

Business and Trade Committee

Oral evidence: China and the UK economy, HC 1767

Tuesday 21 April 2026

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Members present: Liam Byrne (Chair); Dan Aldridge; Antonia Bance; Chris Bloore; John Cooper; Sarah Edwards; Alison Griffiths; Leigh Ingham; Justin Madders; Charlie Maynard.

Questions 1 - 47

Witnesses

- Rain Newton-Smith, Chief Executive, Confederation of British Industry;
- Peter Burnett OBE, Chief Executive, China-Britain Business Council.

Examination of witnesses

Witnesses: Rain Newton-Smith and Peter Burnett.

Q1 Chair: Welcome to today's session of the Business and Trade Committee as we open with our first hearings into the economic relationship between the United Kingdom and China. Rain Newton-Smith and Peter Burnett, thank you very much indeed for joining us. Rain, perhaps I could start with you. Could you give us, from your members' point of view, what the business case is for growing trade with China?

Rain Newton-Smith: We have members from across the whole economy in the UK, from financial services to higher education to manufacturing. They say that you cannot have a growth strategy without having a strategy towards China. It is a really obvious point, but it is worth emphasising that China is the biggest contributor to global growth. It is our third largest trading partner. It is the largest global consumer market. Particularly in a world where the UK is the second largest exporter of trade and services, as the world develops, those are the sorts of services that will be demanded by consumers in China.

We are mindful, as are all businesses, around security risks. We need to be mindful of that in any country in which we operate. It is really important that we have a strategy towards China and our engagement. Our members recognise that this Government have increased the economic engagement with China, and that has been really important. That engagement, and particularly including business within that engagement, helps us as a nation to make the most of those opportunities.

Q2 Chair: When you look at the drivers of that growth and the sectors that might prosper, what is your take on the most important things that are driving the opportunity space for British business in China?

Rain Newton-Smith: They are many and varied. I would highlight the energy transition. China produces 80% of the world's solar panels. On a day when the Secretary of State for Energy Security and Net Zero is talking about the need to electrify our economy, we know that solar is a really important part of our energy transition. We absolutely have to have that strategy on China because it is critical to that energy transition globally. It produces many of the manufactured goods that we need for that energy transition.

A second area I would highlight is particularly around higher education and more broadly. In the UK we are blessed with having many of the world's leading higher education institutions and universities. They are distributed throughout the UK, but they punch above their weight. We know that, on top of research, Chinese students studying in the UK are big contributors to our economy. The contribution they make to our educational institutions is adding billions to our economy per year. That is another really important part.



Peter will probably talk about this as well. From the latest trade delegation, there is an emphasis on thinking about the next chapter of trade facilitation in services more broadly. The economist in me would say that, stepping back, when you have a consumer market in China, which, like us, is facing an ageing population, but is thinking about financial services and saving for retirement; about the built environment, architecture and design; and about the creative industries, those are areas where the UK has really strong capability. Engaging with China on those is important.

Q3 Chair: How well aligned are the industrial strategy eight priorities against those market opportunities?

Rain Newton-Smith: The eight sectors pick out some of the important priorities.

Q4 Chair: If I think about high-end consumer goods, for example, which we always end up going on about, I do not think that that is an industrial strategy sector. I am interested in whether you think the industrial strategy sectors are actually not quite aligned with where we think the opportunities are.

Rain Newton-Smith: It is never going to be a perfect match, but it highlights business and professional services as a key area for the UK, and that is where we see the opportunity. You are right that, in the case of China, the luxury goods market is really important for us. We have some great brands that are recognised in China.

For us, that is fundamentally about making sure of a couple of things. One is that our overall environment to produce in the UK is competitive, so we have a competitive market to do business in the UK. That is, ultimately, how you create future exports. Also, as I have been saying, it is thinking about our broader trade strategy and how we engage with China, and being clear where there are sectors in which we think there is mutual benefit to expand our trade as nations.

Q5 Chair: Peter, what is your take on the business case for expanding trade with China, given the minefield of risks that we confront?

Peter Burnett: I agree with Rain on everything that she has said so far. I would add that, when you look at the modern industrial strategy, as promulgated by this Government, and compare it with the latest, 15th five-year plan in China, there is an extraordinary level of overlap and mutual interest across advanced manufacturing, clean energy, as Rain has mentioned, digital technologies and life sciences. These are areas where we in the UK excel and where China also excels. There is complementarity. There are risks, I understand that, but if we can collaborate and co-operate across those segments, there is an extraordinary opportunity for us to grow those areas in China.

Q6 Chair: If we look at the goods sector, for example, and our trade deficit, I think our imports from China are growing at twice the speed of our



HOUSE OF COMMONS

exports of goods. Structurally, the goods deficit is getting wider and wider. Is there not a risk that deepening trade with China is just a recipe for a deeper and bigger goods deficit in the future?

Peter Burnett: You are asking a kind of industrial strategy question, if you like, which is highly relevant. China has a very developed industrial strategy and it has worked very hard on, for example, educating students in STEM, having a low-cost electrification and power strategy, and supporting its industry in that respect. Inevitably, you are going to get cost advantages by manufacturing in China.

By the way, a lot of those cost advantages also accrue to foreign international businesses in China. Something like 40% of exports from China come out of international businesses that have set up their operations in China. By extension, there is a benefit because you get to pay dividends. You get to see an enhancement in the earnings of those companies that flows through to the valuations on stock exchanges and so on.

The answer is that it is highly competitive in China. There is no doubt about that, but the good companies can rise to that competition. The area that we have not yet examined, which is really important, is services, where the UK has a surplus with China.

Q7 Chair: Although, again, our imports of services are growing more quickly than our exports of services. Rain mentioned the energy transition, higher education and high-end consumer goods, among other things. What would be the sectors that you would highlight for the Committee as growth opportunities for the UK?

Peter Burnett: I agree with all of those and I would add services, in particular the creative industries and financial services. Financial services has done very well. The area where we can work and co-operate with China is not necessarily directly onshore, domestically, in professional services, but much more in complementing China in its ambitions to invest overseas.

The biggest free trade zone area in the whole of China is Hong Kong. UK services have a particular stronghold in Hong Kong. Hong Kong is the conduit through which China is going to invest overseas and British businesses there will do, I think, very well. If you think about the kind of cross-border service that not just China but south-east Asia and south Asia want, they trust a British brand coming through Hong Kong and advising Chinese companies.

Q8 Chris Bloore: It is a pleasure to meet you both. I am particularly interested in the benefits of doing business with China compared with other economies. What spiked my interest particularly is China's digital marketplace framework. I would be interested in your comments on how China compares with the US, Europe and India.



Rain Newton-Smith: I have a few comments and I might pick up on a couple of the other points. In our view, it should not be an either/or strategy. In thinking about trade strategy, we absolutely need to think about our relationships with the US and the EU. The UK-EU reset that this Government have focused on is really important. It remains our nearest export neighbour. But we absolutely, as I said at the beginning, need to be engaging with China.

We see real opportunities in that trade facilitation around services. Data and the digital economy are a huge part of that. I know that you will be hearing evidence from some other witnesses around technology and some of the opportunities there. Coming back to another sector, there are clear opportunities also around health and life sciences.

It is important when we look at trade that we do not just think about goods or services in isolation. It is about the interplay between the two. Having a goods deficit is also a reflection of the fact that we have been able to benefit from lower prices for consumers from some of the imports that we have had from China. That is an important part. If we could assure ourselves around standards on those goods and services, we would not want to cut ourselves off from the opportunity that that presents for UK households.

Peter Burnett: I agree. I completely concur, which is good. We are tomorrow, as the China-Britain Business Council, taking a delegation of 60 British companies into Hangzhou and Zhejiang province, which is now becoming the hotbed for development of a lot of AI and digital capabilities. These are companies such as DeepSeek that have developed really advanced AI capabilities. The fact is that they want to speak to us. They want to engage with us. We are pleased that our members and stakeholders also want to engage with them. That is happening tomorrow, Thursday and Friday. The most critical element to all this is engagement and dialogue, because if you can get engagement and dialogue, you will get to a much better understanding.

Q9 **Chris Bloore:** China is obviously not a plug-in-and-play market in the traditional sense. Is the challenge you are going to face, when you take those 60 businesses over, how they can effectively engage with the economy and the business there?

Peter Burnett: There are cultural, legal and regulatory differences. You encounter that in any market when you go overseas. China may be quite different in many respects, but there are other areas where there are plenty of parallels. The membership and the British businesses that are engaged in China really want to understand that and are prepared to invest the time to do that. The same is true on the Chinese side. They are prepared to invest the time to understand what British companies want out of this.

Q10 **Chair:** Strategy is obviously about choices. One question that we have to ask is what the right level of investment is in different choices in Asia-



HOUSE OF COMMONS

Pacific. If we add up the exports to the CPTPP plus the Republic of Korea, that is about £86 billion last year. That is three times what our exports are to China. The growth rate on those exports is three times what our exports to China have grown. Why should we not be leaning in much more heavily to those countries, which happen to be democracies in the region with lower security risks, rather than putting lots of effort into the perilous market of China?

Peter Burnett: I do not think that it is mutually exclusive. You can do both. The fact is that China is at the cutting edge of so many advanced technologies that you simply absolutely have to have that dialogue and that engagement.

Q11 **Chair:** Is that the nub of it, do you think? From a business point of view, do you basically have to be in that market because of the speed of innovation?

Peter Burnett: It is partly the nub of it, but it is also the size of the market, so the development, the growing middle class and the opportunity to sell more goods. We can and need to do better at it. The UK has just been designated a country of honour for this new initiative that China has got going—they love slogans in China—“Big Market for All: Export to China”. We can exploit that. We can use that to support our exporters.

Q12 **Charlie Maynard:** I would like to refer the Members to my entry in the register, particularly my stake in BDA Partners, which I founded in 1996. Rain, talking about trade balance, the trade deficit in goods with China has doubled from 2019 to 2025 from about £20 billion to just over £50 billion today. There is no sign of that changing.

We visited the OECD in January and there was a chart it showed us about industrial subsidies. This is the industrial subsidies that are received in China, the rest of Asia-Pacific, Europe and North America. The case the OECD was making through its MAGIC database, as it calls this, is that the industrial subsidies in China are vastly larger than anywhere else in the world. That means that we have a lot of goods subsidised coming at us and coming at manufacturers in the UK. What do you think we can do about it?

Chair: That is without any of the trade defences that our European neighbours have put in place, by the way.

Rain Newton-Smith: The flipside of that is that the Chinese Government have huge firepower that they can put behind their own industrial strategy. Some of the domination you see from China, whether that is on solar panels or critical minerals, is because it has had a very clear industrial strategy, backed by a huge amount of finance, to direct that and become the world's global manufacturer. For us, that means that we need to think about where our comparative advantage is internationally. Clearly, we have a huge comparative advantage in trade in services.



HOUSE OF COMMONS

In the UK we are exposed. One example is around electric vehicles. We have to remember that global supply chains are very integrated. Any car will have lots of components that pass through China at some stage in its production, even if it is majority manufactured, say, in the UK. A challenge for the Government is balancing the fact that there are lower-cost, high-quality electric vehicles being sold and distributed that are China-manufactured in the UK. Some of that reflects strong subsidies in the Chinese market, which helps those vehicles be competitive.

On the upside, that means household consumers have access to a range of vehicles, including low-cost, affordable electric vehicles. We know that that is an area that we want to see for the environment and more broadly to have a greater uptake of electric vehicles. The downside of that, and the thing that the Government need to balance, is whether that is creating unfair competition and how we make sure that we do not lose some of the capability we want within electric vehicle manufacturing in the UK.

As you have pointed out, in Europe, some other countries have taken a different approach. We have to recognise that, when you are deciding whether to put on import protections or restrictions, that has to be balanced against the benefit for consumers. There are two sides of the coin.

Chair: Can I bring in Antonia Bance very briefly on the specific case study of buses, which rather lights up the perils of this question?

Q13 **Antonia Bance:** I wanted to ask Rain and Peter whether you have comments. Given the recent findings by European transport authorities that some electric buses supplied by Chinese manufacturers may allow remote access to battery or power management systems, what steps should Ministers be taking to ensure that public transport fleets in the UK cannot be remotely disabled or interfered with by foreign manufacturers, intentionally or via cyber-attack?

Chair: You partly have a subsidy problem here on buses and you partly have a security problem here on buses.

Rain Newton-Smith: I do not have the expertise to give you a direct answer to that question. More broadly, we would say that it is for Government to set the tramlines. They are the ones who know about any security risks that we might face. It is for them to set out where they think there are higher-risk areas and take mitigating action. Peter and I are arguing that it is really important to engage with the Chinese economy to help businesses expand into China. When we are thinking about investments from China into the UK, we should be mindful of the needs of our economy alongside some of those potential security risks.

Q14 **Chair:** Do we not risk opening the floodgates to massively over-subsidised manufacturing exports from China? The Germans call this "China shock 2.0", it is so significant.



HOUSE OF COMMONS

Rain Newton-Smith: You have to think about what the other extreme is. We do not want to shut our borders. The UK has always stood up for free and fair trade. We are a trading nation.

Q15 **Chair:** This is not free or fair trade. This is massively over-subsidised.

Rain Newton-Smith: That is for the Government of the day to see. We have the Trade Remedies Authority if we think there are areas where there is dumping.

Q16 **Chair:** That is not an effective organisation for putting in place trade remedies.

Rain Newton-Smith: We, as an organisation and a business voice, would say that we need to support the Trade Remedies Authority and make sure businesses are aware of it. We need to support the WTO, which ideally would help set out the rules of fair trade. It is important that we stand, but we equally do not want to feed into a trade protectionist world where every country retreats into itself and sets up big borders. It is ultimately individuals and households who will lose from trade protectionism over the long term.

Q17 **Charlie Maynard:** I take all those points, but we previously had the WTO rules, which were a way of policing these sorts of things. We have now lost them, effectively. In some ways the argument might be that the UK is a mid-sized economy and China is a behemoth, so we should get out of the way of the things that it is producing; we cannot defend our own producers because we are too small an economy and we need too much from China. That does not sound like a very attractive answer. Is there any better answer or advice that you might have for the Government as to how to address that?

Peter Burnett: Can I blow apart a myth that China is some sort of great big state-fed behemoth? It is not at all. It is highly competitive and very strategic in the way it invests. There are, of course, some subsidies there. To the extent that we think those subsidies are wrong, we should go to the WTO.

Q18 **Charlie Maynard:** That will not work, will it?

Peter Burnett: It should work between the UK and China, because China will always refer to the WTO as the ultimate arbiter of trade practices.

Charlie Maynard: Is there any recent track record of that working?

Chair: Mr Maynard, perhaps you could demonstrate your very helpful graph again. It rather illustrates the point that the WTO has not prevented the vast scale of unfair subsidy that is going into Chinese industry today.

Q19 **Charlie Maynard:** This is industrial subsidies—grants, income tax concessions and below market borrowings. It is China, ex-China Asia-Pacific, Europe and North America. China is massively larger. The chart is



from the OECD, so it is good data.

Peter Burnett: Of course, but China is a much larger economy as well.

Charlie Maynard: It is percentages.

Chair: It is by share of GDP. China is over-subsidising its industry three times more than Europe is. That is the bottom line.

Peter Burnett: These are choices. We have had similar choices made, for example, in the United States with the CHIPS and Science Act and the Inflation Reduction Act. There is now the proposal from the EU for the Industrial Accelerator Act. This may be a sign of the times that we are living in. Maybe we need to get smarter about how we subsidise and strategise for our businesses, but it is, frankly, a fact.

Q20 **Charlie Maynard:** We need to live with it.

Peter Burnett: We have to live with it and, importantly, work with it. This is the argument I would put. Let us engage with those businesses in China, such as battery, electric vehicle and solar panel makers, and get them to bring their technology here and invest with us. That brings huge advantages. It brings jobs, investment and, importantly, the opportunity for British engineers to see what is happening.

Q21 **Charlie Maynard:** How do we do that, apart from saying, "Please come"? We are outside the large market of the EU, so we are not necessarily the first on the call list.

Peter Burnett: There are advantages. There are advantages to China of the UK market. They like our system. They like our legal system. They like our regulatory system. They like the fact that we speak English. We have been the beneficiary since 2005 of inward Chinese investment; I think that we are the third largest market after the US and Australia. It is not as if it is an unfamiliar market to them. In all the engagement that I have had with Chinese companies, they are very keen to understand more how they can invest in the UK.

Q22 **Chair:** The European Industrial Accelerator Act is going to require Chinese technology transfer as one of the prices of allowing Chinese inward investment. Is that something that you think the UK Government should consider?

Peter Burnett: I do not know whether you force it or negotiate it on a case-by-case basis, but it seems to me that that is the inevitable consequence. The last thing China wants is to see its big export markets decline economically. It wants us to prosper because if we prosper, we can continue to buy its products.

Q23 **Chair:** Its model does not work without access to Europe's 200 million middle-class consumers.



HOUSE OF COMMONS

Peter Burnett: One way we can do that is to engage with them and encourage them to come to the United Kingdom and invest alongside British businesses.

Rain Newton-Smith: That chart illustrates the importance of economic and trade dialogues, because trade negotiations are just that: negotiations looking at access to your markets on a reciprocal basis across different sectors. We see that in some sectors. There are obviously the access and advantage we have around our universities and higher education institutions, which have benefited from international students, particularly from China. That has made a big contribution to our economy.

If we think about the future economy, there is a huge market in China. We must not cut ourselves off from the opportunities, even though there are some areas where there are difficult conversations and negotiations that need to be had.

Q24 **Alison Griffiths:** This flows quite well from what we have just been speaking about. When you are speaking to your members, how do they weigh up the risks and rewards of doing business in China? I would be quite interested to hear what that looks like right now and going forwards into the future, but also how that has changed in recent years. The other thing I would really like you both to speak to is the measures that your members put in place to mitigate the risks of operating and doing business in China.

Peter Burnett: The very large companies, so the MNCs that have been operating in China for very many years, are very good at assessing these risks.

Q25 **Alison Griffiths:** What do you think those risks are? What do they perceive those risks as being?

Peter Burnett: There are risks associated with technology advancement, AI and industrial development that they need to assess. Increasingly, you will find them saying that they need to engage more in China to understand those risks, and indeed to develop some of the technologies, alongside those risks, themselves.

There was a very interesting report from PwC, which came out in January. This was a survey of not just British but global multinationals operating in China, which said that now 30% of those companies see China as being the bedrock and the incubator of technologies that they can export globally and bring back into their organisations from China. That is a fact of life and something that we will have to deal with. If we do it correctly, the risk actually becomes a reward, in my view.

Q26 **Alison Griffiths:** What about for the CBI and your members?

Rain Newton-Smith: From within our membership base, it will not surprise you that almost 40% of our members say that they depend on



HOUSE OF COMMONS

China at least at some point in their production line, including for services businesses. Our relationship with China is integral to the world economy and the UK economy. It is true that the lessons of recent years are certainly that too much supply concentration is a risk to doing business, and that is true for China as it is for other countries.

I would say that over half of our members that are dependent on China for resources are looking at other markets as well to diversify that risk. That is true for many countries where you have a single country that dominates a particular part of your supply chain. As we have touched on previously, our members are often looking at other parts of Asia as well, although of course, even in Vietnam, Thailand or Malaysia, those economies and supply chains are also integrated with China. It needs to be a China plus one strategy.

Businesses are mindful of security risks. They very much look to the Government for guidance on that. There are concerns around intellectual property. As within any market, they will follow criteria around thinking about human rights within the supply chain. That is true in China as it is for other markets as well.

Q27 Alison Griffiths: Do you think the complexity of the risks is such that you need to be a multinational-type organisation with that level of resource to operate successfully?

Rain Newton-Smith: No, absolutely not. I was just speaking to a business this week. There are a lot of small SMEs, start-ups and scale-ups that trade with China. They are travelling frequently to understand, because, as Peter was saying, there is an incredible capability. China is not one economy; it is a hugely federal system of many different types of businesses at province and city level. Many smaller businesses are engaging with China, either as an export market or to do joint ventures.

Peter Burnett: That has also increased since the 30-day visa-free access was negotiated out of the Prime Minister's visit back in January. That is one of the reasons, for example, why the delegation that we have going to Zhejiang this week is so big, because you do not have to wait two months for a visa. You can go in.

Q28 Alison Griffiths: How do you both see this changing over the next five to 10 years, just to look to the future? What are the risks, how are businesses approaching them and what is the risk mitigation?

Peter Burnett: I do not think that the risks are going to change too much. They may become a little more acute. The risk mitigation is to understand them and deal with them accordingly. As I say, all MNCs that operate in China have those capabilities. They have large regulatory and compliance departments that will look at these and make sure that they are fully understanding the risks and mitigating where they can.

The key, to my mind, is dialogue. If you do not engage with China at a Government-to-Government, business-to-Government and business-to-



business level, you will not know what is going on. A great positive over the last 18 months has been that increase in dialogue on the part of the Government. We have had the economic and financial dialogue, a JETCO, a healthcare dialogue and an energy dialogue. Those things really matter. China has been very open and welcoming in those dialogues. If you do not have those dialogues, you will not know what is happening. You simply have to engage.

Rain Newton-Smith: Certainly our members, and I think business more generally, have recognised that the Government recently have re-engaged in some of those economic dialogues with China. That has been important. For a period the UK was not having those economic-level dialogues and that had implications. Maybe the rhetoric of other countries against China was much stronger, but on the ground they were absolutely engaging in those economic dialogues. That engagement has been super important.

More broadly, the world generally has become a much riskier place more recently, and geopolitical risks have come to the fore. What business would ask of Government, and would ask the Committee to consider, is that the Government should be the ones who have more knowledge around security risks. They could be helpful by saying, "In our engagement with China, we think that these particular sections of the economy are areas where there are more likely to be significant national concerns. In this area, we think you need to engage in higher due diligence. There are a lot of other areas where you can engage in commercial opportunities and the overall risks are low." Sometimes setting out those guidelines can be really helpful for business and engagement.

Chair: We are going to come on to what you want Government to do in a sec.

Q29 **Justin Madders:** We have talked a lot about risks, so I will be brief. We have seen, with what has happened in the middle east recently, that a military conflict can very quickly be leveraged to create economic challenges. If there was a decision taken at some point in the future for some military dispute to use China's economic leverage, what would the impact be on the UK economy?

Peter Burnett: Can you give me an example? What are you thinking of?

Justin Madders: You have already talked about how reliant we are on certain supply chains and products. What if they just turned the tap off? What would happen then?

Q30 **Chair:** The perils of deeper integration are that there is a rise in interdependence, which can then be weaponised against us. That may be used to try to deter us from acting to, say, safeguard peace in the Taiwan strait.



HOUSE OF COMMONS

Rain Newton-Smith: I understand where your question is coming from. There are a lot of hypotheticals in that. If we are thinking about the UK Government, I would almost flip it around and ask, "As the Government are thinking about our own industrial strategy, what do we need within that? What is important?" If they are thinking about our broader energy security, making sure that we have secure, reliable and affordable forms of energy is really important for our industrial strategy. Access to critical minerals is important within that.

We know that, in certain critical minerals and particularly rare earths for solar production, China dominates some areas of that market. If I were looking at it from the UK perspective, I would be thinking that it speaks to, "I need to engage with China because I know I need some of those materials now, but into the future, where are some of the capabilities I can build here in the UK?" There have been measures to look at the production of lithium, for example, which is super important. It speaks to having a critical minerals strategy.

I know that DBT has been looking at this. It is thinking about what is important and, more broadly, building that economic resilience, because we do not know where future conflicts are going to emerge from.

Q31 **Chair:** The Government have declined to publish a list of the sovereign capabilities that they think the nation needs. Is that a mistake? It is not a great signal to the business community about where we want to incentivise investment.

Rain Newton-Smith: There are various elements that we know we need. We need a defence investment plan published. We probably need to take our critical minerals strategy up a level. The other element we need to think about is what the world will need in the future, and how we build and develop some of those capabilities.

If you think about it, the UK's comparative advantage often stems from brilliant ideas that are developed at our universities. If we can nurture our universities, we can nurture the ideas of the future. If we look, the UK has one of the highest numbers of quantum start-ups in Europe. The next wave of AI will undoubtedly use some of those quantum capabilities. It would be great if we could be thinking now about how we focus on that. To your point, Alison, what will the world need in 10 years' time? That is what our industrial strategy should be thinking about.

Q32 **Chair:** Let me put it to you like this. The Intelligence and Security Committee, in its 2023 to 2025 annual report, said that China is targeting the UK "prolifically and aggressively", and the UK is playing catch-up to understand and counter the threat. Our sister committee, the Joint Committee on the National Security Strategy, three weeks ago reported that China is a "national security threat". Nigel Inkster, former MI6 assistant chief, said to the JCNSS that the UK needs to "start with the worst-case assumptions and work back from them". It is difficult for us to understand the argument to deepen trade integration with a country that



half of Parliament is saying is a national security threat. Peter, help us understand how you square that circle.

Peter Burnett: It is beyond my pay grade to go into the details of the national security threat and, of course, it is not something that business would ever take issue with. We listen to our Government. We listen to their assessment and trust that assessment.

I do not think that it is necessarily mutually exclusive. We can work with those assessments and with Government Departments to ensure that, where we are deepening trade and investment, which is part of our economic security, we can get those benefits from our arrangements with China. I do not think that they are mutually exclusive. Of course, we have to be conscious and aware of the assessments, and businesses will always take guidance from the security services. They will not seek to overreach.

Q33 **Sarah Edwards:** I am interested in what you have been saying around the balancing act of how we manage those relationships. In particular, the recent visit that you were speaking about, where the Prime Minister went and took a delegation, was widely reported to be a positive step in those discussions. It is resulting in £600 million of investment over five years, which we might consider to be actually quite small when, for comparison, the UK-Poland recent announcement for InPost—just one single company—was £600 million, again over five years. The UK-Ireland summit was £937 million.

I am wondering whether this is part of the geopolitical positioning. Are we going to benefit massively from this or, as we heard at the start of this conversation, are we edging into this real problem of a trade deficit, where we end up with a very uneven situation in our abilities to do trade with China?

Peter Burnett: We should, of course, not exclude investment from all those other countries that you have identified because we want to do trade with China. We should be able to juggle all those balls at the same time.

Q34 **Sarah Edwards:** The point I was trying to make was more that, comparatively, it is a tiny amount of money. It is not about excluding them. It is more about whether it is really worth it. What are we gaining when we are talking about these national security risks?

Chair: Apart from a load more risk.

Peter Burnett: You have to look at where we were in our dialogue with China before that announcement. We had basically been in the deep freeze for eight years. There had been very little conversation or dialogue at a G2G level, so it will take a bit of time to build. I am pretty confident that, with the right guardrails and support, that level of investment and opportunity will increase over the next few years. That is what we hear



HOUSE OF COMMONS

from our members trading into China and Chinese companies looking to come to the United Kingdom.

Q35 Sarah Edwards: Are we confident that we can manage the risk of where that investment might come from? Are we going to accept it at any cost?

Peter Burnett: No, of course not. We will always consult with national security interests to make sure that they are completely and utterly aligned. Something that we should consider is encouraging those technologies to invest alongside British companies, so that we can see what is going on. This was a strategy that China employed 20 years ago, when international companies were moving into China.

It seems to me that it is perfectly reasonable to say, "Yes, you can come and build your EV or your battery technology, but we want to work with you to do that." Put technology in there, put British engineers in there and see what is happening. I think that the right companies, the Chinese companies that accept that, will be very happy to work with us on that basis.

Chair: Let us move on to what we need Government to do.

Q36 Dan Aldridge: I am really interested in what your members are thinking about this. You have talked a bit, I think positively, about your members' perception of the Government's movements around China. You have helpfully explained some of the purpose of Government around identifying security risk. I would be really keen to know whether the guidance that members are getting from Government is enough. Is it practical and decision-ready, or is it largely high level?

Over half of the UK's economy is small to medium enterprises. Some of our insights that we have been looking at suggest that this is not a brilliant opportunity for our SMEs. I would be interested to hear what your thoughts are on that as well.

Rain Newton-Smith: The trade integration with China already exists. It is in our economy now. It is about the importance of having that dialogue and thinking about future opportunities. Could the guidance from Government be better? Yes, it could be.

One of the ideas, and I know Peter will be able to speak more fully to this, is to set out different areas. The Government can say, "Overall, here are some areas of significant national concern. Here are some areas, sectors or regions where we think you, as a business, would need to operate higher due diligence. These are some areas or sectors where we think there are a lot of commercial opportunities and the overall security risks are low." The guidance that Government can provide within a framework is important. When they are developing some of that guidance—I think it should be guidance—using the knowledge from businesses that operate on the ground as well is hugely important.

Q37 Chair: How problematic is the absence of that? ADS told the JCNSS that



this opacity is operationally damaging because industry does not know where Government stand. How would you characterise the peril of us not having this guidance?

Rain Newton-Smith: I agree. Not being able to have that guidance is difficult for how businesses operate, particularly for SMEs. Some already have connections or partnerships where they are developed in-country, so they have some of that experience. But when you are a new SME and thinking, "Where can I export to?", or you are aware that there is a capability around a new technology in China that you want to partner with or exploit, if you do not have any of that guidance or direction, that can make it more difficult to operate.

I also wanted to acknowledge, Sarah, that you had a question around the UK-Ireland summit. We were part of that summit. We are here to focus mainly on China, but our relationship with the EU and Ireland, and the way we can collaborate on defence, energy, the energy transition and within the labour market, is hugely important.

Q38 **Chair:** Mr Burnett, what is your view on Dan Aldridge's question?

Peter Burnett: I completely agree. When it comes to national security guidance, guidelines and positive areas of investment, greater clarity would be very helpful, as well as consistency and an ability to quickly get to a decision. Throughout that, I would ask Government to please continue to consult with business. Sometimes the security operatives work in a bit of a vacuum. There are solutions that business can propose that would facilitate more investment and deal with the risks of that investment.

Q39 **Dan Aldridge:** That is really helpful. In our session last week on artificial intelligence, Professor Dame Wendy Hall said that she felt that her academic freedom was being curtailed by the seeming obfuscation of the academic partnership between China and the UK. If we are looking at AI, quantum and life sciences, it feels like there needs to be better dialogue. Is there something that Government should be doing to facilitate better relationships between our universities?

Rain Newton-Smith: Absolutely, yes. A lot of that expertise will sit within universities themselves. Protecting academic freedom is really important.

Peter Burnett: That would be a red line, clearly.

Rain Newton-Smith: Yes, exactly. It is setting out the areas of high risk where, if it impinges on academic freedom in the UK—

Peter Burnett: That is not acceptable. If we see it, we should call it out. That is a perfectly acceptable approach.

Q40 **John Cooper:** Mr Burnett, your China-Britain Business Council is quite closely involved, I think, with the Great Britain-China Centre. That is an



HOUSE OF COMMONS

FCDO arm's length body, as I understand it. At one point, its honorary president, I think, was Peter Mandelson, a name that is on many lips at the moment.

Peter Burnett: Was he?

Q41 **John Cooper:** I believe that that is the case. Can you tell me that your current organisation has no involvement with Mr Mandelson?

Peter Burnett: We have no involvement with Mr Mandelson, no.

John Cooper: Wonderful. Thank you for that.

Peter Burnett: I can tell you that. The Great Britain-China Centre is a separate organisation. It is FCDO funded. We are not funded by any Government Department. We are funded entirely by our members.

Q42 **John Cooper:** Do you put funding into that other body?

Peter Burnett: No, we do not. There is some private sector funding of that other body. We live in the same office, so we meet each other in corridors and swap ideas on what is happening in China, but there is no economic association whatsoever.

John Cooper: Listening to you here today, it strikes me sometimes that we are feeding the Chinese dragon in hopes that it will immolate us last. Other countries seem very keen to put in—Rain, you made an excellent pitch for free trade; Adam Smith would have loved that—but we cannot be naive about this. China is a threat. It is that simple, isn't it?

What do you think? Are we getting it right with not having trade barriers in the way? Other countries are putting trade barriers in the way or proposing them. The EU is looking at this, and considering restricting the arrival of Chinese EVs. Are we getting it right and they are getting it wrong? Which countries are doing better than we are, do you think?

Peter Burnett: We are, broadly speaking, getting it right. I am sure that, at the margin, there are things that we could do a lot better. Trade protection measures, such as tariffs, are a very blunt instrument of industrial policy. You refer to Adam Smith, and there is also David Ricardo, both of whom often get quoted back at me by Chinese counterparts, by the way, who have studied them in great detail. There are other ways; there are more subtle ways.

I would look, for example, to how Canada has dealt with its EV import question, where it has agreed a quota of, I think, 49,000 EVs from China, which will come in tariff-free. Anything above that will attract a tariff. These are additional tariffs to the ones that are already in existence. In the meantime, it is looking at negotiating an investment transaction or an investment capability into Canada. That is a very sensible way of dealing with it. If you come out straightaway with tariffs, you are going to get into an immediate trade war of the sort that is ultimately going to be damaging, in my mind, to all sides.



Q43 **John Cooper:** Rain, do you think Canada has a good model?

Rain Newton-Smith: There are some things we can learn from its strategy. We are saying that we need to engage in that economic dialogue with China. We need to make sure that those are trade negotiations that we are focused on. We absolutely have to be clear-eyed around some of the risks that we have already touched on. We need more guidance from Government around areas of heightened concern.

There is no doubt around electric vehicles. There are some producers in the UK that can see some of the benefits from having lower-cost imports. There are other producers that feel it has an impact on unfair competition. It is a really complex area where you need to be guided by a range of expertise from trade experts, businesses and economists, which can help balance those risks and opportunities.

Q44 **Chair:** Right now, the Government do not have that machinery in place.

Rain Newton-Smith: They have some of that. There is some of that capability within the Department for Business and Trade, which will look at those risks and benefits. We are saying that there is an opportunity for better guidance to emerge, and a strategy around where there are areas of heightened concern and where we think there are clear opportunities.

Q45 **Chair:** The evidence that is put to us is that that machinery is basically scattered throughout Whitehall.

Peter Burnett: It is a bit. I would agree with that.

Q46 **Chair:** It is not really joined up. It does not operate in a cohesive decision-making structure. Is that fair?

Rain Newton-Smith: That is fair. There could be a more coherent strategy. Some of these issues, understandably, relate to objectives from DESNZ, the Department for Business and Trade, the FCDO or security. In a way, you need to bring all those together. It is hard for businesses to know who they should go to in order to get that one-stop shop effect.

Peter Burnett: I agree with your assessment that there could be a greater level of co-ordination. A lot of the issues cut across, as you were saying, different Departments, from trade to energy to, in some cases, national security. Businesses find themselves consistently calling on Whitehall Departments with the same kind of messaging. That could be made a little more coherent.

On the other hand, we greatly appreciate the opportunity to be consulted. Please, if there is one message, the last thing we want Government to do is to go into a sort of bubble and start making decisions without consultation with business, because business will very often have a solution. If it does not have a solution, it will want to understand what it can and should be doing better.

Q47 **Chair:** To sum up our anxieties, the first is that integration with an over-



HOUSE OF COMMONS

subsidised Chinese industrial base risks making our economic predicament worse, not better. Secondly, we could be taking on a whole load more risk, which could be getting worse rather than better. Thirdly, the return on investment for political capital invested may be better spent in other parts of Asia-Pacific, rather than China. Do you want to give me a top-line response to that analysis?

Rain Newton-Smith: All those factors are at play. I do not disagree with that, but I would come back to where I started. The Government absolutely need to have a strategy towards China. It is the biggest contributor to global growth. Within different sectors, products and services, there are areas where China already is one of the biggest producers. We also need to think about all the consumers who are there in China now and will be into the future.

We need to have a strategy for how we engage with China's economy and how we encourage trade in areas where we think the security risks are very low and the opportunity is high. The alternative of disengaging with China, not having an economic dialogue and not involving business in that conversation would lead to a lower standard of living in the UK, because that has an impact on our growth and productivity.

Peter Burnett: I concur with that. You will not be surprised to hear that the chief executive of the China-Britain Business Council does not agree with your final three points. I would make one point and that is that decoupling is not a strategy for de-risking. We absolutely have to be engaged and understand the risks better. There is no substitute for good, productive dialogue.

Chair: Thanks to you both for helping set the stage for this inquiry. We are really grateful to you. That concludes this session.