



Select Committee on International Relations and Defence

Corrected oral evidence: The UK's security and trade relationship with China

Wednesday 3 March 2021

10.05 am

Watch the meeting

Members present: Baroness Anelay of St Johns (The Chair); Lord Alton of Liverpool; Lord Anderson of Swansea; Baroness Blackstone; Lord Boateng; Lord Campbell of Pittenweem; Baroness Fall; Baroness Rawlings; Lord Stirrup; Baroness Sugg.

Evidence Session No. 1

Virtual Proceeding

Questions 1 - 13

Witnesses

I: Dr Yu Jie, Senior Research Fellow on China, Chatham House; Charles Parton OBE, Senior Associate Fellow, RUSI.

USE OF THE TRANSCRIPT

1. This is an corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Dr Yu Jie and Charles Parton OBE.

Q1 The Chair: Good morning. I welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords Dr Yu Jie, who is Senior Research Fellow on China, Chatham House, and Charles Parton OBE, who is Senior Associate Fellow, RUSI. Thank you for joining us today to share your expertise as we hold our committee's first evidence-taking session in our new inquiry into the UK's security and trade relationship with China. I remind members and witnesses that the session is on the record, transcribed and broadcast. I also remind members to declare any relevant interests before asking their questions. If there is any time remaining at the end of the formal run of questions, I shall invite my colleagues to ask supplementaries. The session is expected to close by 11.30 am.

I will begin by asking the first question, which as usual will be rather general in nature, and then I shall turn to my colleagues, who will ask more focused questions. How would you describe the UK's current policy towards China? Is there a co-ordinated approach? In what ways has it changed between the premierships of David Cameron, Theresa May and Boris Johnson? I invite our two witnesses to determine on each occasion who goes first. Since I have mentioned you first, Dr Yu Jie, perhaps you would start on this occasion—but thereafter you determine between you who goes first.

Dr Yu Jie: Thank you so much, Baroness Anelay, and good morning, Lords and members. I am delighted to be invited by the Houses of Parliament for the third time and providing evidence on UK-China relations.

Baroness Anelay, to answer your question about how best to capture the current status of UK-China relations, I think it can be summed up with three words beginning with C: confronting, competing and co-operating. The three C elements have constantly changed from Prime Minister Cameron to Prime Minister Johnson. In the time of Prime Minister Cameron, it seemed that the element of co-operation was far larger than the elements of confrontation and competition, but, in shifting to Prime Minister May, the element of competition seemed to begin to rise. Now, when we come to Prime Minister Johnson, it seems that the element of confrontation has become more and more prominent, given China's introduction of the national security law in Hong Kong and various other sensitive issues around Xinjiang and the Covid pandemic. The element of confrontation seems to dominate bilateral relations between the two countries currently. That is perhaps the best way to capture it—with the capital Cs.

Charles Parton: I think there has been an evolution from the golden era, which was the Osborne era, because the Treasury ran policy and I think it is time that a greater, wider expertise is brought to bear. But you ask what it has gone from. It has gone from trade investment being

number 1, 2 and 3 and now it is moving towards a recognition that the Chinese Communist Party has some very rigorous and strong interests that it intends to impose, and we have to react to that. So the world has changed very much since the Mrs May and Mr Cameron era. There is a certain realisation that it was not quite as golden as George Osborne had sketched out, because there was no really clear strategy. You saw the flip-flops over Huawei and the quarrels between the so-called security and economic ministries.

Now we are at an era where it is hard to say exactly what the strategy or the policy is because it has not been declared. I know the Government are working very hard on it and I look forward to seeing which way it goes. Certainly, we need one that is united across government and is clear not just within the Government but to business, civil society and indeed to the Chinese—but we are not there yet. We are operating in a mode that I think has turned very much away from golden era towards a realisation of, shall we say, the rigorousness of the Chinese Communist Party, and that has happened partly because MPs came to see China in a different light. I was adviser to the Foreign Affairs Committee in its 2018-2019 period and it was very interesting to see how it swayed and moved.

I also think that the politicians, press and the people, the three Ps, have started to move the Government. As a result of Xinjiang, 5G, Hong Kong and, in particular, Covid and Chinese pushing on that, the mood has changed dramatically. I hope the strategy will be more open-eyed but also not too swayed by the darkening of the clouds.

The Chair: Thank you very much indeed. I will now turn to my colleagues and what I shall try to remember to do in calling one colleague is to remind the person next on the list. I will turn to Baroness Blackstone next and after that it will Baroness Sugg.

Q2 Baroness Blackstone: My question in a sense is an extension of what Baroness Anelay has just asked. Which factors do you identify as having an influence on the UK's policy towards China? How should these factors be balanced in the Integrated Review, which is due out relatively soon, and in a UK strategy for China?

Charles Parton: Shall we alternate, Yu Jie? I will go first this time and you go first next time.

There are so many factors. It is important to consider that we are not in a Cold War—this is very different from Russia. We have very extensive trade and investment interests with China, which must be accounted for, and we have science and technology co-operation to work on and many global goods. So it is not a Cold War, but at the same time I think that we have to take a lot more consideration of the nature of the Chinese Communist Party and its views. I always go back to what Xi Jinping said in his very first Politburo speech, part of which has been revealed now, which was that the intention was there to ensure that Chinese socialism gains the superior position over western capitalism. There is a very continual drumbeat of references to hostile foreign forces.

So the way they look at it is as a struggle and so, while balancing the intention to maximise good relations, we have to accept that that is what is coming our way as well. In that respect I always talk about the need to put greater emphasis on the holy trinity; that is national security, our interests, and increasingly on values.

Finally—I do not want to go on too long—I think that we have to take greater account of the D word. If you are American, that stands for decoupling, but if you are British I hope it stands for diverging, because we have to recognise that we have very divergent political systems, very divergent economic systems—the whole state-owned and subsidised bits, just to put it in a couple of words—and very different value systems; just look at Hong Kong and Xinjiang.

All that is being sped up by the erosion of the differences between civil and military technology and the speeding up of technology. I think we have to take account of that and those are factors that I am sure the Government are thinking very carefully about as they prepare a new strategy.

Dr Yu Jie: To follow on from what Charlie just said, obviously trade, investment and national security are all key elements of bilateral relations and the UK should take those into account when it comes to the overall integrated strategy and defence review to evaluate its relations with China. On the other hand, something I differ with Charlie on is the role of the Chinese Communist Party and Xi Jinping's ideas on whether he would like to export the so-called governance model of China to somewhere else. From my perspective, it seems that a sense of exportation of his own governance model is nowhere to be seen so far, certainly **not** in the developed countries. Perhaps in the developing countries, but I do not see, first, that China would be able to succeed in doing that in the developed countries and, secondly, whether China would have any intention of doing that, or that it is up for debate.

The key role for the Chinese Communist Party and for Chinese foreign policy is to secure China's economic interests, including its economic might, thereby increasing its global status. That has not changed from his predecessor, irrespective of whether Xi Jinping is in power or not. That has already happened. It is the way of integrating China into the world economy and somehow developing a sense of economic interdependence between China and the rest of the world to achieve China's so-called global ambitions.

The Chair: Thank you very much indeed. Charles Parton, I think you might want to come back, by the look of it. Please do.

Charles Parton: I do, because I do not think that Yu Jie and I differ on this. I also do not think that China wishes to impose its governance model on the world. What it wants to do is ensure a China-compliant world and thereby make systems and relations that thoroughly advance its aims. All countries do that, of course, but China does it with a greater rigorousness and force perhaps than others.

Q3 **Baroness Sugg:** You both spoke about China's intent to the rest of the world and I want to ask for your views on the place of the UK within China's foreign and economic policy under Xi Jinping. To what extent do you think that China understands what the UK's objectives are for the relationship?

Dr Yu Jie: China's understanding of the UK is divided into two phases. The first phase was up until the Brexit vote. China very much hoped that the UK would become a bridge to the European Union because, while the UK was in the EU, it viewed China more favourably, especially in relations and topics of market economy status. The UK has always been in favour of granting China that. So China at that time was very much hoping that the UK would play a positive role in forging better EU-China relations up until the 2016 Brexit vote—and obviously things have changed dramatically.

China wants three things from the UK: first, a secure home for investments and a trade partner; secondly, an alternative market against the background of worsening China-US relations; and, thirdly and also very importantly, China values endorsement and a sense of validation from developed countries. That is why, when Theresa May came to Beijing in 2018, China was hoping that the UK would endorse China's Belt and Road Initiative, and what the UK did with the Asian Infrastructure Investment Bank. So China is looking for that sense of validation from some of the G7 members—that is the intent.

Now I have to be honest that, at the moment, the UK is not really in China's good book for various reasons, partially because of the change in leadership in the UK and partially because of other sensitive issues—and also for historical reasons. Those of us born in the 1980s and 1990s studied the history of China beginning with the Opium War and when the Opium War started. It started between the UK and China at the time of the late Qing dynasty. So somehow the UK has a mixture of a historical legacy with China together with being a contemporary and modern economic partner. It is a very strange mix.

Charles Parton: Baroness Sugg, this is the most excellent question, only because last week I finished a paper on what the Communist Party—I never say China, incidentally, because the Communist Party leads everything—wants from the UK. I will send you a draft and I could speak at vast length, but I will try to be quick.

First, on China's or the Communist Party's interests, the UK is only of middle importance. I think you have to put the US, the EU, periphery countries, Russia, India and maybe Africa, before us, but we are not unimportant. We are a United Nations Security Council member and that is important. Why do they value us or pay us attention? Because we are a supporter of open trade and investment, which is very important to China, which has benefited from that—it does not want protectionism to spread. It looks to the City and its financial expertise and we may come to that later. We are good at education. We have good scientific research and innovation, which the Chinese need. We are, in a sense, the gate for

some of China's new industries. It had hoped that Huawei and 5G would be an encouragement to other countries, but that has not been the case. But also, if you can get the UK to use Chinese technology for the nuclear industry, that would help it spread, so that is very important. Our share of Chinese exports is not vast—2.6 % roughly of Chinese exports—but that is also important. There is investment, too, but I will not exaggerate that. We will come to that.

That is a broad list of the interests but also, partly echoing Yu Jie, there are some negatives that are also Communist Party interests. It wants to ensure that the UK does not go across its interests when it comes to Hong Kong, Xinjiang, Taiwan, human rights generally, the South China Sea, and generally that it does not interfere with the narratives that the Communist Party puts out, and its rhetoric and propaganda, which we are at risk of doing if we try to counteract some of its interference activities in UK politics, media, academia and elsewhere. That is a very brief summary of my paper.

The Chair: Thank you very much and we look forward to receiving it—not necessarily a private draft but when it is published if that is more convenient.

Q4 **Lord Boateng:** I draw attention to the interest declared in my entry in the Register of Members' Interests.

Deng Xiaoping said that the stated aim of Chinese foreign policy was to create "a stable external environment for China's domestic economic growth". That was in 1982. Since then China's economy has grown enormously and continues to grow. What is the interplay now between China's economic strength and its foreign policy? Does it use that in its reach to affect countries' behaviour, for instance, in the United Nations when it comes to votes that affect its particular interests? How does the Belt and Road Initiative fit into that, in terms of China's strategic global interests? What challenge does that present, therefore, to the UK?

Charles Parton: Again, that is an enormous and interesting question. I think you are absolutely right to start with the thought that foreign relations are always premised on domestic interests. That is true for all countries, but particularly so for the Communist Party. If I was to characterise Chinese diplomacy and international relations, it is very much centred on economic heft, sometimes in a positive way—here are inducements, promises, you get good political relations if you go along with the Chinese intentions in the economic sphere and elsewhere, particularly elsewhere. You are absolutely right to point to the use of Chinese investment and trade inducements in things like ensuring that small countries vote its way in the UN. I think that lies behind a lot of China's activity in, let us say, the Pacific area, where there are some very small countries but they each have one vote in the UN.

So there is the positive side and then, of course, there is the negative side and the threat side, that if you do not do what China wants in its international relations, your trade and your investment will suffer. I think that is grossly overplayed and I am sure we will come to that later when

we talk in more detail about trade and investment, but I do not think those threats are nearly as potent as some like to portray. I am sure Yu Jie will have other thoughts on filling out your question. I am sure we could discuss it all day, but that is my view as a start.

Dr Yu Jie: Charlie is absolutely right. To follow on Deng Xiaoping's quote about creating a stable external environment for China's economic growth, that strategy has never changed, even today. Part of the reason that China has launched the Belt and Road Initiative is to have a secure border, because China shares borders with 15 different countries. That very complex geophysical setting imposed on China means it has to make sure it gets on well with so many neighbours to facilitate its economic growth. That is why you see that most of the Chinese Belt and Road investment has been given emphasis in countries in south-east Asia, south Asia and central Asia.

So the sense of creating a stable external environment has not changed, but what has changed is the means and ways by which Chinese diplomats or the Chinese government conduct diplomacy. It is sometimes by using economic inducement, as Charlie said, and sometimes by using economic coercion, but there is also an element when it comes to the Belt and Road Initiative, when it comes to economic development assistance to developing countries and what China has done, whether it has different lending criteria for offering loans or foreign assistance compared with the UK. The role of the FCDO, especially in development, is crucial and absolutely important, but the two sides, Beijing and London, have very different standards on lending.

The challenge that will come for China, and for the UK, is not only about stretching itself across different countries, but also when China uses its economic inducement to satisfy the economic elites of developing countries, because whether that really provides benefits to the indigenous, ordinary population of those countries is up for debate. So for the Belt and Road to go forward, China has made some modifications or recalibration to give more focus on how China can benefit the ordinary people of developing countries.

Charles Parton: I do not think I did justice to Lord Boateng's question. May I say, as I always say, that the Belt and Road Initiative does not exist. It is a political slogan and propaganda and you will notice that I never use the expression or I try to minimise it. What does exist and is very important is Chinese globalisation. I think that we should go below the rhetoric and look at the specific actions, projects and areas where we may co-operate with China rather than use this political propaganda slogan.

I think it might be a good time to talk a little bit about this coercive diplomacy because we are, as you just said, entering a time where relations with the Chinese Communist Party have become a little bit strained. My message to the Government has always been, please do your research very well on the five areas where the threats are delivered to you. For instance, when we were in the diplomatic doghouse in 2012

because of the Dalai Lama's visit, our exports rose in subsequent years. It was the same for Norway during the six years that they were in the doghouse. For Chinese businessmen, buyers and consumers life goes on outside the Communist Party and I do not think the threat is nearly as great.

There will be losses—although Australia's trade, incidentally, increased with China in the last year. There will be losses in symbolic areas or where China can get other exports in, although displacement trade occurs and losses globally may be less than people worry about. But again, put the investment into context. Chinese investment in the UK as a percentage of our stock is 0.2%. It is not great. It is not done as a charity; it is done increasingly for more targeted reasons. In 2014 to 2016 it tended to be a little bit profligate, but now it is aimed very much at getting what they want—which is perfectly sensible from their point of view—in science and technology in particular. It is not a charity.

China also wishes to learn very much from the City and to use the City; again, it is not for charity. Ultimately, it would like to replace the City by using Shenzhen and Shanghai. So co-operate by all means, but do so with your eyes open. When it comes to tourism and students, I think Xi Jinping will have a pretty risky ride if he decides to say to the middle classes, "You cannot tour Britain" or, "You cannot send your son or your daughter there".

So I think the areas where we are normally threatened are somewhat exaggerated. There will be losses if we fall out badly, but I think that they are largely the sorts of threats that we can ride. Even if there are costs, you have to ask yourself the question: how much do you value your values, what cost do you put on them?

The Chair: Thank you very much indeed. We now go to a run of three questions more focused on security issues. I am calling Lord Stirrup next and after him Lord Anderson.

- Q5 **Lord Stirrup:** What are your views on the UK's security interests with regard to China and the potential threats to those interests? I am talking about security in its widest sense, not just the protection of UK citizens and infrastructure but also our ability to progress our society at home and to pursue our interests abroad. For example, how do issues of strategic supply and technology play into all that? In answering the question, perhaps Charles Parton could expand a little bit on what he has just been saying, which has been very interesting. In recognising that China's trade responses to unwelcome policies or statements from foreign governments have perhaps not been that significant, would this nevertheless be true in situations where their fundamental interests were concerned; for example, Taiwan and places like that?

Dr Yu Jie: Let me start with the Taiwan question first, since Lord Stirrup asked about it. I think that Taiwan will perhaps become the most precarious situation between China and the United States, and also with the allies of the United States, including the UK, will be affected by that.

Partially it is because the voice of pro-independence is growing ever stronger in Taiwan. In Beijing also, the patience for using economic inducement would somehow reunify Taiwan seems to have lost its steam and, therefore, that requires Beijing to think about a new strategy for dealing with Taiwan. By reunifying Taiwan, Xi Jinping can insert himself into the pantheon of the Chinese Communist Party by a reunited country. So I think going forward, the Taiwan issue will become more acute even further and that will become a conflict between China and the United States.

On the general security interests and the security challenge for the UK, we were talking about whether or not China would like to follow the existing so-called liberal international order, and one of the elements that China does not follow is maritime security. For example, freedom of navigation would not happen with the Chinese government. So on the security challenge, freedom of navigation is one for the UK.

The second one, if we are talking about broader economic security, is how much Chinese investments are exposed in the UK. Perhaps the point is that we do not really know enough here. I do not have all the numbers. We perhaps have to look at individual cases of Chinese investment in the UK: who conducted them and who is behind them. On certain occasions Chinese companies would have to follow an order of the Chinese Communist Party, but on many other occasions Chinese companies investing in the UK are examples of individual economic behaviour. So when we are talking about economic security, we have to differentiate between whether those investments are truly for the state purpose, as an expression of state capitalism, or individual economic behaviour. I think we have to distinguish that before we can draw a conclusion to argue whether Chinese investment could be seen as a threat to the UK's national security.

Charles Parton: As ever in all sorts of matters, there are positives and negatives, depending on which approach the two sides take. What could be a big positive is health security. Here we are in the middle of a Covid pandemic and we need to work closely with the Chinese to prevent future pandemics. I think that the Chinese and UK governments have worked quite closely on antimicrobial resistance, which is possibly an even greater threat than we are seeing at the moment. Those are areas of security where we can work together and one would hope that, as permanent members of the UN Security Council, we could work more closely on peace issues in the world, maybe in the Middle East or Afghanistan.

There are other issues where I fear, although they should be positive or perhaps neutral, we might be sliding towards a more negative thing. On security, it is very important for the UK that international law is upheld, and the two examples that come immediately to mind are what is going on in Hong Kong, where there is an international treaty registered with the UN that is being infringed, and China's disregard of the law of the sea in the South China Sea. It is a very big security interest of the UK that

international law is upheld, because global chaos results if that does not happen. There are other areas where security is certainly a very big issue and where perhaps the borders are yet to be well defined. I am thinking of the Antarctic and Arctic and of the use of space, and there is a lot more to be done on cyber.

Then there are areas where I think that we have to be a little bit more careful. I wrote a paper in February 2019 on Chinese interference in the UK and I covered seven areas in that, some obvious and some less so: politics, Chinese interference in our media and in our academia, espionage, critical national infrastructure and data. We have to be much more conscious—and perhaps we will be coming to this on the National Security and Investment Bill later—for academia, both humanities and the interference in our freedom of speech in academia. If you do not believe that that is happening, I always say to people, “Take the Dalai Lama test; invite the Dalai Lama to give a speech at your university and see what happens and then tell me that there is no attempt to interfere in our freedom”. But perhaps even more important is the way that we will co-operate in our universities and companies on science and technology, given the increasing use of technologies for defence purposes and for repression purposes in Xinjiang and elsewhere and the reputational harm that that may cause us. That is a real area that we need to look at more carefully in the UK.

Finally, I will say two things, because you asked me about Taiwan as well. Data is extraordinarily important. There are vast quantities of data, petabytes, being shifted back to China. That may or may not be inevitable, but companies use that in China to make instruments that they boast on their websites are of use to the People’s Liberation Army and to the intelligence services and security services. Again, I think people need to look at that problem very carefully and see how it threatens our security and what can be done about it.

I think Yu Jie was absolutely right to highlight Taiwan as an issue—and possibly the issue of the decade. You might say that we have no locus in that. I think we do, because it is part of the South China Sea and navigation there, but also I feel that with 24 million people wishing to pursue their own form of life and democracy it is very much an issue of values. I do not think that we can just turn our backs on them if China decides to go for forceful unification in one form or other. I do not believe it will be through invasion; it will be other forms of force. So I have always been urging in anything I write and whenever I talk to people that we need, as the British Government, to let China know now that if they go ahead with forceful unification against the will of 24 million people, that will be the end of diplomatic relations and economic relations.

In the meantime, we should be doing the opposite of salami slicing. China loves to do salami slicing, moving things forward so that you cannot quite object to it. We need to do the opposite. Add to the salami, strengthen our relations with Taiwan in very small, gentle ways that cannot be

objected to, but ultimately over time build up to the sort of sensible relationship we should have with a country of 24 million people.

Q6 Lord Anderson of Swansea: In engaging with China, we gain strength from not being on our own but working with partners in other things, for example not to be picked off as Australia has recently been. Who are our key partners in dealing with China, in your judgment? What are their interests and how do those interests align with ours or diverge from ours?

Charles Parton: Inevitably, we have to start with the United States. I referred earlier to the debate as to whether it is decoupling or divergence. I think there will be tensions with the United States if President Biden continues on the bipartisan line that has been coming out of Washington for the past few years. I think we do not want to be led too far there because, for all the negative things that I have said, we want a positive relationship with China as far as we can without prejudicing our security, our interests and our values. So the United States, clearly, is a partner.

I hope that we can work much more closely with the EU. We have made that difficult for ourselves but, leaving aside all the areas of Brexit, we really must work closely with the EU on our foreign policy towards China—certainly those members of the Union that are willing to work on that with us, and certainly Germany and France. I served for five years on the European delegation in Beijing, so I know how difficult it is for the EU to be unified on its foreign policy.

The other obvious areas are strengthening the Five Eyes intelligence and possibly even broadening the nature of that alliance, and we need to either lead or work more closely with what I call the likeminded democracies. You can call them the D10 if you wish, if you are Mr Johnson, or whatever. Part of China's diplomatic weaponry is to divide and rule. It has done it very successfully and one of the main ways of countering that is to work with the likeminded.

Dr Yu Jie: Charlie has given examples of European countries and perhaps I may add, in terms of eyes and partners, many of the Asia-Pacific economies. The primary one I can think of is Japan, which is sitting in a very intricate situation with China. First, Japan is a neighbour of China, but it is also a very large economic partner of China as well. Japan shares similar values with the UK and other so-called democracies altogether. So, if I were to pick a partner in the Asia-Pacific region for the UK to work with to engage with China, it would be Japan.

Surprisingly, in the past five years or so, Japan managed to have a sound relationship with China. Partially it is because every 10 years there are ups and downs and twists and turns in Sino-Japan relations, but another reason is that Japan and China also have a common interest when it comes to the belt and road initiative and engaging with other Asia-Pacific economies, and given the recent discussion about China's potential membership of the CPTPP.¹ That really sets China and Japan in the mood

of having economic negotiation and engagement, but when it comes to security issues Japan is absolutely in the same camp as the UK and the United States. I consider that, if we are talking about stretching the UK's capacity and capability in the Asia-Pacific region, Japan would most certainly be a partner.

Q7 **Baroness Rawlings:** Thank you very much indeed for very interesting answers to the questions so far. Do you think that the UK is sufficiently resourced to be a security actor in China's neighbourhood? What contribution do you think it brings to the security efforts of its partners in relation to China?

Dr Yu Jie: On capability and capacity building, my fundamental question here is that there are no really fundamental geopolitical conflicts between the UK and China. Why would UK be so interested in sending aircraft carriers to the South China Sea? Yes, we can talk about protecting so-called freedom of navigation, but, first, would it really fit into the UK's national interest to do so. Secondly, the UK can work with Asia-Pacific allies, but how much gain would the UK have if it wants to carry on that line? So I am not very clear why this Government, and the previous Governments, are so obsessed with sending aircraft carriers to the South China Sea. Yes, the UK has the capacity, but what would be the intention? I am not very clear.

Charles Parton: Of course, we will never be properly or adequately resourced, that is true, but we do have a Navy and we are able to work with others, the United States in particular but also the Australians and, one hopes, increasingly the French and the Germans. I think it is important to send it to the South China Sea because, as I said, we need to uphold respect for international law and the law of the sea, and this is one way of ensuring that we do so. Are we adequately resourced through ships and aircraft carriers to fight a war against China? Of course not, and no one would ever want to fight a war. That is an important area and one where we should keep up the resources. As to why we are sending an aircraft carrier, it is for that reason, but I suspect also that it is part of the agreement because of the training and other things that we receive from the Americans.

Beyond that, there are two other things we can bring to bear. First, the UK has a lot of diplomatic experience that it can bring to bear in trying to resolve disputes or to smooth things, which is important. Secondly, we are a major contributor to the Five Eyes intelligence, and the intelligence resources on China need to be beefed up, not least in the defence against the United Front strategy, the intelligence strategy which China is devoting to our country.

The whole question, which we have not broached yet, of the United Front strategy² and how to combat it, and whether the sorts of structures and

¹ The Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

² The Chinese Communist Party has a United Front Work Department, which co-ordinates Beijing's influence operations in China and overseas.

alignments that we traditionally had are suited for it is a really important security question that needs to be debated—it probably is being debated; I am not involved—by Whitehall.

The Chair: I turn next to Lord Alton and after that to Baroness Fall. My apologies for any noise in the background. The builders at the neighbours have decided to start using a pneumatic drill, so I shall be popping in and out of mute. Apologies for any noise you may hear.

Q8 Lord Alton of Liverpool: I draw attention to my registered interests as an officer of two relevant all-party parliamentary groups.

One newspaper this morning says that the Prime Minister would welcome a free trade deal with China. How important is China as a current and future trade and investment partner to the United Kingdom? Should we allow economic opportunities to dominate the overall relationship and make us blind to the use of slave labour in Xinjiang and what the United States, and last week the Dutch and Canadian parliaments, describe as a genocide against the Uighurs?

Charles Parton: It is a very difficult balance and, as we said right at the start, the needle has to be moved away from golden-era trade and investment numbers one, two and three much more towards the values end of the spectrum, but, of course, if you move right to the far end of the values spectrum you suffer elsewhere. Getting that balance right will be very difficult.

As I said earlier, I do not think we should exaggerate the current state of trade and investment with China. It is important, and certainly we would wish to grow it for the future. I do not believe that China is prepared just to turn it off. It will make a lot of noise about it, just as it has done with Australia. Certain elements would be hit, and you can predict those fairly easily. They are either symbolic or ones which China can replace elsewhere—car exports such as Jaguar Land Rover, or Scotch whisky, which would be a fine example to choose because it would divide the UK, which I suspect would also suit China's, or the Communist Party's, political purposes.

I think the effect is exaggerated. We have talked about investment being very small, very targeted, and China, quite rightly, targets investments for its own interests. If it cut those out it would also be cutting its own benefits. We need to look at those very carefully.

Xinjiang and the genocide—and it is genocide under the UN convention's description—have to be taken into account. This is not just about the sheer goodness and badness aspect but the reputation of companies of ours that are trading with those that are producing materials through forced labour and benefiting from what is going on in Xinjiang. There is a reputational harm in, for instance, dealing with companies that have three laboratories with the public security bureaus in Xinjiang, as in the case of Huawei, for instance. Is it morally acceptable for, let us say, a professor at Oxford University to take money from a company that is doing that sort of thing in Xinjiang and to use that money to produce

technology that is then fed back into the repressive machine in Xinjiang? I am afraid there are examples of that. The dial has to be moved further that way.

Dr Yu Jie: Thank you for the question. It is a very important one. I agree with Charlie that it is incredibly difficult to get the balance right. In the Cameron-Osborne era, we let economic opportunities completely dominate everything through bilateral relations and viewed “bilateral relations” as a mercantilist term. Obviously, we need to address this imbalance under the current Government, but how to address it is the \$1 million question.

I just got a number from the Office for National Statistics, and apparently China is the largest export market to the UK and the fourth largest source of imports from the UK to China. That number is big enough, so economic opportunities are big enough, but there are follow-up questions.

First, what kind of economic partnership do UK and China want to have? Secondly, we may talk about a free trade agreement, but that is not what China is aiming at now. According to the latest Five-Year Plan—the guideline was issued in November last year, but the full details will be issued later next week—China intends to go into a mode of so-called internal circulation, self-reliance and a self-sustained economy by having its own cycle of demand and supply.

That means that, instead of investing abroad—most of the money made by China’s state-owned enterprises was invested abroad in the past—China will have to divert the resources back to its own country, back into China itself. With that course of internal circulation, it is inevitable that Chinese investment in Europe and many other parts of the world will reduce gradually, because that is just a natural economic adjustment for China.

Having said that, how big will the economic opportunity become? Perhaps it will be smaller compared with many a few years back. The UK has to reconsider the so-called economic opportunities. The economic opportunities will not bring money out of a tree; they will come with a cost. What that cost will involve is really up to the Government to decide.

Q9 **Baroness Fall:** I ask people to look at my interests as set out in the register.

I think we have established to some degree that Chinese investments are important to the UK, but the balance between that and the cost, and how we measure it, is still up for debate. My concern is still about the security of some of those investments, and you have talked about lots of different aspects of that, such as digital, health or nuclear.

To what extent do you think we have the right provisions to adjudicate this? I draw attention to the recent National Security and Investment Bill but also to recent changes to the Enterprise Act. Do we have the right provisions in place to adjudicate these investments?

Dr Yu Jie: Thank you for again another very important question. I think that introducing the National Security and Investment Bill is absolutely right. Any country engaged with another foreign entity should have such a Bill in place. Part of the reason why we had discussions in the past about Chinese investments in the nuclear sector or various other sectors was whether the Government had done sufficient due diligence to allow those companies to enter the UK. Currently, this Bill is in debate, and I think that is the right direction.

One thing we need to be very clear about here is that not all Chinese companies are led by the state and not all Chinese companies are led by the Chinese Communist Party. How will we distinguish between genuine entrepreneurial behaviour and what is led by the state? We need to make that distinction very clear. The Chinese people really value consistency. Of course, they value power and strength, but they also value consistency.

Many Chinese entrepreneurs who are initially interested in investing in the UK will ask: "The UK is introducing this Bill. Does that mean that the UK no longer welcomes foreign investment?" That sense of confusion has been created on the ground inside China. I consider the UK, perhaps in the post-Brexit moment, to be still very much open for many investments, irrespective of whether they have come from China or anywhere else. The UK does not want to give the impression that it is against foreign investment, so it is incredibly difficult to get the balance right.

Charles Parton: The National Security and Investment Bill has been delayed and will come out later than originally intended. It is needed as soon as possible. I am not a legal expert, but its provisions look fine to me as a legal basis. I think the implementation of it matters more. In that implementation it needs to concentrate much more on the technology and the threats rather than the ownership of companies.

I am not particularly bothered by the ownership of companies, even though I notice that, when the EU produced its own strategy on investment, according to the statistics it put out, about 15 of the countries ban state-owned enterprises from investing. I think it is irrelevant. There was the whole Huawei debate about whether Huawei is a private company or a state-owned company. Who cares? It really is unimportant, because everybody knows that if the Communist Party says to a company, "Jump", the only answer is, "Certainly, sir. How high?" I think we should concentrate much more on the technology than the ownership of the company.

When it comes to the National Security and Investment Bill, it is very much a question of the structures that are set up to ensure that the Bill's measures are implemented. Will that structure be sufficiently well resourced? Will it be an extension of the Centre for the Protection of National Infrastructure? I do not know. That body exists and gives good advice, but it needs more teeth. I love its gentlemanly, "You might like to

consider", as opposed to, "No, this is a serious problem. Please ensure that you follow these guidelines".

There is a need for a SAGE-style³ body that gives very quick and definitive answers—as far as one can, because technologies are very complex—on the question of whether a particular investment goes ahead. Much of Chinese investment is, quite rightly, targeted on obtaining the things that they cannot do for themselves, such as in areas of innovation and technology. That is fine, provided they are not sensitive militarily or security-wise. I am not enough of an expert legally to pick any holes in the Bill, but I hope that the Government will resource and give teeth and speed to any body that is charged with implementing its measures.

The same applies, incidentally, to universities and university research with China and the hiring of Britain's brains in the service of China's interests. Sometimes that is fine, in other cases it is not, and universities and researchers should be able to turn quickly to a body that says, "I'm sorry. With this form of technology, no way, because it will be used in Xinjiang to spot Uighurs" or whatever. Such a body needs to be up and running as soon as possible.

The Chair: Thank you very much. I now turn to Lord Campbell for the last of our questions in the formal run of questions. It looks as though we will have time for supplementaries, so I invite my colleagues either to raise their hands physically or preferably to use the "raised hand" function on Zoom as we hear the responses to Lord Campbell's question.

Q10 **Lord Campbell of Pittenweem:** I must apologise for not being present at the outset of the session. I had another commitment in my diary. I shall follow the transcript very closely.

My question is this. How does the United Kingdom's approach to investment and trade with China differ from that of the European Union and member states such as Germany and France? Of course, we already have a context for this question, do we not, in the Comprehensive Agreement on Investment, which has been described as one of the most ambitious that China has ever concluded with a third party?

Without going through the detail, it contains, for example, rules against the forced transfer of technologies, and rules on market access, among other things, to manufacturing, automotive and financial services. On the face of it, that seems a very good deal for the EU. Would you like to comment on that?

Charles Parton: Yes, I would describe it as a win for the Chinese Communist Party, not for Europe. geo-politically, of course, its timing was designed to pre-empt whatever the Americans might be coming up with and to divide it from the Europeans.

On the actual provisions, I do not think it goes nearly far enough in opening up China to European investment and creating a level playing

³ SAGE is the Scientific Advisory Group for Emergencies.

field. I was in the European delegation in Beijing when it all kicked off, and I remember my trade colleagues saying that they were intent on making sure that it was a very robust and strong agreement or it would not happen, but quite clearly that determination was not matched at the political level in the EU.

I think it has been received within Europe not with great cheers but with muted cheers at best. If you look at some of the openings that have been granted by China, they include new energy vehicles and hospitals, but only in the 10 biggest cities, and less than 50% open in things like telecoms and cloud services. There are no easy mechanisms for the resolution of disputes. Ultimately, they would have to go to the WTO, and, of course, litigation in the WTO is rather suffering at the moment, not through China's fault but mainly through the fault of the Americans.

If we look at things like the labour standards and other standards which the EU says the agreement will promote, I have to say, "Come on. If you really think this will force the Chinese to sign up to, or ratify, international labour agreements, I should be more than surprised".

So, no, I do not think it is desperately something to be lauded. As far as the UK is concerned, if you are an optimist you would say that it provides a floor and that the UK might be able to get all that and more. If you are a pessimist, you would say that it is the ceiling; the UK will get somewhat less than the EU. I suspect we might be better off putting our eggs into something like the CPTPP.

As for an FTA, do not forget that the CAI for Europe does not include trade. It is purely about investment. The strategy the EU pursued was to go for the easier agreement on investment before looking at the hard stuff of FTAs, which incidentally in the Australian case took 10 years of negotiation and was pushed through only for political reasons. I think many Australians regret it, and did so even before the trouble started.

I think it is unlikely that this is a prelude to an FTA and that it can be signed up to within the term of this present Government.

Dr Yu Jie: The simple answer to the first question about the differences between the UK, France and Germany in their trade approach to China is that each country is selling different things. France and Germany are selling their aircraft and high-end machinery to China. That is partly why Germany has always been the largest export market within the EU to China, for more than a decade.

What the UK sells is the trade in services, which is the significant sector that the UK would be able to offer to China. Part of the reason why China decided to make the UK the primary partner to engage with in 2015 is that China intends to turn itself into a service-oriented economy, and the UK is the model to replicate. That was the past story. The difference is that the UK, compared with European partners, is selling different things.

When it comes to the UK's role in trading with China in the post-Brexit scenario, one of the roles which the UK can perhaps redefine is its role with the WTO and, of course, with the new administration of the WTO. The UK could perhaps define the rules and regulations of the trade in services, because it is a major player there and China is certainly interested in WTO reform, but the direction of reform is up for debate. However, the UK, in framing the questions, can certainly define the rules about the services trade.

Turning to the Comprehensive Agreement on Investment between the EU and China, of course it is a political win for China. On the other hand, it also carries significant economic implications for China itself. Look at the past. In the past 40 years or so, China has always used external economic forces to facilitate internal changes. I think that is part of the reason why the Chinese leadership also agreed to this Comprehensive Agreement on Investment. Of course, that should include reducing state subsidies and meeting certain labour conditions, but we must wait to see whether the two sides can finally reach a comprehensive agreement, because so far the agreement is only in principle. The entire draft is still being debated in the European Parliament, so we cannot be 100% sure that it will go through. It is only agreed in principle. That is the difference here.

Put it this way: the government in Beijing are now facing a dilemma. On the one hand, foreign investment is boosting the economy. On the other hand, they are running a very toxic, assertive diplomacy. So far, that does not square the circle. Which way will China go? Will it go with a sense of economic engagement with the world, or will it go with running an assertive diplomacy? That remains to be seen.

So far, judging by the agreement with the European Union, and other deals that China signed before Christmas, there is the sense that China's leadership has not lost its sight that China's economic prosperity is the way to guarantee the survival of the Chinese Communist Party.

The Chair: Thank you very much. We now turn to supplementary questions to our witnesses. So far, I have indications from Lord Boateng, Lord Stirrup and Lord Alton. Lord Boateng, I turn to you first. I can also hear Lord Anderson in the background. I should add Lord Anderson to that list, so it will run Boateng, Stirrup, Alton, Anderson. When I ask for responses, I will go to Dr Yu Jie first, just carrying on with the alternation.

- Q11 **Lord Boateng:** To what extent do the Belt and Road Initiative and infrastructure investment facilitate the extension of Chinese military power? One is thinking of China's investments in ports and airports and the like. How does the People's Liberation Army feature in military diplomacy or engagement in peacekeeping under the auspices of the UN, as well as China's own diplomatic effort?

Dr Yu Jie: It is a very good question. In terms of the extension of China's military power, I am not sure. The Chinese military plays a role in

securing China's own economic interests alongside the Belt and Road Initiative, because most of the countries that signed up to Belt and Road are in very precarious political conditions—many developing countries, and many countries that are embroiled in domestic military conflicts. The Chinese military's role is to secure and to provide guarantees for China's economic interests by involvement in Belt and Road.

One example is Djibouti, which is the only overseas PLA⁴ military base of China. In Djibouti, much attention has been given to guaranteeing the trade route between China and Pakistan and various other countries. In a way, the role of the PLA is more about protecting Chinese economic interests than extending so-called military power. When it comes to the PLA's engagement with diplomacy and UN peacekeeping, it plays a big role, most notably in anti-piracy and providing medical equipment. I do not know any more than that.

Charles Parton: I go along with what Yu Jie has said, but forgive me, Lord Boateng, if I do not use the words "Belt and Road Initiative".

As ever, China has its economic interests, just as, in the UK's case, the Royal Navy followed economic interests in establishing bases around the world. That will be the Chinese motivation. It is not an expansion of military power per se. Yes, China has a base in Djibouti, its first, but it also has interests in protecting Chinese shipping going through the Suez Canal, and so on.

As China extends through its investment in globalisation and builds and runs ports around the world, that may well make it easier to have ships' visits and possibly dedicated facilities in future, but I do not see China as a threatening military power in that way. If China is a threat to our security, it is in other ways.

I think China's participation in the UN is to be welcomed. Its participation is not entirely disinterested, but why should it be? Part of the reason why China contributes to the large extent that it does is that it wishes its military to gain experience in things like logistics and communications and working together with other militaries from other countries. Fair enough. Again, I do not see any appalling threat from China participating in the UN. I think it should be welcomed.

The Chair: Thank you very much. I have added Lord Campbell to our list. Obviously, we will watch the timing. I go now to Lord Stirrup.

- Q12 **Lord Stirrup:** Two areas that we have not touched on in any substantive way are the subcontinent and Korea. Might you say a word about those? India, of course, has its own border issues with China, and vice versa. India is a growing economic power, and before very long it will have a larger population than China. It is clearly a significant global player. Pakistan has been looking increasingly to China for assistance in its difficult position and, of course, India and Pakistan have their own issues.

⁴ People's Liberation Army

Is that triangular relationship a significant security issue with regard to China and potential clash points? Conversely, might the problems between North Korea and South Korea be a potential area of co-operation with China in security terms?

Charles Parton: I always say that I am an internalist who looks at the Chinese domestic scene rather than an externalist, but I will have a go.

It is interesting that you mention those two places, because they are areas where the interests of the Chinese people differ from the interests of the Chinese Communist Party. If one were to take North Korea, for example, what would be the best thing for the Chinese people? It would be reunion with South Korea, a strong economic power on its borders with which it could co-operate and produce mutual prosperity that way. It would reduce the threat of any breakdown in North Korea and of refugees flooding across the border, causing instability to the regime in China. There are many reasons why it is in the interests of the Chinese people. However, the Communist Party is one of the five remaining communist parties in power and there is a lot of historical baggage, which we have seen paraded in the last year with the victory against the Americans, and so on.

To some extent, although I would not profess to be an expert on the subcontinent, I think the same applies with India. Why are they scrapping about territory that is very unproductive in terms of resources, and so on? China, of course, has a claim on Arunachal Pradesh—an enormous area but not, I suspect, one that is desperately rich; it is certainly not developed—which it calls South Tibet. One of the Communist Party's ways of legitimising itself with its own people—as Yu Jie said, it is mainly through economic prosperity, but there are other ways—is by guaranteeing China's territorial integrity, based on some fairly dubious historical grounds, incidentally. In fighting for that, or threatening for that, and scrapping over the border, China can make itself seem to be fighting for its territorial integrity. Whether that is in the interests of the Chinese people rather than the Communist Party's is a debateable point.

The main area of contention, and a real worry between India and China, is the control of the water in the Brahmaputra. There was a very interesting and worrying little phrase in the proposal for the 14th Five-Year Plan. There is a plan, which has been in debate for some years, to develop two enormous dams on the Brahmaputra, at the Great Bend, which will be bigger than the Three Gorges dam and will affect the control of water, the fertility of the soil, the level of nutrients, which are going down, and global warming.

There are so many reasons why this is worrying. Of course, tens of millions, maybe even hundreds of millions, in India and Bangladesh depend on the nutrients and the water from that river, and if I were India I would be severely worried from those angles. I would also be worried that a big earthquake, a once in a century earthquake, might destroy it when it was built. The trans-boundary water issue is far more important than little scrabbings over odd bits of territory here and there.

You alluded to Pakistan. Pakistan has always been a very expensive place for anyone who tries to invest there, and I think it would be so for China as well.

Dr Yu Jie: I will start with the Korean question. Sure, China prefers to have some kind of casting vote on the Korean nuclearisation issue. From 2012 to 2017, the relationship between Xi Jinping and Kim Jong-un was rather strained, and the two had never really met each other until Donald Trump decided to meet the North Korean dictator. China was very much hoping that it could retain the role of facilitating Korea reunification. Part of the means and ways by which China did that was through economic inducements—by developing a strong trade relationship with South Korea on the one hand, and on the other hand providing economic assistance to North Korea. It goes to both hands. China wants to keep a central role in the reunification of the Korean peninsula for itself. That is China's intention.

When it comes to India and Pakistan, I will just add to what Charles said. Watch out for vaccine diplomacy and the way China chooses to get a much closer relationship by choosing whichever country it decides to send its Covid vaccine to. Pakistan would be the priority for that, because the China-Pakistan economic corridor is one of the flagship projects in the Belt and Road Initiative—or China's globalisation ambition, as Charles may call it.

There is a sense of competition between China and India over Pakistan, but there is also an element of Chinese domestic public opinion towards India; it is not at all in favour of India. Chinese foreign policy is, to a certain extent, also shaped by Chinese domestic public opinion, which requires diplomats and state media to write and speak in a certain way. That is partly why Sino-India relations have become so strained since 1962.

The Chair: Thank you. We have time for just one more question. I therefore call Lord Alton.

Q13 Lord Alton of Liverpool: Returning to what both witnesses have said about striking the right balance, do you believe that increased trade with China would reduce human rights violations? What effect would moving the Olympics, for instance, have on the mistreatment of the Uighur people? The Foreign Office describes China as a strategic partner. Given that witnesses have said that the CCP is carrying out a genocide in Xinjiang, is that an appropriate and balanced phrase for us to use?

Dr Yu Jie: There has been so much debate already about the upcoming 2022 Winter Olympics. Judging by press releases and various things that have been discussed so far, it seems that it is the Biden Administration hinted the potential of boycotting of the Beijing Winter Olympics. To be honest, that will go nowhere, because the more the G7 members try to name and shame China on human rights issues in Xinjiang, the more united the Chinese Communist Party and the Chinese population will be. I am not sure it will go anywhere or bear any real fruit.

Charles Parton: I will take the questions in the reverse order, Lord Alton. I can never quite remember, without looking it up, what we are. I think we are a strategic and comprehensive progressive partnership for the 21st century. China has a stratified load of these partnerships. Pakistan is an all-weather partner, or something. I take them all with a bit of salt. I do not think one should get too bothered by the definitions but should go to the specifics of the issue.

In terms of trade, as we said earlier, we need to put a lot more resources into dealing with anything that involves forced labour in Xinjiang or companies contributing to repression in Xinjiang, and maybe actually to human rights abuses throughout China. We can do that. There is plenty of stuff that you can research, if you have the right skills and tools, in order to find out which companies are involved with the military, with repression or whatever.

You could look at the sort of tactics that Bellingcat uses and others have been using in Xinjiang. You can go a long way down that line, and I think the Government should be commissioning people to do that, and saying, "Working with these companies is not allowed, because they have these sorts of activities in Xinjiang".

When it comes to the Olympics, I think we do something a lot cleverer than a ban. I am a classicist by training at university. In the old Olympic days, you held a truce, you held the Olympics, and as soon as the Games were over and the poems had disappeared into the ether, you got out your shield and sword and started the serious business of killing each other again. Fine. But I think we can make the costs to the Beijing regime a lot greater.

I think the Games should go ahead. I do not think the athletes should suffer, but nobody from our Government should attend. I do not think sponsors should sponsor. I do not think tourists should attend. I do not think television cameras should do anything other than show the events. There should be nothing else. There should be none of these sorts of background pieces, and we should make a conscious effort to cut out any form of propaganda. The result will be a very expensive Olympics—they always are—and a loss, I hope, to the regime in terms of finance and the propaganda that it is able to make out of them. That is a much cleverer way of going about life than putting the onus on the athletes.

The Chair: At this stage, although it is a pity, we have to come to an end of a fascinating session, but such is life with the timing on broadcast sessions.

It is definitely my pleasure to thank our two witnesses, Dr Yu Jie and Charles Parton. You have given us a very broad range of answers, with depth to them, and have outlined for us the challenges that lie ahead for us as we look at balancing all the issues involved as we take evidence and then draw conclusions for the publication of our report, sometime, I hope, in the late spring. I know parliamentarians always talk in very general terms about publication dates, but you have put us on the road—

I will not say belt and road—to the publication of the distillation of all the evidence that we receive.