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Foreign Affairs Committee

Oral evidence: The FCDO's role in blocking foreign asset stripping in the UK, HC 296

Tuesday 13 October 2020

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Members present: Tom Tugendhat (Chair); Chris Bryant; Alicia Kearns; Andrew Rosindell; Henry Smith; Royston Smith; Graham Stringer; Bob Seely.

Questions 153-188

Witnesses

I: Ciaran Martin, Professor of Practice in the Management of Public Organisations at Blavatnik School of Government, University of Oxford, Professor Deepth Chana, Co-Director at the Institute for Security Science and Technology, Imperial College, London,

II: Matthew Rous, Chief Executive at China-Britain Business Council, and Ting Zhang, Founder and Chief Executive Officer at Crayfish.io.



Examination of witnesses

Witnesses: Ciaran Martin and Professor Deeph Chana.

Q153 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee. Thank you very much indeed to our witnesses for joining us. I am going to ask each of them to introduce themselves very briefly. I will start with Ciaran Martin, for no particularly good reason other than that he is furthest to the left on my screen, although perhaps not on other people's. Ciaran, would you like to introduce yourself? Then we'll hear from Professor Deeph Chana.

Ciaran Martin: I approve of your criteria, Chair. Thank you for having me. My name is Ciaran Martin. I am currently professor of practice in the management of public organisations at the Blavatnik School of Government at Oxford University. Until recently, I was head of the National Cyber Security Centre in GCHQ for the four years to August 2020.

Professor Chana: It is a pleasure to be with you this afternoon. My name is Deeph Chana, professor at Imperial College London, where I head up our Centre for Financial Technology, but I am also the co-director of our Institute for Security Science and Technology.

Q154 **Chair:** Thank you both very much for joining us; it is extremely good of you to make the time. This afternoon's session is really about the asset change that we are seeing in the United Kingdom and its effect on technology. We will be asking a series of questions. I would be grateful if you kept your answers as short as possible, while still imparting the information that you feel you need to get over. We are always pressed for time, for obvious reasons—I know that you are too—so I would be very grateful if we could do this in a speedy fashion.

I will start with you, Ciaran, for no better reason than that you appear on the left. In which UK technology sectors might foreign investments represent the greatest security threats?

Ciaran Martin: It is a fairly broad canvas. For example, if you look at the 11 categories for investment approval, which I know are different from the investment controls for the national security investment fund—I will not read out all 11 categories, given your direction about time, Chair—they range from audio and visual processing and things that are here now, such as emerging IoT capabilities, all the way through to quantum, where commercialisation is some way off.

It is very difficult to predict what use cases will come through into markets, which is why we need a fairly broad and flexible set of definitions—no doubt we will move on to this. I would cast the technological definition net quite wide, which is why I think we therefore need to use the powers quite sparingly.



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There will be subsets. For example, the national security investment criteria specify cyber-security as an area for intervention, and that is correct. However, most cyber-security is suitable for a fairly open approach to inward investment, consistent with the country's recent economic history. We certainly would not want to scare anyone off. For example, Temasek of Singapore just funded a huge new venture in London, which is terrific news for the UK, so we would not want to scare that off. At the same time, there are things that could be categorised as subsets of cyber-security, such as quantum-resistant cryptography, where you would want to be really careful about the sort of thing we are doing.

Professor Chana: I echo much of what Ciaran has said. We could talk for a long time about the various technologies that might be important to consider when thinking about the whole topic. Quantum technologies and advances in machine learning are of course in there, and I guess that advanced computer-enabled hardware, and algorithms for securing and compromising communications and data transmission, are all hoovered up under the cyber-security banner. Then there is a whole slew of different things happening with the design and manufacture of advanced materials, including bioengineering and those kinds of activities. There is a broad brush there.

I agree that it will be very important to keep an eye on the use cases. You can talk about the technology domains themselves, the fundamental R&D that is required for us to keep an eye on, but then many of the use cases are likely to emerge and we might not know what they are right now. We really need a dynamic, continual review of both the use cases and the technologies, and of the science itself.

Q155 **Chair:** You have touched on some of these areas already, but in which areas do you think the UK Government and business should therefore seek to retain technology sovereignty?

Professor Chana: As I said, in each of the categories I have just mentioned there are pieces of knowledge and emerging capabilities that we might still look at and say that the UK should maintain sovereignty there. For all of those domains there needs to be some understanding of sovereign capability and the need to retain it, and not just from a security perspective but generally from the perspective of being able to compete in the use cases that Ciaran talked about, in these emerging markets, and to be competitive in a technology world that is going to build upon those fundamental S&T areas that I have just mentioned. An obvious domain within which all these things will play out is space, so how we commercialise and make use of space will be extremely important. All of the technical areas that I have just mentioned will be implicated in that domain.

Q156 **Chair:** Professor Martin, you have just come from running the NCSC. What areas do you see as being technologically sovereign?

Ciaran Martin: One area we will need to keep a close eye on is the whole field of quantum computing research in its broadest definition. There are



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two reasons for that. One is its strategic importance, and the other is the way in which it is the ultimate long-term technological bet, with a huge strategic advantage for the eventual winners. One of the challenges in terms of the regime that we have for foreign direct investment is that, for understandable reasons, it is geared towards existing companies—even in technology. You tend to think about it in terms of turnover, market share and so forth, but in quantum we are faced with something where, thanks to some really imaginative governing in the last 10 years and academic expertise and so forth, there is some really good emerging capability in the UK. But as I said a moment ago, it is not going to sell anything for possibly up to a decade.

I view questions about the sort of regime we need to have as, broadly speaking, breaking down into two or three parts. There are the sort of traditional established companies—even tech companies—and what do you do with those? Then there are the smaller ones where questions of turnover and market share aren't really that relevant. But then there is the protection of things that, as I say, will not have any turnover at all, which is a difficult problem for this sort of regime. Quantum is the sort of area that is a really good example of that. I know less about other areas, but graphene and specialist materials and so forth are things that other experts have commented on.

Of course, the danger is that if you ask a cyber-security specialist, they will talk about quantum, but if you ask somebody else, they will give you something else and, before you know it, you have a rather long list. Quantum and aspects of machine learning and artificial intelligence, as Professor Chana has mentioned, would probably be No. 1 and No. 2 on my list.

Q157 Chair: And how are we doing at the moment at both of those? Are we producing and are we defending?

Ciaran Martin: To go back to quantum, we are certainly producing. The crunch years are now—the next half decade—so we haven't lost the IP yet. If you think back a decade or so, we will want to avoid the sort of thing that happened with—I wish I could think of an example from a different company—Huawei's purchase of the Centre for Integrated Photonics in 2012 when it was 500 people. Given the importance of photonics in modern technology, it is probably not the sort of technology transfer we would wish to see in the future, particularly, as with quantum, it benefited from significant state investment.

To my knowledge, that has not happened in quantum yet, but there is a risk unless we get the foreign direct investment regime correct. That is not just the regime of controls, but the incentives and the backing, because it is one thing to control it, but it is another thing to get it going economically. They are not the same thing, and you have to do both at the same time. There is time to get it right, but not a great deal of it.

Q158 Graham Stringer: Being concerned about technological sovereignty is obviously important, but how does the Government know? Does it have



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the capacity to survey the market and to know that something that is being developed will be important for this country to keep? Can you give any examples of where the Government has missed something and has simply not known that something is technologically important for this country?

Ciaran Martin: Does the Government have the capacity to make assessments? Yes. Will it get everything right? Absolutely not. As Professor Chana and I both said, that needs to be built into this sort of analysis, because we cannot possibly predict the way that—if you take, for example, speculation about AI, I happen to think that autonomous vehicles will probably find a viable economic and regulatory user model. I happen to think that we are some way off telemedicine—if it will ever catch on—but plenty of other people disagree with that, and the only proof will be what happens in the future, which is why we need a flexible regime.

We will be capable of identifying the broad areas of technology that need consideration. We will not be capable of baking in detailed regulatory controls of the specifics in advance, which is why I agree with Professor Chana about the need for flexibility and agility. In terms of examples of things we missed, I think we did miss things like photonics. I know the Committee is interested in the ARM case. That is worth a look, and there will be many different opinions on that, but it is certainly a matter for debate as to whether we saw the importance of that type of technology and whether we had the right controls in place.

Professor Chana: To answer the first part of your question directly, yes, there are good centres of knowledge within Government to be able to monitor some of these things. Do I think it is in the right place? No would be my short answer to that. In fact, we need to build a far more comprehensive set of technology competencies across Government to be able to keep up with the pace of development that we are seeing outside Government, in the private sector, with start-ups. We are really only seeing the beginning of a lot of the growth in the technology sector, and the time is now to act on trying to make sure that we have an intelligent function across Government when it comes to talking about technology, the state of the art, the direction it could go in and the policy apparatus that needs to be draped over all that in order to make sure that the UK stays competitive while maintaining its position as an open and free market. This balance is going to be very tricky to navigate, and I am not really sure that that capacity is fully there yet.

In terms of examples, I guess ARM is a good one. While we are talking about it, the whole area and domain of chip manufacture and chip design—I think back to when I was doing my PhD in physics many years ago—is something that a lot of people at that time would have been conscious of at the academic level, but it is certainly not something that was really hitting the headlines, in terms of decision makers at the national level, as something that should probably be protected as a sovereign asset. It takes decades- worth of planning in order to identify those areas and then start building the protections. I will leave it there.



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Q159 **Graham Stringer:** I suppose I could guess the answer to this, but I am looking further than, say, China and Russia, to countries that in most circumstances are friendly. Which states are particularly active in attacking UK interests in this area?

Ciaran Martin: I think witnesses in a previous session covered this as well. In terms of strategic competition in key industries and the acquisition of technological capability that might then go to a state that will act in hostile ways, it is essentially only China. I think it was Professor Henderson who said in a previous session on 8 September that Russia is a cyber-attack problem, but it does not compete in this type of area. I would concur with that assessment.

In terms of potentially hostile states, it is essentially China's "Made in China 2025" strategy, which you are all aware of. Again, I do not think a sovereign democracy should be bashful about saying that there are issues around this that need to be taken into account in respect of allies as well. When you look at the debate about the extent to which we should have a CFIUS-style arrangement in the UK, it is worth remembering that the CFIUS arrangements were driven not by China or the Soviet Union, but by Japan. That is why CFIUS grew up.

There are areas where the strategic autonomy that some form of technological capability gives you, even with allies, is an important consideration. It is, of course—I am not equating sales to the US with sales to China, or investment from China with investment from the US, as the same strategic challenge; it is not. Both questions are worth looking at as we think about the sort of regime that we have.

Chair: Thank you very much. Royston, you wanted to come in.

Q160 **Royston Smith:** My question is to both of you, if you don't mind. Under what circumstances should the Government intervene in foreign investments in UK companies?

Professor Chana: I can take that first. I guess it depends on our definition of intervention. There is probably a whole slew of different things that the Government might be involved with in terms of intervening. Taking very drastic action to block certain investments has to be done carefully, judiciously and as an option of last resort, I would argue, particularly as we try to maintain an open free market, which, at the end of the day, is something that we value and protect in our society, and is a central pillar of what we are all about in terms of an economy.

Having read some of the evidence prior to the hearing, and understanding various legal landscapes around the world, it is clear that there is probably a bit more that can be done in terms of Government having an eye on these things and being able to understand the domains within which there are potential risks. Others have suggested a risk-based approach to looking at investment levels and the different types of geographic investments that are coming into the UK, and perhaps prioritising those for closer scrutiny in case there might be a problem. I think there is room



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for the UK to do a little bit more than that, as some of its Five Eyes partners have done.

Ciaran Martin: I am not a great theorist about these matters, but there are three broad categories that I could think of where, from a national security and national interest perspective, the Government might want to think of intervening, in descending order of severity.

The most obvious one is where it would constitute a strategic threat. So if you have something—a particular type of chip or whatever—and the technology went to a potentially hostile country like China, and you were entirely dependent on it, then, clearly, that is an unsatisfactory situation in two ways. One is that you are beholden, and the other is that, potentially, depending on the product, it could be altered in a way that could harm you. You just wouldn't want that. That is scenario 1.

Scenario 2 is where, in the judgment of the Government, it would constitute an unacceptable narrowing of the UK's freedom of commercial action. In other words, something is so vital that someone, even potentially an ally if there were a trade dispute, could weaponise its sale against you, because you can't get it yourself.

The third scenario is the most contestable, so I am only raising it for debate, and it would go to some of the quantum examples I used, notwithstanding their strategic importance. The third is where the Government have invested quite a lot of taxpayers' money in the research in the first place, where perhaps it would not have been commercially viable. The start-up money might not have been there or might have gone somewhere else, but the UK Government, on behalf of the taxpayer and the citizen, have made a concerted effort to gain strategic advantage for the country in both national security and prosperity, and then we just let it go. Clearly, that is not necessarily an A-grade national security issue, but it does not seem to be good public policy either. Those would be the three categories that I would focus on, in descending order of severity.

Q161 **Royston Smith:** Thank you. What limitations should there be on the Government's intervention powers? If the Government were looking to intervene in foreign investments in this country, what should we be preventing them from doing, beyond what you have said? If they used those powers beyond the issues that you just laid out, what would you think was too much?

Ciaran Martin: It is very easy—and you see a little bit of this in the US—for this to morph slightly into championing individual national champions and existing interests. It is also easy to confuse national security imperatives with reciprocity—I could say country A and country B, but let's face it, we are talking about China.

There is a perfectly—[Inaudible]—in terms of trade with China that if China does not allow our companies to sell a service into China, we shouldn't allow reciprocal access here. That is a perfectly principled argument, and I can sympathise with those who agree with it. It is not



axiomatically a national security argument, so if you want to make that argument, you should be honest about it.

It is not so much the controls, because Government should have fairly wide latitude, given, as Professor Chana has said, the fast-changing pace of technology. Frankly, it is the way in which the system works. There are two things for me. There is the reviewability on the grounds of rationality. The great UK advantage in global commerce is the rule of law, the fairness and the fact that people understand the basis on which we are doing business. If you are to take those powers, what are the review arrangements and so on?

Secondly—this might seem odd coming from a former board member of GCHQ—there is the default transparency. There are obviously commercially confidential aspects of this, but we are well used to dealing with those in competition regulation. There are occasionally very important aspects of classified national security in terms of technology, but most of the time that is not true. You do not need a secret briefing to understand why quantum computing and quantum resistant cryptography is a really big strategic deal. You should be setting out those sorts of areas to give clarity so that you do not scare off the big, well-intentioned inward investors who have no intention of trying to use leverage against you and so forth. You set out the criteria, the broad categories you are interested in, the way you are going to apply the criteria, and their rights and involvements in it in a fair and open economy. That is the way I would do it, and that would be the insurance against overstepping the mark.

Professor Chana: Just picking up something Ciaran just said, it has to be very clear whether the intervention has been made for national security reasons or for other reasons around protecting the economy and ensuring that the IP is retained by the state. When we get into a situation where there is a blurring between those things and it is not understood which is which in a particular intervention, that can be far more damaging for us as an economy. It also has certain security implications, because it then looks like something that is not necessarily evidence based. That would be what I would say, particularly with national security issues. It needs to be evidence driven to give businesses and the industrial community confidence that, when those interventions occur, there will be transparent and grounded reasons for them.

Q162 **Royston Smith:** What can the FCDO contribute to the screening of foreign investments and the identification of national security risks?

Ciaran Martin: I am not too hung up on what is done differently by different parts of Government, with one exception, which I will come on to. The FCO will be well placed to judge foreign Government intent, both now and in the future. It will be able to draw on the advice of the security services as to that and the potential impact of the technology, and of course the diplomatic consequences of particular courses of action.

However, all the parts of Government have a significant role to play. Just anecdotally, as somebody who recently left the civil service after 23 years



and who spent six of their early years in the Treasury, the Treasury of 2020 in this space is profoundly different from the Treasury of the early 2000s. Its participation in the national security structures of Government is significantly enhanced. Its attention to those details, its cognisance of those details and its sponsoring of things such as the British Business Bank and the national security investment fund show that. That is contrary to recent Treasury orthodoxy in a way that I would welcome. It is fairly obvious what different parts of Government should be doing.

To pick up on a point that both Professor Chana and I were making in response to your last question, Mr Smith, the one thing I would not do is put this in the so-called deep state primarily. As a former resident of that part of the Government environment, I do not think spies and intelligence chiefs want to be taking those market judgments. They want to use their technical expertise around what technologies may matter, and they want to bring foreign policy and international relations knowledge to bear. But, at the same time, these are very finely balanced judgments in some cases, and it is in the national interest that they are done transparently and seen to be done rationally and fairly, if we are going to maintain confidence in the economy. That requires principal decision takers from outside the national security community, in my view.

Professor Chana: Understanding the current state of the environment and having a better view of what is coming over the horizon can really be achieved by looking at closer integration between Government, industry and academic centres where innovation is actually happening. If we can see more of a partnering arrangement, what that tends to do is inform each strand of that triple helix of the various other aspects of society that are engaged in this technology debate. It keeps Government abreast of what is actually happening, and it keeps academia and industry abreast of the Government's concerns and their thinking around technology. If we can create a better linkage there, we could achieve some of that situational awareness, which I think is at the heart of your question.

Royston Smith: Thank you.

Q163 **Alicia Kearns:** I thank both witnesses for appearing before us today. Where hostile Governments are seeking to undertake these sorts of activities, there is a benefit, in that we at least know what they are doing, we can monitor it and we can see what is going on. If we bring in tighter FDI controls, are there any potential unforeseen national security consequences? Would it make it more difficult for certain elements of the UK Government to do their job, because it will force this sort of activity more underground? What is your assessment of that?

Professor Chana: I can perhaps go first on that. It is an excellent question. We have to be very careful about how we drive towards isolationism in technology development around the world. In fact, the collaborative mechanisms that we have and the transparency that we have in collaborating, no matter who the state players are, enables us to really understand the current state of play globally, to refer to the last question. If we lose sight of that—if we effectively obfuscate what is happening



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around us by disengaging at certain levels—I think there are significant risks to national security, particularly as we may assume that we are the best at delivering and developing something, and something could just as easily happen somewhere else.

Ciaran Martin: From my perspective, like Professor Chana I get the question, and it is a really tough one. This is a set of hard problems. I get the risk. It doesn't change my overall view that, providing we get the details right and it is cleverly applied, the direction the Government are going in is broadly the right one.

You could look at this as a sort of food chain. Right at the top of the food chain is what we often talk about, which is the big, well-known company—well known in certain sectors—with a lot of money and people, and a big takeover battle. That is occasional. Both Professor Chana and I are sitting in universities where a lot of elite research is done, funded by all sorts of different people—Governments, non-Governments and so on—and it is really quite tricky to work out what the strategic implications of that are. So I get the point about what happens if you have certain interventions a little bit further up the food chain—it is legitimate.

When I was at the NCSC, we published guidance along with MI5 to universities and others about how to do trusted research. That is a really hard problem. There is this potential, as your question implies, Ms Kearns, that you could displace it into more surreptitious funding of research and that sort of thing. I do get it; I just think that we probably need to look at the various interventions that work and do not work at all parts of that food chain.

Q164 **Alicia Kearns:** Thank you. Recognising that we are at an early stage of this legislation and approach, are there any specific mechanisms or internal approaches that you think would need to be built in as safeguards, so that if the security services wanted to flag a particular deal, they could say that they would rather that it went forward, because that would allow them to fully understand the situation, get into a certain company or track the way in which a certain process takes place in general? As you look at this, do you think that, within the FDI system, there are specific safeguards or mechanisms that we should be looking at building and that this Committee should be recommending?

Ciaran Martin: The Government do not have to intervene; that is one safeguard—if they decide, for whatever reason, that it is better to let something go.

In terms of the framework as a whole, I think there are two or three possible things that would be very valuable. One is that, while I get the point that bigger companies spending more money are more obvious targets, I think there will be occasions—this is why I keep coming back to quantum—where any threshold, even a small one, is not appropriate. While I do not think that the Government want to go rampaging around every start-up trying to pick potential winners for special protection, there are occasions where an arbitrary threshold of whatever value may lead to



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perverse outcomes. If you look at the academic and professional research around comparative regimes, most similar countries with interests and values like the UK have an obligation to report, rather than the Government requesting information and the duty being on the Government. I think that that is important.

Then, of course, one of the most controversial aspects will be the power to unwind. I appreciate that for a rule-of-law country you do not take retrospective powers lightly, but at the same time, if that does not exist, I think it needs some serious consideration.

Professor Chana: I agree with everything that has just been said about the scale of things. I don't think that we should just put a threshold on the size of an organisation—in fact, increasingly I think that will become less and less relevant, especially when we look at things like quantum, where small breakthroughs might lead to very big breakthroughs from small or large companies. It's all over the place.

Going back to what I said earlier, though, this is all the more reason why we need better technology awareness in decision making, just to understand what the landscape is and where the priority areas might be. We have talked a lot about interventions around preventing investment or preventing things from happening. However, there is also a strong argument here about becoming a better investor environment and being the best investor—the investor of choice for a business—and making sure that businesses, just by default, feel that they will go towards a certain type of investor versus another.

That is really about upping our game in terms of being a tech investor as a nation, not just on our own but also with our partners, creating co-ordinated activities among states, let's say, with shared values to promote those domain areas that we have identified as being important, and then continually revising that, because it is going to keep changing. I would say that that is an important part of this as well.

Q165 **Alicia Kearns:** Thank you. That is really helpful. This is the final question from me, Chair. It takes a very specific skillset to understand the nuances of what is going on in this world—"White collar", "criminal", "corporate", or whatever you want to call it, with hostile takeovers and asset-stripping. Do you feel we have sufficient training of our security services, but also specifically of Foreign Office officials, who, as we know—I used to be one—have to jump from role to role, learn on the go and see how they go? Do you think we have enough? I cannot recall very much of a focus on this area at all within the Foreign Office when I was there. Do we have this, or is it something we need to upskill our diplomats and our security services on more?

Ciaran Martin: I think Deepth is looking at me to go first on that one.

Professor Chana: I'm happy to do it, but go ahead.

Ciaran Martin: First, I think you should look at this as a whole-of-Government skillset challenge. As for the security services, I think there is



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more technological understanding than people might think in terms of the horizon scanning that Professor Chana was talking about. I then think that there is deep understanding elsewhere in Government—in the economic Departments—about the way in which markets work, whether that is high-end mergers and acquisitions, or whether it is the venture capital side of things.

I think there is something about the mechanisms for meeting that in the middle, and that that is where we need to focus the training and attention. Frankly, when I was at the NCSC, one of the things that occasionally made me nervous was when public policy, either in forums like this or more private deliberative forums within Government, meant that we were being asked to make judgments about commercial companies. Either we were going to do it, or refuse to do it, in which case the information and the analysis wouldn't have been there.

So I think it is something about how you fuse those two areas of expertise into something that is sort of credible, that would survive scrutiny and that gives you a good set of outcomes, because I think it is a really, really difficult problem. I mean, western countries tend to be quite bad at doing national security and economic development at the same time, as you well know. So that is the challenge—trying to get those skills together. It is the interface of the two; I think the two are there, but they just don't mesh as well as they might, which is understandable.

Professor Chana: Speaking as an ex-civil servant in the national security domain, and as someone who has worked in industry on tech and who now has a home in academia, I think I can say to you that the answer is that there is still more work to be done.

Financial systems are horrendously complicated; investment strategies, tactics and obfuscation is not a new thing. It is a well-practised art, and it is complex. I think that we need better knowledge in Government generally on that area.

Going back to the understanding of technology, those two skill sets, coupled together, are very important. We need to be able to upskill people who are currently in post, but we also need to be very careful to ensure that we are building the right foundations for the next generation of talent in Government. For me, it is extremely important that we train people in our higher education institutions with the technical competencies not only to go and run tech companies but to join the Government apparatus and to be able to create that technical competence ready for the future.

I think one of your previous panellists in a previous session said this, but to my mind the game is about the next 10 to 20 years. Okay, there are things to talk about here and now, but the real question we have to ask ourselves is how prepared we are for the next decade or two. Developing the talent today in that multifaceted way will be extremely important for us to get right.

Alicia Kearns: Thank you, and if I am allowed to say so, Chair, I could



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not agree more with every single word said. Over to the next person.

Q166 **Chair:** I was going to pick up on a couple of bits there, because both of you expressed concern, understandably, at the ability of Governments to predict the future, which is something we have all got used to. Given the changing technology—we have spoken about the two areas that you particularly focus on, Professor Martin: quantum and machine learning—is it not simply the case that your next quantum development, or perhaps your next machine learning development, could come from something that delivers your lunch, rather than something that deliberately fires nuclear missiles at a stated enemy? Are we therefore looking at a very complex level of understanding of products? To say that they are dual use is to understate it; they are multiple use.

Ciaran Martin: You want brief answers, so yes.

Chair: Sorry.

Ciaran Martin: I did not mean to be flippant.

Chair: I did not mean to be loquacious.

Ciaran Martin: The only thing I would say is that that is why agility within a fair framework is key. I know it is hard to ask parliamentarians and Ministers to take a fairly broad framework that gives a lot of scope for implementation discretion, but I am afraid that, for exactly the reasons you just said, that fusion of the ordinary commercial with potentially hugely strategic game-changing technological use cases means that you have to.

Q167 **Chair:** The problem—perhaps you can touch on this, Professor Chana—that Governments always face is that they accept the principle that you need a variable system within which Ministers can act according to discretion on the advice of experts such as yourselves, but of course the companies then come straight back and say, “Hang on a minute, the law does not cover that”, and go straight for judicial review. You end up in a very litigious process, even if you are entirely right. Is there a better way of doing that?

Professor Chana: Maybe this relates a little bit to a previous answer I gave around the co-evolution of technology and a closer relationship between Government, industry and academics as the technology is being developed. That closer relationship could help to hedge off or see off a lot of these issues early on, so that they do not get to the point that you just identified, where something is ready to be deployed and then suddenly we end up in a slightly confrontational situation. I think a lot of that can be taken care of in that way.

It is a very difficult domain. I think that, in the future, the role of regulation and best practice guidance from Government and so on, and how to govern space such as AI and machine learning, is a challenge that has to be addressed. Again, I think that is a challenge for evolution inside Government. On AI and machine learning, we talked about priority areas for protection, and I think that the data of the nation is probably one of



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the key assets that we need to make sure that we have some control of and that we safeguard.

Ciaran Martin: Can I come back quickly on that, Chair?

Chair: Of course.

Ciaran Martin: I do not see a way of reducing the risk that this all ends up in protracted litigation in certain cases. Take a clear framework on the data of citizens, for example. If you say to the world, "These are our thresholds for the sorts of things where we think special protections need to apply. This is our framework," you might have at the beginning of that period a spike in litigation as the adaptation occurs, but most companies will take that seriously and read it. In time, they will not come to try to get their way around clearly stated British legal policy. The legal framework and fairness will remain the same, and there will be access to redress if companies feel they are being unfairly treated. Over time, people will not come to the UK in those sorts of markets, because we will have said that we don't want them to, and most sensible companies will therefore take that message and invest in areas we have told them are open to foreign investment, and not in others.

Q168 **Chair:** Can I come on to this? You have drawn me into the next question that I wanted to go on to, which is about foreign investment. Clearly this level of stability, expectation, reasonable likelihood and ability to sell an aspect of a business or to profit from it is what attracts foreign investment. What you have just touched on is quite clearly about that element.

Firms may invest in things that they thought were lucky bets rather than much more than that. I declare an interest as somebody who invests in venture capital. Sometimes you simply invest in an individual who has an interesting idea and within six months the interesting idea that they started off with is not the thing that they are building now, but you leave your investment there because they are an interesting, capable individual and have now built up a team around them who are clever people. You figure, hey, you might as well leave it there because they might do something with it.

There are various ways in which a foreign investor, or indeed a British investor, could find themselves investing in something in which they didn't think they were investing in the first place, and therefore the nature of their investment has changed. What I don't want to do is say that you shouldn't have variability, but getting predictability into this system is essential if we are going to have foreign investment.

Ciaran Martin: Likewise, I should declare an interest as an adviser to a venture capital company called Paladin in the US, which invests in cyber-security, although nothing that has come up in the hearing so far has touched on any of that.

Again, the problem is that there are no easy answers. What it potentially misses is part of our operating culture and environment where, quite properly, discussions do and should take place outside formal proceedings.



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In that sort of hypothetical case, where an investment goes off in a direction that you didn't initially expect, it is not a case of point A being the initial investment and point B being full-scale Government intervention to stop it or expropriate it because it has become strategically important. That is where I think we have some decent capability and a good operating and transparent culture, where Government officials and Ministers will discuss with investors and companies what good would look like for them. At an early stage in the process where your investment has turned into something strategically important, there is a discussion about that fact and a recognition of it, and an initial discussion about how you might therefore handle it before it gets to that sort of enforcement or very difficult scenario, which might end up dissuading future investors.

Q169 **Chair:** Professor Chana, I know you have a long history of investing in new and innovative businesses. What are your thoughts on this?

Professor Chana: Yes, I have been involved in a few, and we have a few going now. It is very common, especially early in the life cycle of a start-up, that investors invest in the talent and the people. As you say, they rely on the fact that they are going to come up with something smart and aggregate smart and capable people around them. It is only later that the thing—the object, the product or whatever it is—potentially emerges. I recognise that a lot.

I think that goes back to this idea of investment in talent and talent retention. There has to be some incentive to ensure that talent develops, stays and scales inside the UK. There will be many instances where you invest in a group of people and something else comes out of that investment aside from the first thing you thought you were investing in. That is going to be very tricky when you are trying to control foreign investment, for example, because exactly how do you predict that?

I would say that the key way of mitigating the risks around the foreign investment issues that we have discussed today is to also make sure that those companies and those start-ups want to remain in the UK for the long haul, irrespective of who their investors are and irrespective of the products they produce.

Q170 **Chair:** So you are more focused on the talent than the cash.

Professor Chana: In the early stages, you do focus on the talent. If you are looking at angel investors, quite often the angels will be looking for talent in preference of the products. Further on down the technology readiness-levels scale of a start-up, when there is a product, then you are looking a lot more at cash and income and revenue and return. But I think you want to make sure that the people who founded that start-up want to stay in the UK for the long haul, scale and grow the business right through those different cycles without moving, and also be more cognisant of the types of investors that they would like to attract to the business.

Chair: Look, I think this is a huge subject. I am hugely grateful to you for your contribution. I know that this is something we are going to come back to in the future and that the Government are struggling to answer.



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For the moment, I thank you both very much indeed for your time and for your insights. I will move on to the second panel. If you would both like to stay, you are hugely welcome.

Examination of witnesses

Witnesses: Matthew Rous and Ting Zhang.

Q171 **Chair:** Thank you very much indeed for joining us. Ting Zhang, would you mind introducing yourself very briefly? Then I will come straight to you, Matthew Rous.

Ting Zhang: Thank you, Chairman. My name is Ting Zhang. I am an entrepreneur and the founder and CEO of Crayfish.io, which is a digital platform offering online business services, with a focus on China.

I also serve as co-vice chair of the UK-China Tech Forum, which is an industry initiative by Tech UK and CBBC for tech companies to engage with Government stakeholders in areas of Chinese trading policy.

Matthew Rous: Good afternoon. Thank you, Chair. I am Matthew Rous. I am chief executive of the China-Britain Business Council, which is a not-for-profit membership organisation based in the UK. For many years now we have delivered a number of services on behalf of the UK Government, latterly for the Department for International Trade. Before joining CBBC in 2017, I was for 26 years a member of the UK diplomatic service and was posted twice in China.

Q172 **Chair:** Thank you very much to you both for joining us. Thank you in particular to you, Ms Zhang, because you agreed to join us at extremely short notice. It was very generous of you to make yourself available. Mr Rous, I know you would have done likewise, but the opportunity did not present itself!

To start off, Ms Zhang, have any of the businesses you have worked with experienced or raised concerns about hostile takeovers or the transfer of intellectual property when accepting investment from foreign-owned companies? I make it very clear that despite the fact that you both have connections to China, this is a geographically neutral question and not in any way connected to that.

Ting Zhang: Understood, Chairman. In the companies I work with, this has not happened. I have seen companies having problems with intellectual property in foreign countries, including China, but that is not because of the investment—not because of having foreign investors or Chinese investors. Sometimes it is because in the market they had problems with distributors or customers or suppliers—definitely not because of foreign investment.

Chair: Mr Rous?

Matthew Rous: The short answer is no. We hear plenty of concerns about the principle of being asked to comply with procedures that might be



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difficult or challenging, in terms of the information that it would be necessary to obtain to deal with such regulation, but, thankfully, in the last three years, I have not come across cases in which that has been an immediate practical concern for any of our members.

Q173 Alicia Kearns: In your view, are there certain sectors that the UK or any country concerned about its national security and protecting asset stripping should not allow or accept any foreign investment for at all?

Matthew Rous: I am happy to go first, if Ting will allow. I have no particular expertise to answer that question now, because it has been three years since I left the diplomatic service and I do not necessarily see significant reporting. Looking at the analysis of think-tanks across the world, certainly any sectors touching on defence risks are particularly significant. Political risks and risks to democratic processes, elections and free media are often cited as well. Data risks, in terms of ensuring the appropriate protection of personal and consumer information, is another area that is commonly highlighted. Anything relating to the integrity of critical national infrastructure would be the fourth.

I am not saying by any means that there should be a blanket prohibition on foreign investment in any of these sectors. On the contrary, it is important to have a default position that is open, because this country has benefited hugely from the inflow of foreign capital over many centuries. That has been central to the UK experience and to the good that we have been able to do in the world. I would simply say that those four areas that I mentioned are the ones that are likely to be of particular significance and worthy of attention.

Ting Zhang: On the issue of national security, I think I have less expertise than Matthew, but I work a lot with technology companies in Cambridge in the UK. Most of the technology concerned does not have any consequence for national security. If it did, I believe that existing tools would have addressed that. I have not yet seen any Chinese investment into the UK tech sector, other than 5G and telecoms, has caused that.

The IP risk is always there for technology companies going abroad and doing business on foreign markets, but with good corporate governance this can all be avoided. In the cases I have seen, technology transfer has happened as part of the contract, when both parties were happy to accept it, and this is not causing any national security issues.

Q174 Alicia Kearns: I have two follow-up questions for you, Matthew. Rather than focusing on who we want to exclude, what are your thoughts about some sort of white list of trusted partners or trusted nations for foreign direct investment?

Matthew Rous: My thought on that is that it is more important to focus on sectors, rather than on countries, for the simple reason that it is going to be easier to identify sectors and technologies where there are particular concerns about risks to national infrastructure, national security or whatever it is. When it comes to the way in which we treat countries, it is important to demand the same standards of financial and operational



transparency or probity from all our investors, regardless of the country of origin. Certainly, my experience of a career in the diplomatic service over many years is that the competition comes from all corners of the world, and even countries that are close military allies on our doorstep can sometimes have interests that are inimical to those of UK companies. I would strongly recommend a system that is based on paying particularly close attention to sectors and technologies that are likely to be the most sensitive, and then devising objective criteria and standards that can be applied fairly to investors from all countries in order to ensure appropriate determinations.

Q175 Alicia Kearns: In terms of your specific expertise with the China-Britain Business Council, does China have a whitelist? Are there certain sectors they do not allow foreign direct investment in?

Matthew Rous: It is a very complex situation, as you would expect in a very large country. In recent years, the Chinese have been moving increasingly from a system of positive listing, whereby foreign investment was allowed only in a short list of sectors, to negative listing, where investment is presumed to be allowed in all but a small number of sectors that are specifically prohibited. That is an approach that has initially been piloted in some of the larger free trade zones, like the Shanghai and Guangdong free trade zones, but it is now being increasingly rolled out across the country.

That has been an area of concern for UK companies over an increasing length of time. Our members are keen for the number of sectors on the negative list to get smaller and smaller over the years, but now, in practice, the main issue for most is ensuring a level playing field: free and fair treatment in terms of access to licences within the current rules. It is not so much the rules themselves that are the main concern, but how they are applied.

Q176 Alicia Kearns: I am not sure which way round would be a longer list, which sectors a UK company would be allowed to invest in in China or the sectors that they definitely would not, but what are the sectors that we are or are not allowed to invest in, and do you think the UK should take that as a model for which sectors of our system we should or should not allow foreign investment into?

Matthew Rous: I think most independent observers would say that the Chinese list is still too long. Last time I looked at it, there were still 80 or 90 significant sectors that were on the negative list in some locations. It starts from principles that are similar to the answer I gave earlier, starting with things like defence risks, but then there are certain parts of the agricultural market that are still closed. Pharmaceuticals can also be closed, and there are controls on the application of data obtained within China outside of China that can also be quite challenging. I certainly hope that we would take a more liberal approach.

Having said that, reciprocity, which was mentioned in your previous session, is not a bad principle to cite when you are doing trade

negotiations with the Chinese. It is a concept that is very familiar to them, and perhaps it is one we should talk about more in sectors that are important to us. The classic example, which is often quoted, is financial services: it is an area of great strength for the UK and one that is not particularly strong for China, but not one that raises any particular defence or national security concerns. I think it would be perfectly reasonable to say that we would expect to have more access to the domestic financial services market in China.

Foreign ownership of banking, for example, is still significantly below 2% in China. In most OECD countries, it is somewhere between 15% and 20%, so there is significant potential for growing that business, and it would be reasonable to say, "Look, if you want to have access to our markets in the UK, we would expect to see more access in China." That is a trend that is already there. The Chinese are talking about expanding that, and more and more licences are becoming available, but that is the kind of dialogue that you can have to try to accelerate the process.

Q177 **Alicia Kearns:** Thank you. I don't know, Ting, whether you want to add anything to that.

Ting Zhang: Just briefly. I think China has definitely improved quite a lot in cutting down the negative list. In fact, the latest amendment to the negative list now stands at only 33 categories. Agriculture, manufacturing and data are among them—pretty much in those strategic industries. But I would also like to say that China has been developing its market economy only over the last few decades, so it is still improving on that aspect. This year, the new foreign investment law has actually targeted areas of concern. Forced technology transfer is banned, and foreign companies have been given a level playing field. We should perhaps not look at China's negative list, because China is actually improving on that, so the list is becoming shorter and shorter.

Alicia Kearns: Thank you.

Q178 **Royston Smith:** My question is to both of you, please. Would reduced foreign investment have implications for UK businesses' ability to innovate in strategically sensitive sectors?

Ting Zhang: I can have a try first. I would say that, in general for the tech industry, tightened control and less availability of foreign investment would be very damaging. I work a lot with technology companies in Cambridge, but not necessarily in sensitive industries. In many of the cases, the technology company needed capital—not just once, but a continuous injection of capital for them to grow the technology, to commercialise it and to scale it up. In many cases, there is not enough capital from the UK to help them.

One of the examples is a Cambridge-based bioengineering company. They provide a new and innovative lab platform technology to help with drug discovery. When they started about three years ago, there was no interest from any UK Business Angel or VC, so they ended up having investment from a Hong Kong family office, which was introduced to them by some



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professors in the UK. Subsequently, a year later, when they needed more financing, the money came from Chinese capital at the recommendation of the Hong Kong investor. For them, there was no choice of investor. There was simply not enough risk appetite for this kind of technology, even though they already had a US contractor in the pipeline and already had US collaboration as well as FDA.

Those tech companies at an early stage—particularly when you can say that the potential technology could have sensitive applications. But many of the cases—nine out of 10 applications—are benign. Maybe one of the applications could potentially have defence implications, but without the capital—particularly foreign capital, but not necessarily from China—they will not be able to develop any of the applications, and the UK would therefore not benefit from any of this new technology.

Q179 **Royston Smith:** Matthew, do you have anything to add?

Matthew Rous: Yes, thank you. I broadly agree with what Ting has said. The problem with putting these kinds of controls on foreign investment tends to be less about the restriction on specific technology coming in and more about the restriction on the capital itself, because Chinese investors have shown a very healthy appetite for risk and a willingness to invest in certain sectors and regions of the UK that, dare I say it, London-based businesses have been reluctant to touch. Nine times out of 10 what is holding back UK innovation is actually primarily the financial challenge of not having the capital itself.

Having said that, with some of the restrictions we have recently seen coming into the tech sector, there is probably a more direct impact, which is that it becomes more difficult for UK firms to sell their own components to Chinese manufacturers because they are worried about transgressing against, for example, the new US rules of origin. There are supply chain impacts, but the main impact is financial.

Q180 **Royston Smith:** I was going to move on to that and ask about any further potential impacts of stricter regulations, beyond what you have just said about the supply chain. Is there anything else that either of you think would be a potential impact of stricter regulations on foreign investments in the UK?

Ting Zhang: I think that tighter controls send a very negative signal to foreign investors in general. If the intended tighter control is seen to be targeting certain countries, including China, that will further dampen the already strained trade relationship. I have seen companies that I work with having their contracts cancelled by—Huawei, for example—partly due to the relationship and the ban¹, but some other customers have also had their Chinese investments held because Chinese investors are worried about this tightening control politically, which has already been talked about, making it more difficult for them to realise their investment and

¹ Note by witness: In referring to “the relationship and the ban” I meant the UK-China relationship and 5G ban.



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benefit from it later. Generally, what we are talking about now will not be good for attracting more investment into technology areas of the UK.

Q181 Chair: You speak about the concerns, and I understand that. I do not know whether you were able to listen to our previous two witnesses, but they spoke about having predictability in the system, and therefore the ability to attract investment from outside investors—I mean this geographically neutrally—based on predictability. What is your opinion of the changing nature of the products that are created, and therefore the difficulty of regulation? Do you think that the UK should be looking to regulate in a blanket fashion, or that it should have a more variable system, as the witnesses suggested?

Ting Zhang: I am not really an expert on the Government's overall policy, but I think that it needs to be more flexible. You can always pick up on studies case by case², but the blanket approach might be counterproductive. In particular, if you look at FDI into the UK, the top investors are from the US, Japan, Germany and India. In terms of the number of new projects, in the last 12 months or so China and Hong Kong accounted for less than 5%. So it depends on the purpose of this blanket approach. If it is looking at certain countries, including China, then it might not be achieving its purpose, other than making the whole foreign investment process much lengthier and [*Inaudible.*]

Matthew Rous: On the back of Ting's last comment, I would stress that Chinese investment in the UK economy is at a much lower level than a lot of people realise. According to Office for National Statistics figures, China is the 34th largest investor in the UK, with FDI stocks of less than 2 billion now. Those figures are very difficult to verify and the ONS has done studies looking at ultimate ownership of FDI stock that show that the situation is much more complex. However, it is clearly true that Chinese investment in the UK is a tiny fraction of the numbers we see for the US, Japan, Germany or France. That is the first thing to say.

In terms of what the regime should be, yes, your previous witnesses said a lot that rang very true for me. What business wants is a cross-Whitehall system that provides collaboration between experts who know what they are talking about and who know what they are doing, but then brings it together in one, clear docking point so that companies know where the front door is, where they make their application when they need a decision. That is the first thing, that that co-ordination is there.

Then, businesses want transparent and objective criteria that are consistently applied in a way that is, as you say, predictable, giving us the ability to plan with a reasonable understanding of the sort of areas that will be permitted to go forward. So predictability is important. Stability is also really important: the idea that the regime should not constantly change and they should not always have to be on the lookout for the next announcement. That is really important and that was part of the

² Note by witness: In referring to the phrase "pick up on studies case by case" I misspoke. I meant to say: "pick up on case by case studies".



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frustration with the Huawei decision: that over many years previous Governments had encouraged investment, which was then suddenly put on hold.

The last thing is also something that your previous witnesses picked up, which is that economic competitiveness, or addressing the economic challenge from other nations, should be kept clearly separate from any focus on national security. In other words, when you are weighing up permissions to allow investment into the UK, economic competitiveness should not be a criterion. We should keep national security and the economic issue separate. That would be my summary of the sort of regime that business would be looking for.

Ting Zhang: I would just like to add to what Matthew is saying on whatever the national new scheme would be, speed is really important—start-ups and scale-ups really thrive on speed. Having a regulatory process taking a few weeks longer might mean the company has to go under and will not have enough cash flow. Therefore, having total transparency and also, perhaps, a time limit on such a process is very important for technology companies and particularly smaller companies. They already have to incur additional compliance costs to understand the regulatory process and then comply with that. It is an enormous burden for many small companies to have to do that.

Q182 **Chair:** Forgive me—we had a technical issue, for which I apologise. I was going to come back to you, Mr Rous, on the Huawei issue you brought up because, as you know, it was a major issue—indeed, it is a continuing issue—in the UK. You spoke about not having an economic element to your national security policy in that sense and not looking at competition. I would be interested in your perspective on one of the arguments that was made about Huawei. These are accusations that I am simply going to repeat. I am going to repeat the charge, but I am not justifying it, merely repeating it.

Huawei was accused of using large amounts of state subsidy to achieve very heavily market-dominant positions around the world, and that its increased market dominance would eventually, in the not too distant future, lead to a position where others could not compete in the same field. Would you not see that as an element of national security, or would you say that once a monopoly is created, if it is a monopoly on which you are nationally dependent, you simply have to take it?

Matthew Rous: First of all—full disclosure—I should acknowledge that Huawei is one of CBBC's member companies. We are very happy to work with them when appropriate.

In my earlier answer I was possibly too abbreviated. I am not saying that we should not address unfair practices from other countries when they arise, but an approvals regime for incoming FDI projects is not the right place to do that. You address any unfair imbalances through your trade diplomacy, essentially. That is what, for example, the Swiss have done very successfully in negotiating across their free trade agreement with



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China, which, despite the name, does not just cover trade. It covers investment as well. It has opened up new opportunities and rebalanced things slightly for them in some really important sectors, including financial services, which is as important to the Swiss as it is to us. So, I think there are ways of doing that.

I don't want to make a statement one way or the other as to whether Huawei has benefited from state support, but there is a lot of commentary on this in the literature. I am thinking in particular of one report that came out last year from the Carnegie Endowment, which received a lot of attention. It discussed whether host countries, such as the UK, ultimately benefited from the in-flow of foreign capital and specifically the in-flow of Chinese investment. One of the arguments made in that paper was that China was subsidising so-called trophy technologies.

If that is true—I stress again that I am not saying whether it is, one way or the other—then the answer is not to batten down the hatches but to redouble your efforts, not only in terms of your trade diplomacy, but also to make sure that we are ourselves learning the great lessons of China from the last 30 to 40 years, and that we are investing actively in our own technology, innovation and education sectors, to ensure that we are in the best possible form to fight back and to sell the best possible technology to the world.

We have great strengths and assets as a nation that we can be proud of, not least the English language, but also our wider educational and cultural heritage. We have world-beating universities that attract the best brains from around the globe. Let's leverage that and make sure that there are really good connections between academia and industry, which leads to successful new technologies.

Q183 Chair: You skirted around the Huawei question very sensibly. The question still applies, though. If companies are achieving monopolistic positions, is it not a national security responsibility of Government to ensure competition?

Matthew Rous: If it is monopolistic, Chair, to the extent that that means that the UK no longer has access to those technologies, then I can see that there would indeed be a national security dimension to the consideration of policy. I would give the same answer: you address that through effective trade diplomacy and through investing in your own education and innovation. If you seek to deny consumers in the UK access to what is currently world-beating technology, all you achieve is that you drive the price up—you don't arrest that technology in its tracks. It is much better to focus on making sure that when it comes to 6G or 7G or 8G that it is the UK that is going to be in the lead.

Chair: Of course, that assumes that you are able to get back in the game if you have been pushed out of it by a monopoly. We will move on. Graham, you wanted to come in.

Q184 Graham Stringer: The other thing is that it is not just access to the



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technology; it is also the price that a monopoly usually brings with it.

You have answered most of my questions, which are essentially about the consequences of tightening the regulations around foreign direct investment, so I will ask the question the other way around. If foreign direct investment regulations are increased, what would be the best way for the Government to ensure the competitiveness of the technology sector and of the UK economy?

Matthew Rous: Ultimately, business itself needs to ensure that it is competitive, and I think it would be unfair and unrealistic to expect the Government to be able to be the determining factor in all of that. If the way that foreign technology is priced in the domestic market is unfair, I suppose ultimately you have the policy tool of price controls available to you, not that that has been very fashionable in this country for many decades now. You can use the taxation system. You can use, I would say, the process of informing consumers to ensure that people take good decisions and really understand what it is that the product offers and how it is that the product has been developed, to ensure that foreign products and UK products are competing in a fair way with each other.

I appreciate that that is a relatively simplistic answer, because we are talking in a very general way across the piece, but I think the point is that there is a whole range of potential policy tools available beyond the very blunt instrument of blocking foreign direct investment into the UK market in the first place.

Q185 **Chair:** Thank you very much. We have covered most of what I wanted to cover in this session, for which I am enormously grateful.

I know you have both had experience of working with the Foreign Office, in different ways of course. I would be interested in your views on what the Foreign Office can do to help alert about foreign direct investment, as either positive or negative, and the ways in which it can support those areas which should be supported.

Matthew Rous: I think Ting's asking me to go first; very good. I have been out of the game for three years. I left the Foreign and Commonwealth Office, as it was then, in 2017, and since then, I have worked as a supplier and customer, if you like.

I do not think based on my 26 years in the diplomatic service that the Foreign Office has any interest in being a power broker or a decision maker when it comes to saying yes or no to specific foreign investments. I think it knows and is confident of its traditional strengths, which are diplomatic strengths. It is good, as an institution, at building networks of influence around the globe and using those to obtain insights and intelligence with a small "i" so that public policy in this country is built up in a way that is well-informed.

Your previous witnesses made the point that the Foreign Office is in a unique position to be able not just to report but to interpret the intentions of foreign actors—Governments, private companies, whoever it may be—so that we have good understanding when we are developing our



responses as to what the situation is. As to being the decision maker, as I say, former colleagues of mine in the Foreign Office would much rather see that sit elsewhere in Whitehall, perhaps in an office for investment—there has been a lot of talk of that—but certainly not in the newly merged FCDO.

Ting Zhang: I have not actually worked within the FCO, but my comment would be based on my experience working with the FCO team in China. I previously was a consultant to the FCO team, UKTI and so on. I think the skillset of the FCO team, particularly in China, which I know most, is very much geared towards promoting trade and investment between the two countries, rather than putting a stop to such investment. Of course, they should be able to do that, because they are based on the ground, so they could be helpful to provide some useful background information on certain large-profile Chinese investors, but most of the time I do not see that the FCO team would have got the resources to find out the many investment deals going through. But of course, there are many professional service providers for this kind of information. I do not see why that needs to be built within the Government network, because from what I understand, the UK is more about small Government kind of philosophy, rather than Governments taking on more and more roles.

Q186 **Chair:** Thank you very much. May I ask you one final question, Mr Rous? After all, you have experience of working within the Foreign Office—I believe as consul-general in various provinces in China, ending up in Guangzhou. My final question is, does the Foreign Office not have a specific responsibility in identifying beneficial ownership in countries around the world? In countries like China—but not uniquely—understanding who actually owns a business can be pretty tricky. In some places, it can end up that a business that you thought is, or is argued to be, a publicly held company is simply a branch of the state under a different brand, through various different mechanisms. Do you not think that the Foreign Office has a role in identifying that?

Matthew Rous: I would certainly accept, Chair, that the Foreign Office should use its capabilities to try to work that out in important cases but, as you have said, it is a very difficult thing to do in the context of China, where reporting and accountancy standards are very difficult. Often the kind of information that you really want to get to the bottom of—who owns what—will be classified as secret or at least confidential in some way.

Looking for a magic wand, looking to the FCO to actually solve this really nutty problem would, I think, be unrealistic. Tasking it to find out as far as possible, absolutely fine, but the Foreign Office as was, as I experienced it for many years, was really challenged when it came to finding the resources to follow some of these projects. There have been cuts upon cuts over the years. What would be needed would be very firm signalling from London, perhaps from an office for investment, as I say, as to which were the projects that really mattered and where interest should be focused.

If I was engaged with investment projects, I would spend most of my time on getting to know the investors themselves, getting to know the people who lead these businesses and trying to boost their sympathy for the UK and their appetite for investing in the UK. I think that is a skillset that the FCO is extremely well-versed in and well-practiced in.

Q187 **Chair:** Can I just come back to you briefly on what you touched on there. You said that it was very difficult to identify, which I understand. Given that we are talking about investment in the UK in sensitive areas, don't you think that if it is difficult to know who actually owns something—whether it is under state or private control, and if it is under private control, whose control it is actually under—the UK authorities should be extremely cautious of investment from unknown roots?

Matthew Rous: I don't have a problem with that principle at all. I would only say that if we are going to apply those sorts of standards, let us not make them nation specific—

Q188 **Chair:** I was not. I was being geographically neutral.

Matthew Rous: Indeed. In that case, the principle itself is perfectly reasonable.

Chair: Thank you both for struggling through some rather poor internet connections, for which I can only apologise again. The gods seemed to be against us. Thank you very much.