestinian authority in the West Bank is corrupt and useless. And the other lot of Hamas were a bunch of terrorists. So what am I supposed

to do? And he thought the whole thing was under control, could fight these kinds of wars from time to time and that Hamas were not going to do something fully crazy. They weren't like the Islamic

state because they wanted to govern Gaza. So there was a sort of idea that he could indefinitely prolong the situation. It's very interesting within that context as well, the role of Qatar, because they have been delivering services. And again, with Netanyahu's full knowledge and support as a way of kind of keeping the place under control. And now, of course, they seem to be absolutely central to the hostages issue. I'd love to know what's going on inside the minds of the military and also inside the minds of the American political and military establishment, whether part of Joe Biden's visit was in a sense to buy time to stop this ground invasion whilst these hostage negotiations were going on, whether actually they make far greater focus on the hostage issue and whether the ground invasion just goes quiet for a while. I don't know, but it's, I, what I find about Netanyahu, look, I've met him a few times and always felt, yes, he's a political entrepreneur, incredible survivor, an amazing bullshitter. I'll never forget the very first time we met him, John Holmes, who was Tony Blair's main diplomatic advisor. And I said, what's Netanyahu like? He said, 24 karat bullshitter. Now, and he at the moment, just remember where he's coming from, massive protests about the judicial reforms, a sense almost to remember the IDF, Israeli Defense Forces, reservists was saying that they weren't going to serve. You've had him up for corruption charges. And now he's a war leader. And the one thing you know about Netanyahu, he's not going to waste a crisis in terms of his own political survival. And meanwhile, with these incredible right wing forces inside his own cabinet, not the war cabinet, but inside his own cabinet. And I think the other thing, which is not really, we haven't seen much in the Western media. But again, I've seen lots reading the Israeli and Arab media, are these voices like Ehud Barak, former prime minister, like former heads of Mossad, like former heads of the military, who are basically saying he's got to go even during this crisis. So Netanyahu is coming over as the strong man leader that he likes to be. But I think politically, he's in a much, much weaker position than he was.

So I think two things that are central to focus on over the next few weeks and months.

Firstly, obviously at the core of the whole thing is the horror of the Hamas attack, that terrorist attack, the killing of innocent civilians, the taking of those hostages and the question of how on earth those hostages are returned. But for Israel now, the question is how the response works. And the two things there are the military response. How do you fight your way through an urban area like that without causing unbelievable opportunities for Palestinians to talk about atrocities and civilians being killed and use all the power of social media to amplify it? We saw this with the hospital catastrophe, which there's a lot of evidence now pointing to the fact that that was a Islamic jihad rocket landing in a car park.

And yet incredible cycle of media benefit to Hamas from that, because they were able to use that event to totally derail the Biden visit, derail all peace, Britain. So now this will

be repeated 100 times once that ground invasion starts. So that's the first problem. How does Israel do a ground invasion without massively strengthening world sympathy for Palestinians because there will inevitably be civilians killed in the ground invasion? And then the second big question is, and then what next? What's the second step? And we've talked about whether that is Israel being forced to try to occupy Gaza in order to prevent Hamas taking over? Yeah, meanwhile, there's the other thing going on is that the border with Lebanon and his Bola, who are far more armed than Hamas, where there are skirmishes being going on. And I think the other thing that Joe Biden and Blinken and the other world leaders who've been out there have been trying to do is to stop the Israelis from responding overly to the provocations that are coming from there. But that one is that one is a tinderbox right now. And I think maybe not now, because we don't have the time, but I think pretty soon we should do an episode looking at what is the two-state solution? What is a one-state solution? What might peace look like? And why is peace so difficult with hundreds of thousands of settlers now in the territory that's supposed to be part of that Palestinian state? It seems to me that what the Americans are genuinely worried about is this thing becoming a major regional conflict where Iran, who back as a proxy, back has Bola in Lebanon, that they feel actually they're now so engaged in this that it kicks off in a way that, frankly, we haven't seen for a long, long time. And that's kind of why this is so scary at the moment. I mean, of course, you've got the humanitarian catastrophe, which is awful. You've got the inability to get the humanitarian aid in. And I'm sure lots of people are working hard on trying to fix that. But on the bigger picture, I think this is as tense as it's been for a very long time. And that's the other thing that I'm picking up in reading these more of the Arab media is that their concerns are even deeper than ours right now.

Well, from the Arab point of view, just maybe to conclude on this for the break, if you are an Arab Sunni government, so if you're Jordan or Saudi or UAE, you are worried in two different directions. Your population, your street is very, very hostile towards Israel, very pro-Palestinian. But at the same time, you are very worried about Iran and Israel, and this is one of the reasons why there was this sort of rapprochement, these Abraham accords, which were driven through actually under the Trump administration, where Israel began speaking to Saudi and UAE, was about their desire to try to have a counterbalance to Iran, because Iran is now in a very strong position, as you say, in Lebanon, in Syria, in Iran, in Yemen. Iranian proxies have been firing rockets into the territory of the United Arab Emirates and Saudi Arabia. They feel deeply, deeply threatened partly because Saudi Arabia has a very large Shia population. This is a Shia-Sunni conflict within the Muslim world. So as you said, there is a very, very difficult two-way struggle in the minds of many of these Arab leaders. On the one hand, feeling strong historical links to Palestine. On the other hand, being absolutely terrified about Iran getting more power in the region. Final point. I don't know whether we can put voice notes in the newsletter, but I've got a very interesting voice note from somebody who's on the ground, who works for the charity Medical Aid for Palestinians. And it was just chilling to the logistical problems of trying to do something as simple as delivering medical aid right now. And so I think it was like a 10-minute voice note, just kind of explaining what it was like right now. And I think we should probably just give people a sense of that. I was at the time, I was trying to find somebody actually on the ground that we could maybe talk to, but it's proven quite difficult. Part of the problem is that telecoms has gone down,

the electricity's gone down, people can't recharge their phones. So it is actually surprisingly difficult to get them. Right on that cheering note, let's take a break. So welcome back to the Dresden Politics, me, Ernest Campbell. And with me, Rory Stewart. And I think we should tell listeners about what's been going on with some of the interviews that we've been doing. So the leading channel, which people know about, where we've had people like Francois Hollande and Tony Blair and Hillary Clinton and all sorts of other people, Theresa May, and we've recently done these special interviews on the Dresden Politics feed with Yuval Nawah Harari and with the Palestinian ambassador. And we're going to be doing, as well as doing the every Monday, we're trying to get an interview out, we will be doing more on the Middle East, and we'll put those interviews on leading, starting with Saia DeVarcy. And we should also just chat a little bit about the one that's on there this week, which has nothing to do with the Middle East. We recorded it before this current crisis blew up. And that was with your friend, Tech Bro billionaire Reed Hoffman, which I enjoyed a lot more than I thought I would. Yeah, I was taken with that. I like the chemistry on that. I was a bit skeptical about whether Alistair and Reed were going to really hit it off. And no, I thought it was lovely. And I'm really pleased that we're also expanding out. We have done quite a lot for people who are interested on AI on leading, but Reed is a really interesting major cultural figure. He's not just one of the wealthiest men in the world and the founder of LinkedIn and a big AI entrepreneur, but he's also a really interesting political player in the United States, where he's been the leading campaign really in many ways financially against Donald Trump and supporting Joe Biden. But he also is rather sort of interesting and reflective about life, about finances, about the difference between Britain and the US. I loved his stuff on friendship actually. I thought that was really interesting. He should write a book on friendship. He's definitely got a different take on it to a lot of people. Well, I spoke to him again this weekend and he keeps putting off this book on friendship. So we need to try to get him to encourage. He's currently saying, I've got to do more on AI. I've got to do more on AI. I'll get on to the friendship. Will AI destroy friendship? There's a book. There's a book. No, I think the leading podcast, if there's anybody listening who hasn't tried it, I think it's a lovely thing to get into because we have every different type of person. We have sports stars. We have business people and entrepreneurs. I think we might start bringing more creative people in. We've got people with amazing current affairs knowledge. We've got former prime ministers, world leaders. I was last night talking at St Martin's in the fields at church in London and the priest who was hosting me was saying one of his very favorite things is the leading podcast. He'd really liked, for example, the dynamic in the interview with Michael Ignatiev and he really liked your interview with Mary McLeese with the two that he picks out. They're not high profile ones, but I think that there's something in the leading podcast for everybody, depending on your sensibility. Excellent. Well, that's enough plugging of our leading podcast. Let's talk about China. You've been wanting to talk about the Chinese economy for a long time and I guess you're coming at it from a negative perspective in terms of how well the Chinese economy has been doing. I want to talk about the Belt and Road Initiative, which I think history is going to look at as one of the most significant pieces of economic diplomatic power play ever. Yeah. I think Belt and Road is fascinating. I'm really pleased that we're getting on to that and

we're getting on to that because it's the 10th anniversary. So they had the anniversary last week, Xi Jinping and his full pomp, but it was interesting the extent to which Putin was the very much the main other figure. They had these other leaders from around the world or banditless to say popped up, but Putin was the guy. I mean, this ridiculously long red carpet, the big hugs with Xi Jinping. Putin was the one who spoke after Xi Jinping. I mean, okay, they didn't do the kind of no limits friendship thing that they'd done in the past, but it was very, very close, very, very warm. You really got the sense of this is a separate power structure for the world. And so far as Xi Jinping is concerned, the economy and the economic spread of Chinese power is absolutely fundamental to that. But you think the Chinese economy is in a bit of a mess? Well, yes. I mean, let me start by sort of trying to nuance that a little bit by saying before we get on to the fact that it's in a bit of a mess, I think we just have to begin with the fact that it is absolutely enormous. One of the things that we sometimes talk about, which I still find is very, very difficult to get our heads around, is that the British economy was still larger than the Chinese economy in 2005, right? When you were coming into office in 97, and you were here. So let's just stop there, Roy. So when Labour were in power, the economy was bigger than China, and now? No, nearly seven times, seven times larger than British economy. It became larger than the British economy, 2005, larger than the German economy, 2006, larger than the Japanese economy, 2007. And this is because since 2013, China has been 40% of all global growth compared to 22% from the US and only 9% from the EU. So you get a sense of how these kind of... Of global growth, not of the global economy, of global growth. Yeah. So while the EU has been about 9% of global growth, China has been 40% of global growth. And therefore, the statistics around China, before we get into the problems there, are just absolutely staggering. It's 20% of the global economy. It's had growth rates averaging nearly 10% over 30 years. So put that in context, and in Britain, we're pretty pleased if we get about 2% growth. So as you can imagine, if you were doing the maths on your own investments, somebody growing at 10%

a year... Should I have any?

This should you have any. Somebody growing at 10% a year manages to grow very, very much more quickly than someone growing at 10% a year. Largest manufacturing economy in the world, largest exporter of goods, fastest growing consumer market, second largest importer of goods, largest recipient of foreign direct investment, largest outward investor, world's largest labor force. So part of the core is it's 1.4 billion people. And a growing middle class.

Incredible story around the middle class. I mean, I first went to China in 1979.

I saw a spy. I was not a spy. A boy spy.

A child spy. It was a junior spy.

A child spy. No, I mean, it was amazing. I mean, I still remember it because 1979...

Why were you there with your dad?

With my dad and my parents, yep. And everybody was still in blue mouse suits, little red books being carried around. Everybody on bicycles, we moved around on bicycles. It was a very, very poor country. 700, 800 million people living in what we would now describe as extreme poverty, living on less than a dollar a day. And since then, Deng Xiaoping, who came in in 1979, opened up to the Chinese economy and created this 30 years of 10% growth, which meant that hundreds of millions of people have been lifted out of extreme poverty. We've

ended up with 300, 400 million of a Chinese middle class. And some of the stats around it are still absolutely staggering. I mean, China produces half of the entire steel in the world is produced by China, produces 70% of the world's sex toys. It's the world's largest automobile manufacturer. 70% of the world's sex toys. That's a good figure, isn't it? Good figure, isn't it? I can say my first visit to China was very different to yours because it was to Shanghai. And I could not believe the place. This was in the probably the late 90s. And so because my image of China was very much the one that you'd described, it was mind blowing to see this phenomenal energy. And that growth has been driven. This is where being a dictatorship does help because they just don't have to worry about the stuff that we have to worry about. They kind of can plan for the long term. And Xi Jinping now, the Belt and Road Initiative, which is now covering 150 countries, and more to come. And interesting, some of them like Spain and Ireland talking about the connection. So just quickly, let's just then I'll hand back to you. The Belt and Road Initiative is came out of a Chinese vision of essentially building out the infrastructure to connect the world. Roads, bridges, dams, enormous projects. So Pakistan, \$42 billion worth. I mean, the numbers are staggering. I mean, I remember the normal smug stuff that you get from British ambassadors. And in those days, when I was the minister responsible for Pakistan, our ambassador would say smugly to us. Well, I think, you know, Britain is the number one country in Pakistan. And at that time, we were spending about 350 million pounds a year. And China just announced 42 billion. This is 100 times more going into Pakistan. And it's repeated this. I mean, obviously, we talk a lot about China and Africa, the enormous investments in Zimbabwe. There are 150,000 Chinese people, many of them working. If you go to Kenya as part of this, the train line, between Mombasa and Nairobi, not just designed by Chinese, funded by Chinese, built by Chinese, but it's actually run by Chinese. There are Chinese people on the train making the train. I saw a thing on the BBC website recently. It was a BBC guy in Asia reporting on this high speed rail in Indonesia. And it was going, it cut a journey that was normally three hours, it cut it down to 45 minutes. And the Japanese had been in line to do this job. And then last minute, they, well, not last minute, but they switched to China. And it was just something, I read this on the week that the HS2 project was cancelled or the extension was cancelled. And you mentioned Zimbabwe, I think there is a real worry in Africa that there is this whole thing about, you know, they've got them on debt, the debt and so-called debt entrapment. But these economies are not able to build at the pace that they need to build out without this support. And meanwhile, Xi Jinping is able to project it almost like the Americans projected the Marshall Plan. It's like the world is in a mess and we are going to take the leadership role in rebuilding it. And one way of thinking about why this is staggering and interesting Belt and Road is that the current estimate is that the US and its allies, but predominantly the US, spent \$3.7 trillion on the interventions in Iraq and Afghanistan and achieved so little. I mean, in Afghanistan, we literally went in 20 years to go to get rid of a Taliban government, spent 20 years, spent \$1.5 trillion left and handed it back to a Taliban government again. This is complete farce. But that is almost exactly the same amount that China spent on the Belt and Road Initiative. And the difference in what China got out of that investment compared to what the US got out of its investments in Iraq and Afghanistan is staggering. Well, I think that's why the imagery of President Xi and Putin was so kind of powerful and alarming

because there you have a situation where the West has been drawn into this war provoked by Putin in Ukraine, which is going on and now is becoming more difficult for the Ukrainians, not least because there's now this other war going on. And of course, they're more or less sitting that one out, the focus on that one now very much on America taking the lead. And as you say, the figures on trade so that the World Bank reckon that the Belt and Road Initiative is going to boost trade flows in the 155 participating countries by 4.1%, cutting the cost of trade by between 1% and 2% and growing the GDP of those countries by an average of 2.6 to 3.9%. So you're talking about huge economic development alongside massive concerns about the environment, about human rights, and about this whole debt trap diplomacy. And so the critics will say it's a different form of neocolonialism. But for China, and maybe this is the best, this is the time for you to go on to some of the economic problems they've got. But in terms of projecting both power and growth, I think you'd have to say the Belt and Road Initiative has been a pretty big success. Yeah, I think it's... I mean, the question, I guess, is can these countries service their debt? I mean, China was making a lot of cash, put a lot of money in, places like Ghana found themselves having to default on their debt. And so I think China may have trouble being repaid for a lot of these assets.

But yes, let's move on. So let's take it as read that China is an enormous economy and it's particularly well positioned in certain sectors, very, very well positioned for the energy transition. So it dominates the world in manufacturing of wind turbines, solar panels, and the processing is things like cobalt and lithium, which are essential for batteries. It's the world's largest producer of electric vehicles. The Chinese are buying electric vehicles domestically, far more than almost anyone else. And China's becoming a very... It's the world's largest automobile manufacturer, a huge exporter of wind turbines. So take that as read. However, at the heart of this is property that triggered this problem. So a lot of the Chinese economy, nearly 20% of the Chinese economy has been connected with property and the building of new apartment blocks. And this is this enormous middle class, hundreds of millions of people who, as they've better themselves, both want to get a house, but also see it as an investment vehicle, a bit like the Brits, like the house was an extraordinary opportunity to make a lot of money. The house prices were going up very, very steeply. And it's true in the United Kingdom. Many people who were lucky enough

to buy a house a few decades ago have made more money on the inflation and the value of their house than they ever made from their salaries, same as true in China. But as the Chinese economy began to hit various kinds of buffers, COVID, big problem for many other economies and supply chain problems, and other problems that we'll talk about a little bit in the next couple of minutes, the housing market began to get hit very hard. And the first thing that began to go wrong was a company called Evergrande, which is the largest housing developer in the world, which defaulted in 2021. And it was founded in 96. I mean, it gives the sense these Chinese companies very, very recent and in about 15 years had sort of dominated its huge sectors, the Chinese economy, in a pig farming, bottled water, financial investment, all this kind of stuff. And in 2020, the Chinese government began to get very, very worried about the state of the balance sheets of these companies. They were borrowing too much. You can see how they conserves the debt. So, the Chinese government tried to step down and put rules in place to try to protect investors and stop these companies borrowing more. And as they put those rules in place, COVID came along and

these companies began to fold. Evergrande and then another huge company called Country Garden, and they end up with enormous numbers of unbuilt apartments. And the numbers again are staggering,

55 to 82 billion worth of unbuilt apartments. So, put that in context that the British government every year will spend a few hundred billion. So, this is maybe seven, eight percent of the total budget spend of the British government just tied up in unbuilt apartments. But more than that, \$390 billion, which may be a third of the entire spend of the British government in suppliers, all the painters and decorators and builders. And of course, at the core of this is the Chinese consumer because people have bought apartments off plan. And these apartments have not been built. What the companies were doing was taking the money that you get off plan. It's got a slight feel of the subprime mortgage that led to the American crash. So, you've got Evergrande finished 300,000 homes last year, but have got 720,000 still to build, which have nonetheless been bought, as it were. And once the other thing that's been going on is just, I don't know if you've been looking to this, is youth unemployment. So, what's happening on that? So, youth unemployment is terrifying. Again, we can talk a lot about Chinese data and statistics. And the suspicion is that China is not being completely open about its youth unemployment statistics because it's too worrying. But in the official statistics, at least between a quarter and a fifth of the 16 to 25 year old population is currently unemployed. And this is terrifying because in this huge economic boom of 1980s, people were just flooding into work. Fantastic achievements unemployment. And Chinese parents sending their children increasingly to university expect them to get a job. And now, many of my friends in China are talking about the fact that increasingly their kids are just living at home. They're not even appearing in the unemployment statistics because they're not even really going out to try to find work. They've sort of given up on the ability to get work. And you can sense it in a whole series of ways. I mean, you talk about the amazing speed with which China has built things like high speed rail and done these infrastructure investments. But you could argue that China may have completely overdone it, that it's done it too fast and that a loss of these rail lines will turn out to be unaffordable. And that Shenzhen, for example, which is this huge new economic zone near Hong Kong, built out sort of staggering seven tube lines. So as the Chinese economy has got itself into trouble, the world economy got in trouble, financial crisis 2008, China sort of saved the world economy through big public investment. And again, during COVID, essentially, when these things happen, the Chinese government says to all these local governments, spend, borrow, spend, borrow, build all the infrastructure dreams you ever had, this is the time to do it. And of course, the kind of logic to that and it's sort of worked for the Chinese economy. But you then end up with seven underground lines built around Shenzhen. And not only are they going to really struggle to cover the debt payments because they borrowed the money to build these things, they're actually going to struggle to even cover the maintenance costs on these lines. I mean, in Britain, we are sort of familiar with this because of this, this man that we all hate called Beaching, who closed all our train lines. But the reason Beaching did this is that the British government concluded in the 1960s that we simply could afford. Yeah. So where does it go? Where does the Chinese economy go? And what's the impact for that on the rest of the world? If the Chinese economy goes belly up, we're all in a bit of a problem, aren't we? Yeah. So I think we really hit doom and gloom in July, when GDP projections

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had fallen down to 3%, which would be a dream in Britain, but is terrifying in China, which is used to 9%, 10%. I hope Kate Ray was not listening to us here. We haven't really taken on the Kate Ray with agenda for growth, have we? Consumer prices went flat. Housing prices began to collapse. Investment was weak. We talked about youth unemployment. Now, the recent figures are a little bit more optimistic on some of these indicators. But the fundamental structural problems are, I think, threefold. Debt is China getting itself into a horrible debt trap that it's not going to be able to get itself out of. It got itself into what felt like a very bad debt trap in the late 1990s, but it grew so fast that it got itself out of that. Second, it's still a very, very dominated by manufacturing. Now, 40% of its economy is industrial manufacturing. And a loss of this is about export. And that depends on the strength of the world economy, European economy growing, American economy growing. That's good for China because it's selling goods. But actually, the European economy has been struggling. The third thing is, of course, we're not in an age

that we were in the 1990s of everybody loving free trade. It's becoming more and more protectionist, which means that it's more difficult for Chinese goods to get out there. And the US is a very striking example of this. China still exports enormously to the European Union. So I think 20% of European imports come directly from China. But the US, for a whole series of reasons, this is Trump putting on tariffs, this is Biden beginning to subsidize his own industries, and this is the decoupling, de-risking. There's been huge pressure to move investment away from China. Jake Sullivan, the national security advisor that we talk about a great deal, has essentially been going around telling companies to get out of China and to reshore to Mexico and Canada. So Mexico and Canada are now ahead of China in terms of exports to the US. It's amazing, absolutely staggering. And it's happened quite recently. Mexico is now doing 16% of US imports compared to only 11%, 12% from China. And the benefit for the US is that those Mexican exports are full of US goods, lots of US parts, because they're going back and forth across the border. So nearly 40% of the things that the US imports from Mexico are American, 40% of the products American.

Whereas

when they import from China, it's only about 6% of American products. And it also avoids having to move stuff across the Pacific because after COVID, people got very worried about supply chains. You will remember when you order things on Amazon, but suddenly things got delayed because instead of a

ship taking a month to get across the Pacific, it was taking three months to get across the Pacific, you can get things out of Mexico in two weeks. So what does this all mean? This means that in dealing with its debt crisis coming out of the housing problem,

China is no longer in the environment that it was in in the 1990s when it could rely on free global trade and these growing economies to be able to grow itself out of the problem. And it's also, of course, facing this demographic problem for the first time the Chinese population is beginning to drop. And this means that China, which was on track to overtake in dollar terms, the US economy, may not actually get there. Its growth may begin to slow that it doesn't actually become the largest kind of world. And in the really worst case scenario, it could be another Japan. And what do we mean by that? Well, we mean that in the 1980s, Japan was everything. You know, Paul Kennedy wrote this book, essentially arguing Rice and Four of the Great Pass Japan was going to take over. You'll remember there were movies,

Die Hard, for example, is all about an enormous Japanese company and Japan was buying up the world. And it was leading in technology, you know, all the most impressive technological developments in Japan. The royal palace compound in Tokyo was worth more than the whole of Manhattan. Since when sclerosis? Since when sclerosis. And, you know, that I was talking to you from Japan about the fact that the travel agent I was traveling with, her house was worth 10 times more in 1990 than it is today. And Japan hit a buffer, which was all about debt in the end. And it never came out of it. It just stalled. And so if this happens, China will remain an enormous economy for a very long time to come.

But it is facing problems, which will create internal problems. And I guess this will also lead to the question of, and this was an argument I was having with the Chinese friend, does this make the world safer? So she was arguing, well, if there are economic problems at home, Xi Jinping is going to give up on adventures in places like Taiwan. I'd argue the opposite.

I'd argue that as we saw with Putin when economic problems hit hard in Russia, what he did was respond by distracting people through invasions of Crimea and Ukraine. I think it's perfectly possible that as the economic problems deepen in China, Xi Jinping will be more encouraged to make aggressive nationalistic moves against places like Taiwan to distract his population. And to give the Americans something else to worry about. He was remarkably positive, much more positive than you've been in his speech. The Belt and Road Initiative represents the advancing of our times and the right path forward. We must announce ideological confrontation, geopolitical rivalry, and blocked politics. And he focused on unilateral sanctions and the decoupling of supply chains. In other words, he's projecting himself as the great sort of the new globalizer. And the Americans is now putting up all these barriers.

But there will be Chinese business people listening to that and will be blaming him.

There will be some internal Chinese saying, wait a second, your aggressive confrontational policy. So he came in in 2012, has driven this decoupling and de-risking. The reason we're in this travel, the reason we're not exporting what we used to to the United States is because of you. And there will be many people nostalgic for the days of Deng Xiaoping and Jiang Zemin who tried to go for a much more no-problems policy towards the United States.

Well, if anybody from Chinese government is listening, we'd love to have Xi Jinping on leading, wouldn't we? We might even go and learn. Would we learn Mandarin into? I think we could do

that. We could work on that together. We could work on that. Definitely. So there we are. He'd be very, very good. That's the deal. If we get to interview Xi Jinping, we will work on our matter.

We'll both do it. Excellent. Okay, Rory, we've covered a fair bit today. China, Middle East, Labour Party, Tory Party. And we'll see you tomorrow for Question Time. See you tomorrow for Question Time.