HOUSE OF LORDS

Select Committee on International Relations and Defence

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

Wednesday 10 March 2021

10 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; Lord Mendelsohn; Baroness Rawlings; Lord Stirrup; Baroness Sugg.

Evidence Session No. 2 Virtual Proceeding Questions 14 - 21

Witnesses

I: Dr Janka Oertel, Director, Asia Programme, European Council on Foreign Relations; Professor Kerry Brown, Director, Lau China Institute, King's College London; Professor Steve Tsang, Director, China Institute, School of Oriental and African Studies, University of London.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Dr Janka Oertel, Professor Kerry Brown, Professor Steve Tsang.

Q14 **The Chair:** Good morning. Welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords.

The witnesses for our inquiry today are: Dr Janka Oertel, Director of the Asia Programme, European Council on Foreign Relations; Professor Kerry Brown, Director of the Lau China Institute, King's College, London; and Professor Steve Tsang, Director of the China Institute, School of Oriental and African Studies. Thank you for joining us today to share your expertise for our 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 our formal run of questions, I shall invite my colleagues to ask supplementaries. I shall give precedence to those who have not been allocated a formal question on the list.

I will of course start as usual by asking a more general question, before turning to my colleagues, who will ask focused questions. I remind colleagues that the session must conclude at 11 am.

The first question, the general one to our witnesses today, is: 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?

Dr Janka Oertel: Thank you very much for the kind invitation.

I think I will have to disappoint you on the first question, but I will make up for it on all the others. You have fantastic experts from the UK in Professor Brown and Professor Tsang, so I will refrain from describing the UK's policy in this regard. I would rather comment later on where the UK's key economic interests lie, and where they intersect with other partners, if that is all right with you.

Professor Kerry Brown: Thank you very much for inviting me today.

I do not think that the UK has until recently ever thought of having a policy towards China. We had a policy towards Hong Kong. I was a diplomat from 1998 to 2005. I dealt with China a lot, in both London and Beijing.

I question whether we ever had a policy. In the Blair years, it was benign engagement after the handback of Hong Kong in 1997, because that was such a huge political issue, but once that was out of the way—or so we thought—it was about leveraging what we could economically with a partner we were not really doing a great deal with at that time. We had many discussions on a framework with China, but, broadly, our values discourse was directed via Brussels, and our security was either through NATO or the United States. We did not really have a policy.

We are now pushed into a position of thinking more deeply about China, for three reasons. One is the intensification of the issue of Hong Kong in domestic British politics. The second is a post-Brexit desire to have a global economic narrative, and that means somehow embracing a fifth of the global economy, which is what China is. The fact is, at the moment, that China is not a big economic player in the UK. It is not a big investor. It is a relatively big trading partner, but not as big as Europe or America.

Thirdly, we now need to have ownership over our human rights and other areas of dialogue and discussion with China, and we will not be outsourcing them, or, rather, putting them through Brussels as we used to. We are having to think about a policy, and that is the strange thing: we have never really done that before.

Professor Steve Tsang: Thank you very much for inviting me. Perhaps I might start by answering your question in a slightly cheeky way. If I were advising the Chinese government, I would say that the United Kingdom has exactly the right China policy, because it has none. It is creating a situation where the Chinese government can make the most of it to advance their own national interests. Countries do that, and I do not think that there is anything fundamentally wrong there.

Getting back to UK-China policy, Kerry Brown is certainly right when he says that we do not have a clear China policy, but in different Administrations there were different degrees of clarity. Whatever one thought about Cameron's "golden era" approach to China, there was a sense of clarity in what the UK was trying to get in its engagement with China. At the moment, it is not clear what we really want to get in our relationship with China. Are we looking more in terms of our values, or are we looking more in terms of our economic relationships and interests in and with China? Because we are not clear, it provides scope for the Chinese government to try to get us to move more in the direction they would like us to move.

I would add a fourth factor to the three that Professor Brown has raised, and to me it is probably the most important: the assertiveness of China, which now makes it necessary for the UK to come up with a clear China policy or China strategy. That strategy or policy is necessary because it will affect how we want to see our place in the world, and how we want to engage with our key allies, be it the United States or the EU. We have to think about that, and I think that it has reached a point where this country does need to have a China policy.

The Chair: Thank you for that very interesting introduction to our discussion today.

Q15 **Lord Stirrup:** Good morning, everybody. The UK's policy towards China ought to be informed in large part by a clear analysis of the UK's economic and security interests with regard to China. Perhaps I might ask the team for their views on that issue, looking at security in its broadest sense, and looking also perhaps at the potential threats to those economic and security interests. Will you say a word or two about the linkages between the two halves of that particular equation? Perhaps this will be a chance for Dr Oertel to commence her comments.

Dr Janka Oertel: I would say that, in the broader framing, this is not just about the UK's interests. The UK's interests are deeply intertwined with the interests of Europe, the US and even other like-minded partners in the Indo-Pacific region.

The three key economic interests of this broader coalition are: market and investment access, including for the financial services sector, under the conditions of free and fair competition; retaining a comparative technology and innovation edge; and maintaining and further developing the rules-based economic order.

Slightly different from many of its continental European partners, the UK's security interests in the Asia-Pacific region go beyond the economic dimension. The alliance commitments with the US and the UK military presence in the region are integral parts of the existing order, and a very relevant contribution for key partners such as Japan, India or Australia.

China's increasingly assertive stance vis-à-vis its regional neighbours, in both the economic and security dimensions, is changing existing geopolitical realities. Over the last two to five years, the pace of this development has taken on additional speed, and thus enhances the pressure on like-minded partners to find convincing answers.

The growing toolkit of coercive economic measures now at Beijing's disposal will have an increasing impact, given China's enormous market power and its building up of indigenous champions. Xi Jinping's declared goals of enhancing China's self-reliance and making foreign actors dependent upon Chinese technologies and the Chinese market as a space for research and innovation should serve as an indicator of the direction of travel, and where Chinese interests are going, and how this deeply affects the UK's position and interests in the region more broadly, and vis-à-vis China specifically.

Professor Kerry Brown: On the economic issue, China has had three interests in the UK, historically, over the last 10 years. The first is a liberal investment environment in the UK where it can showcase some of its proprietorial technology. I think that was why it was interested in nuclear here about three or four years ago. It has built a staggering amount of nuclear power stations, and a well-regulated market such as the UK's will be a good showcase for its technology. China is a producer of a lot of technology now.

The second is finance through London. I think that the Chinese thought of Brexit as a time when London would probably be more open to Chinese investment. I believe there are a number of banks, and the China Investment Corporation[1] is active in London. There was renminbi trading, although it has dipped quite a lot. That was signed in the era of Osborne and Cameron.

Thirdly, there is intellectual partnership through universities. We have just had a report by Lord Johnson, into which I had some input. It has a figure of a twentyfold increase in joint research with Chinese universities. A lot of this is good stuff and we should not be ashamed of it. It is public benefit, human health, climate change—really important human welfare issues.

We have to gauge whether those three issues suit the UK in its particular situation at the moment. They are intimately linked with security. You cannot get them away from security issues. It seems to me that the problem with the policy framework at the moment is that it is very difficult to balance the fact that it is likely that, as China's economy grows, even after Covid-19, these areas will offer some pretty good opportunities for China. This may be in concert with Europe if it goes ahead with its investment protocol, although that has to be passed by domestic parliaments.

They all carry significant security thinking. I suppose my question about all this is whether we in the UK have a nuanced enough and sophisticated enough security framework to deal with the benefits in investment, finance and intellectual partnership, while acknowledging that, of course, they will have risks. Our risk management will be crucial.

Professor Steve Tsang: I have been working on a project on the political thought of Xi Jinping, so I take a slightly longer-term perspective on the issue. We should perhaps start by looking at what China's long-term objectives are under Xi Jinping and how these will affect the UK's security, economic and other interests.

Unlike his two predecessors, Xi Jinping wants proactively to make the world safe for authoritarianism. Xi Jinping has a policy of achieving the national rejuvenation of China—in other words, to make China great again—certainly by the centenary of the founding of the People's Republic of China in 2049. Under that conception, China is supposed to be rich, powerful, beautiful, and in all important ways second to none. This is what we are looking at.

To achieve that, China will have to take Taiwan, one way or the other. Taking Taiwan means pushing the Americans out of the western Pacific. This is what is in the conception of Xi Jinping's thinking.

There is an issue over how it affects the UK's values and security in the long term. We are looking at a different value system being pushed forward. Ours does not happen to coincide with the system that Xi Jinping is in favour of. What the Chinese government want to achieve with their geopolitical ambitions in the world will push our key ally—the most important ally, the United States—into a secondary place, which means

[1] A sovereign wealth fund responsible for managing part of the People's Republic of China's foreign exchange reserves.

there will be a fightback from the Americans, and we will have to bear in mind where we want to stand on that.

When we look at the immediate short-term interactions with China, we may also want to bear in mind our longer-term interests and what we believe is important to us as a country.

Q16 **Baroness Blackstone:** What is the place of the UK in China's foreign and economic policy under Xi Jinping? What are China's economic and political interests in the UK?

Professor Kerry Brown: The UK is significant because of being on the permanent five UN Security Council. It is significant in being seen as a key ally of the United States. The Chinese do not regard us as negligible. However, the most remarkable thing about the UK-China relationship is the reversed asymmetry in the last 25 years. If you think when Hong Kong was reverting to Chinese sovereignty in 1997, basically, the UK was a bigger economy, and probably a bigger geopolitical actor, and in a very short period that has been reversed, broadly since the 2000s. That has created this imbalance.

The Chinese, especially since we left the European Union, think of the UK as a slightly different actor, but a significant actor. We are not big enough to threaten China, but we are not small enough to cease irritating them. As we see today, Caroline Wilson, the ambassador in Beijing, has been given a rough time over an article that she had posted on her WeChat account in Chinese about broadcasting licences for China Global TV and the BBC's problems in Beijing. I think that is indicative of the fact that the Chinese think that we are worth sometimes having a dust-up with but do not put a lot of commitment into it.

China's interests are the ones that I mentioned earlier—investment, finance and intellectual exchange. Those offer some areas where there is an alignment and some areas where there are differences.

Security is much more complicated. It is an associated point, but the striking thing about the position of the United States on China now is an acknowledgement that this problem is too big for the United States to deal with alone. It has begun to bring the European Union and the UK into dialogue—there is a dialogue between the European Union and America that did not exist before the end of last year.

This is a big change. There is a kind of coalition emerging. The problem with the coalition, in which the UK takes part, is that we may be the weakest link in some ways, but China is very sensitive to containment, and has a narrative to counter that. That could also be self-perpetuating. It could be a problem in its own right.

Professor Steve Tsang: I agree with Professor Brown that China sees the UK as a significant player and wants to engage very proactively, for good reasons. The UK is not the United States or the EU; nor is it even Germany. Those three would certainly be more important strategically to China than the UK, but the UK is important in another way. The UK is still a global leader in many areas, and the Chinese government have not forgotten how the UK supported the AIIB[2] initiative, turning the tide to make the AIIB a very significant international organisation that it otherwise could not have become.

The UK is also important because it is part of the Five Eyes alliance. We may see the Five Eyes as entirely an intelligence co-operation organisation, but there is a sense of the Five Eyes being a modern personification of the old wartime Anglo-Saxon alliance, so it matters from that perspective.

We are now outside the EU but still in the European region, and we can have a bit of influence in some ways. Being able to get the UK, through persuasion, by whatever means, to work with the Chinese government would be a very useful way to ensure that there is not this, if you like, global alliance of democracies centred on European and north American countries, to come back and deal with China as a global coalition.

In that sense, we are very important, but there is also a belief that we can be persuaded through economic or other incentives, and perhaps also with the occasional use of the big stick when it thinks it appropriate.

Dr Janka Oertel: I agree very much with Professor Tsang in this regard. I would say that the importance of the UK to China's economic policy has been reduced by Brexit, but to a degree the foreign policy dimension could be enhanced by Brexit.

The UK has less leverage individually, but it needs to be very aware of China's current strategic approach vis-à-vis Europe and the US more broadly. It is clearly targeted at avoiding this emerging united front that Professor Tsang was talking about: the alliance that in totality could be a really big challenge to the Chinese leadership. Individual countries are currently being picked off, and either treated particularly well, to set incentives, or particularly badly, to set a precedent for others not to follow. The Australian case is particularly relevant at the moment. Solidarity is becoming a key aspect for any like-minded country to deter Chinese actions in this regard in the future.

Whereas China's economic interests in the UK are heavily bound up in financial services, tourism and education, the political interest in attempting to create this wedge between alliance partners, and exploit potential and existing fault lines, outweighs those economics interests. The 5G debate has demonstrated fundamentally how countries are already weighing their economic and security decisions against the broader political relationship with Beijing. With China's growing economic power, this dynamic will only be further exacerbated.

For China, limited and targeted economic concessions at the right time can seem justified in a broader diplomatic and political context, which I think has been very amply demonstrated in the recent Comprehensive

[2] The Asian Infrastructure Investment Bank

Agreement on Investment with the European Union. I am happy to elaborate on that if that is of interest at a later stage, but I think that it was a good example of trying to play favours and not favours, and how this can create a dynamic that could become very complicated for the UK.

Q17 **Baroness Sugg:** Good morning, everybody. We have all been eagerly awaiting the Government's Integrated Review, which I believe we are expecting next week. From what we have heard, we expect it to outline a greater UK interest in the Indo-Pacific region. I am interested in your views on how China will perceive that greater UK engagement in its neighbourhood, such as the deployment of HMS Queen Elizabeth to the Asia-Pacific. What reaction do you think we will get from China?

Professor Steve Tsang: I do not think the Chinese government particularly like the idea of HMS Queen Elizabeth and its task group sailing up and down the South China Sea, which they see as a kind of de facto Chinese lake. I think that they will make some kind of response. I do not think that it will be particularly or overtly aggressive, such as sending ships to block the British multinational task groups sailing up and down. It usually picks on individual ships rather than a powerful carrier-based task group in that kind of situation.

They will probably push back verbally about what we are trying to do. They will hint that there is perhaps a failure to realise that we no longer have an empire and that we should really be thinking about what the world in a post-Brexit situation should be like. There may well be underlining that, in all these bravado displays of British naval power, we do not even have enough aircraft to fly off HMS Queen Elizabeth—we will rely on the American Marines to fly jets on our ship—what kind of power is that if we are, at best, deputy sheriff to the United States?—and we should think about being better than that.

Dr Janka Oertel: I agree again very much with Professor Tsang that any kind of additional military presence in the region by allied partners at the moment will be regarded as a provocation of some sort, and as a challenge to Chinese interests. I also agree that it is unlikely that the mere presence of a few additional ships will greatly tilt the balance and provoke a reaction. That is not in China's interests at the moment, at least in the short term.

What is more interesting is the strategic question behind that of where the UK will position itself in a plausible Taiwan contingency or other regional military escalations. The planning among other European countries for such a development and its impact on global supply chains—for example, the semiconductor industry—is not far advanced enough at this stage.

Thinking beyond sending ships, the broader strategic framework seems the more relevant question to ask. What we are witnessing at the moment is an Indo-Pacific awakening among European partners. It is manifesting itself in Indo-Pacific strategies in Germany, France and the Netherlands. The current attempt to craft the strategy at a pan-European level is a good, helpful framework for future comprehensive engagement in the region beyond the security dimension, as I think the challenges that are faced from economic coercion, climate change and supply chain security are increasingly intertwined with classic security considerations that cannot be shot at or dealt with by ships and rockets.

Professor Kerry Brown: I guess the first point is that we have never before dealt with a China that has significant naval power. That is a huge new issue. China, historically, quite far back into modern history, did not have a naval capacity—not until the 1980s. Now, in vessel numbers, it has the biggest navy in the world. Of course, technologically, it is far behind the US, but it has caught up a huge amount. This totally recontextualises things.

Secondly, when I lived and worked in Australia for three and a half years at the University of Sydney in the early 2010s, I remember Peter Varghese, the head of DFAT,[3] talking about the Indo-Pacific as a counterbalance. I guess that if enough people believe in this it has a sort of reality, but it is not as compelling as something like the Belt and Road. It does not have the economic backbone. If you commit to this concept—I am sure that John Bew, a colleague of mine at King's who has been doing this Integrated Review, has thought about these things very deeply—you have to have real commitment to the idea that the Indo-Pacific is a real thing. The India-China relationship is the most difficult globally, I think. People do not look at it enough. Never in modern history have two powers invested so much in not knowing about each other. They do everything not to know about each other. It is quite incredible. They have deep cultural and political competition.

The final thing is diversification. The UK and others are in the business of diversifying, but I wonder whether it keeps bringing you back to the same doorway. You can look for an alternative to the potency of the Chinese economy and the rise of consumption in China, which is the greatest economic asset on the planet, and you cannot find it. It does not exist in India or elsewhere, not even in the Asian region, in that kind of volume. The problem is that, as you make forays into this fairly sparse geopolitical territory, for the UK at least—it is not one that we have the capacity to do much in, as other speakers have said—you have costs elsewhere. Geopolitics is a branch of economics now. It is always about opportunity costs, and China is the ultimate opportunity cost: that is the problem.

Q18 **Baroness Fall:** Good morning, everyone. I start by declaring that I am a Senior Adviser at the Brunswick Group.

I want to return to the question of allies. We see Europe, America and China in a slightly different position. We see some individual countries such as Australia going out on a limb and having a bit of a bumpy ride.

Who are our key allies in our relationship with China? What are the convening issues for us? Is it economic or value-driven? If it is value-

[3] The Australian Department of Foreign Affairs and Trade

driven, will we see Five Eyes more as a convenor, or will we look to the G7—and, of course, we have European colleagues on the G7? COP[4] is another issue, with climate change being so important to the world, and our relationship with China. I would like to bring all three of you back to those very important questions about alliances.

Dr Janka Oertel: Coalition building with regard to engagement with China is the key factor and the key question for the next couple of years, probably. The United States, as Kerry Brown has mentioned already, under the new Administration, has clearly stated that it is unable to tackle the non-military challenges that China poses to the US, especially in the economic realm, by itself. That is quite a revolution in US foreign policy thinking. If you think about it more broadly, we would not normally expect the US to state that so bluntly.

The new Administration in the US has been very clear: it is not about an aggressive countering of China strategy, but more about building the leverage needed among allies and partners to secure joint interests in fair and free trade, and in future competitiveness and other aspects.

The fact that this goes hand in hand with intense dialogue with China to co-ordinate on global issues and de-conflict some of the rising tensions is underlined by the fact that, today, the first tentative meeting between Yang Jiechi, Jake Sullivan and Antony Blinken has been announced as possibly taking place in Anchorage. We are seeing first steps in that regard as well.

The interests of both the US and the EU on the broader strategic questions are very much aligned with those of the UK, and even partners in the Indo-Pacific. They range from a strengthening of the rules-based international order to securing supply chains and safeguarding human rights and fundamental freedoms.

On the more granular level there are obviously key differences. For instance, in Berlin, where I am based, the question of market access and improved conditions for German industry operating in China is very high on the agenda. In comparison with all other EU member states, German trade with China is higher, and much more relevant for the overall GDP. A different kind of dependence relationship is already visible.

What is already very clear, and what we have to be mindful of when thinking about the allied concept, is that for most EU policymakers China is not regarded as a security threat at this stage. There is a nascent debate about China-Russia co-operation and a growing conversation about the cybersecurity threat emanating from China, but this has not translated into the same kind of security assessment as the United States is having at the moment. As the economic security dimension is stressed, and business leaders in Europe call for a tougher EU stance vis-à-vis China to protect Europe's industrial interests, it is interesting to see where the UK locates itself within these conversations. On the broader

[4] The 26th UN Climate Change Conference of the Parties (COP26) will be held in Glasgow in November 2021.

level, the alliance questions are pretty clear. On the more granular level, it becomes slightly more difficult, and I think that the UK has to figure out where it fits in and where it slots in, and who are the best partners to promote UK interests.

Professor Kerry Brown: China is anti-alliance. It has one formal alliance with North Korea from 1961, and that is the only one, and it is up for review next year. It is the exception that proves the rule. That is where it is a different kind of power from the United States. It does not have treaty alliances. One of the issues is that mindset of regarding alliances based on treaties as a burden on its strategic freedom. It looks at the great wall of American alliances in the Pacific region. Somehow the UK is mixed up in that a bit because of its close relationship with the United States.

I guess the issue of alliances is: what is your strategic outcome, what is the end game? This is one of the great problems with all policies towards China in the last 40 years: what was the end game?

I think there were three different sorts of policy. One was to conquer—to have China engage and then change its political model and become magically like us. That will definitely not happen any time soon, perhaps never.

The second was containment. We have seen that attempted, but China has created virtual and trading spaces that cannot be contained. For example, it cannot be contained in the space of climate change. We have to work with China in that area for common good, in pandemics, ironically, and other areas. The third is to compete.

Those are the three Cs: conquer, contain and compete.

Compete is a realist approach. With allies, we preserve the processes—access to markets and such things—and we leverage off things such as the EU-China investment protocol, if that is possible. There is a rich network of engagement with China. I think that China made some major concessions in the EU-China protocol, if it is passed. These offer spaces. It will be very obnoxious for our values, I suppose. We have to have a very deep think about that, but it is not as though Britain has not been able to do this in the past. It has worked with partners in all sorts of different ways, pragmatically.

If we know what our end game is, and we agree that it is competition, the alliances fall into place. There are a lot of them. The only thing I would say about the Australian model, having looked at it quite a lot, is that I would not go along that route. I really would not. I do not think the UK can because China has been the biggest trading partner of Australia for about 10 years now, and a big investor. The radical change in Australian views towards China has been quite dismaying. Some of the 1.4 million Australians of Chinese heritage have been given appalling treatment in Australia, and I do not think that is a route that we would want to go along.

Professor Steve Tsang: I will start by explaining how China looks at these issues in terms of economic values and military power. It does not see a distinction between them. It has a concept called comprehensive national strength. That is what it actually focuses on. If it can build it up, it will be able to achieve its objectives. I think we have to be realistic when we try to segregate them, in engaging with China, or we will not necessarily come out tops.

As for working with allies, I have a slightly broader understanding of "allies" in this context. We are not necessarily talking about treaty allies formally. We are talking about partners who would be willing to work together in engaging with China. Here we are looking at a whole range of countries in north America, Europe and the more democratic states in Asia, as well as other members of ASEAN that want to engage with China in a better way.

Here, I think the key issue is reciprocity. When engaging with our partners in dealing with China, we need to insist on reciprocity. Our German and other European partners may be much more focused on the economic interests with China—the investment opportunities, and the trading relationship—but they do not enjoy full reciprocity with China, any more than we do.

We share a lot in common. If we can get the Chinese government to accept that they have to play by fair rules that everybody else subscribes to, and that China is not exceptional and needs to follow reciprocity as a rule, we are changing the way the Chinese government look at us and engage with us. If we do that, I think we will be able to develop a more constructive partnership relationship in the long term, and perhaps moderate some of the ambitions of the current leadership in Beijing. That would be much more positive, so I think that in working with our allies we should take that very seriously.

Q19 **Lord Alton of Liverpool:** I should declare that I am Vice-Chairman of the All-Party Parliamentary Group on Hong Kong and the group on the Uighurs. May I ask our witnesses to delve a little deeper into how important China is as a current and future trade and investment partner for the United Kingdom? What are the principal sources of current and potential investment—for example, private companies or sovereign wealth funds? The line between state-owned and private firms in China is deeply blurred, according to the Council on Foreign Relations. Huawei, for instance, had $222 million of government subsidies in 2018 alone, and worked directly with the state in genocidal Xinjiang. How can the difference between private and state investment in China actually be determined?

Professor Kerry Brown: The bespoke capitalist model that China has established has really tested our vocabulary. There are non-state companies in China. I do not think they are private and they have to have a good collaborative relationship with the state. The state is not uniform. Some of these companies have collaborative relations with provincial governments, or even lower-level governments, depending on their size, and some, such as Huawei, have to have very good relations with central government.

Huawei is a great case because on paper, at least, it is non-state, but it works in a sector where the Chinese government centrally have a very clear framework. If the Chinese government come to Huawei and say, "This wonderful technology you have: we need to use it for security reasons", security is a trump card, and it cannot say no. There is no easy vocabulary in English to capture this. It is a non-state sector that can act capitalist, often extremely well, but it is also loyal to the Communist Party and the communist system, and there are real benefits commercially from being loyal to that system.

When Chinese companies go abroad, we have to deal with that. There is the issue you allude to with Xinjiang, obviously—and Hong Kong, to a point, but Xinjiang is obviously the most serious issue. For the UK's collaboration with companies, there has to be recognition that in areas such as those King's College works in, for instance—nursing or climate change—there is a strong rationale to say that these are for common interests and common good, and we can defend that co-operation. I think that is absolutely defensible. In artificial intelligence collaboration, of course, it is much more difficult because companies are using that technology, willingly or unwillingly, in Xinjiang, and other places. There is a lack of regulation of that.

I am not following it very closely, but that seems to be the problem. You have these very exciting areas of research in China that the UK could work with, but where there is a lack of transparency with some of the partners over where that technology might end up.

Professor Steve Tsang: People in the financial sector always say that past performance is not a guarantee of future performance, but history is often illuminating.

The economic allure of China for this country goes all the way back to Queen Victoria. It has never materialised. That does not mean to say that it cannot, but we have to bear in mind that up to this point it has never materialised as it was promised. We should always take that prospect with a pinch of salt.

On the distinction between the private sector and the state-owned sector in China, Professor Brown raised the Huawei case—a very important case to raise. I raise Huawei and the Ant Group[5] as an illustration of how we should understand this. Huawei is the only institution in China that has senior executives saying openly, "There is a Chinese law that requires us to do certain things, but Huawei does not need to follow it, and Huawei will not follow it," and it does not get a pushback from the Chinese government. No Chinese ministry can get away with it. No state-owned enterprise in China can get away with it. Huawei has got away with it, and that tells you, I think, much more about Huawei's relationship with

[5] The Ant Group is an affiliate of Alibaba Group Holding.

the party state than anything else. Huawei is the only one allowed to say that in public, so, how close are they? You can draw your own conclusions.

The Alibaba Ant Group is genuinely private—or, at least, it does not resemble the current relationship that Huawei has with the Chinese party state. It is genuinely world class, highly innovative, perhaps a bit too much. I think it operates fast and loose with some rules and regulations, so I am not saying it is a company without problems, but it is one of the most dynamic companies in China that can compete globally and be respected. When it went beyond what the Chinese government thought it should do, the IPO for the Ant Group was stopped in its tracks. For a government who are very committed to making China great again, which will require companies such as Alibaba or Ant to be very successful to bring China up, that shows you what the party state is prepared to do to keep any sector in the private economic realm under its control, even if it incurs significant cost. Any attempts to make a genuine distinction between the private and the public sector in China will not get us very far. We need to bear that in mind when we engage with China.

Dr Janka Oertel: I very much agree that the distinction is not only not very helpful, but is misleading at some points, and it ties us up in conversations that keep us busy but are not really targeting the problem at the moment.

I agree that the Ant IPO is probably the most interesting example to study. It is a case that should be looked into by all European policymakers with regard to the Chinese party's interests, and how we can rely on the commitments that we get from the Chinese state when engaging on a bilateral level, and when we are engaging in business relationships.

There are no easy answers on where exactly this will come out, but it is quite clear that the Chinese leadership is trying to make state-owned enterprises competitive, and to use their market power at home to build them into globally competitive players, especially in the telecommunications sector, the rail sector or the renewable energy sector. It has that ability because it can use the economies of scale in the home market, under very protected conditions. We need to be very mindful of that.

As a side note, we need to have that constant conversation about co-operation on climate change—that is well true, in many instances—but we should not lose sight of the very competitive dimension of green technologies, where we will be competing fiercely with China for market access and other areas. It is very important to keep that in mind, and China's state-owned enterprises could become a huge challenger here for our interests.

The one area in which it will be very interesting and very important for the UK to engage in conversations with allies and partners is the transparency question when it comes to sources of capital. This is an area where, indeed, if joint leverage is built—as Professor Tsang said, joint leverage can still be built in some instances to create changes in behaviour—we will need to make very effective use of the tools at hand. Transparency criteria are very high on the list for EU policymakers, and I think this can be jointly pushed for and jointly put very high on the agenda.

The Chair: Our last formal question is from Lord Anderson. The four people who have not had questions in this run are Lord Boateng, Lord Campbell, Lord Mendelsohn and Baroness Rawlings. If they indicate by raising their hand on the Zoom process if they would like to ask a question, I will take them in alphabetical order.

Q20 **Lord Anderson of Swansea:** It is a variation on a theme already partially addressed: how does the UK's approach to investment and trade with China differ from that of the European Union and key countries within the Union: France and Germany? What are the reasons—the City of London, Hong Kong, links with the US—for any divergences?

Professor Steve Tsang: I think one big difference between, say, the UK and Germany, in dealing with China is that Germany has the industry and the technology that the Chinese love; therefore, China focuses on engaging with Germany with those investments and technological transfer.

What the UK has to offer is not so much that but, instead, the City of London, and the financial services that can be useful to the Chinese and, above all, the reputation that we have with regard to certification. If we approve of something, if we are engaged in doing something with them, it will get a lot easier for the same thing to be accepted in other countries, whether it is the construction of nuclear power plants, 5G infrastructure, or anything else.

It approaches us in that sense differently, and when we respond we will have to make the most of what we have to offer, and co-ordinate with our partners because, even though they are different sectors, the issues are still the same. Engaging with China economically, ultimately, is about having a level playing field. We have for a very long time, over 40 years, accepted not having a level playing field economically with China, because China was so far behind, and we were keen to help China to develop and modernise. China is now at least the second most powerful economy in the world—bigger and more powerful than any of the European economies. There is no reason now not to insist on a level playing field.

Dr Janka Oertel: I would prefer not to make judgments about the UK approach, but I am happy to elaborate on the German situation.

As Professor Tsang said, we still have the technology and industry that China wants, but our own golden era is coming to an end here. There is an acute awareness among German policymakers as well that this process is happening. We are being squeezed out of markets, we are less competitive and Chinese companies are growing. Made in China 2025 was a strategy that was targeted at the areas where German industry is particularly good. This is why the China debate in Germany has massively picked up speed over the past two years, pushed, interestingly and slightly counterintuitively, by German industry particularly, which was raising the red flags and raising alarms that this is going in a direction that is not in the interests of German industry.

The big questions that are being asked now, to sketch them out really broadly, are: are we growing too dependent at this stage? Where exactly is China headed? We have to question whether our fundamental assumption of more trade, more investment, more business is still the right approach, or whether we have to start diversifying our interests and assets to avoid risk accumulation, and the risks of China choosing a different path.

Those are the key questions that the Germans are asking themselves. Some of them are perhaps also of interest to the UK debate, to see where key partners are headed. There is a growing scepticism across Europe, but in Germany it is particularly painful because it comes at such a high cost.

Professor Kerry Brown: I was just checking the statistics. In 2018, the UK received about €50 billion of investment from China while we were still part of the European Union. The second in Europe was Germany, which received half that amount. The source for that is the Rhodium Group. In fact, UK investment from China is the equivalent of the other five of the top 10—the Netherlands, France, Italy, Finland and Sweden.

We have been successful in getting Chinese investment. We were the best performer in Europe over a number of years. You can conclude from that that China obviously is—or was—interested in the UK. I think that that was because of a liberal investment environment here. It was possibly because of the Osborne/Cameron push to get Chinese investment into infrastructure that China expressed interest in Hinkley Point. It made an equity investment there and in the high-speed rail link. It is a question of whether those opportunities and that view from China are still in place.

The strange thing is that since 2016 Chinese investment into Europe seems to have been falling. There has been a cooling off. The MERICS[6] in Berlin had a figure showing that in 2016 there was a real peak. In fact, Chinese investment into Europe was more than European investment into China, but that has really fallen in the last few years.

The UK is competitive. The UK leaving the EU may have a different sort of narrative, but other strategic parameters to this whole debate mean that the sorts of things that the Chinese may be interested in investing in will have more of a security dimension. Huawei is a very good point, and, of

[6] The Mercator Institute for China Studies

course, that road is now blocked, but it is going to be difficult to maintain this momentum without a rethink of where the security parameters are.

I have to leave this meeting at 11 o'clock. I am terribly sorry. It has been great to be involved.

The Chair: I will turn next to Baroness Rawlings to see if we can squeeze in one last question.

Q21 **Baroness Rawlings:** Thank you, Professor Brown and Professor Tsang, for extremely interesting papers and frank answers today, especially on China's policy towards 2049.

I would like to follow up Baroness Fall's question on climate change and the COP meeting later this year. This poses a difficult and different security challenge. Climate change is a dominating problem, and an important factor in our politics today, yet we say nothing about China's building of new coal mines. What are your views, and how should we balance our policy versus values?

Professor Steve Tsang: I think that the climate change issue is real for China. Xi Jinping put it on the political agenda at the 19th Party Congress speech in 2017 when he became the undisputed supreme leader of China. It is one of the objectives that he wants to achieve; therefore, the Chinese party state will take climate change policy very seriously moving forward.

It has a long-standing approach, which is that it will clean up China first. It will continue to build more coal-fired power plants through the Belt and Road Initiative in other countries because there is capacity to build them in China and just move them away. I think that approach is beginning to change, because the countries at the receiving end of those new power plants are beginning to realise that they are very bad investments. Building new plants that will need to be decommissioned in a relatively short timeframe is not economically very attractive for them. The Chinese are beginning to rethink their approach to that.

What I am really pushing is that China cannot be persuaded to work with us on climate change. It will work to its own agenda more than towards the collective global agenda, but there is a huge amount of overlap, and we should take advantage of that. We need to focus on the fact that there are areas of genuine co-operation that will bring benefits to all sides, and we need to make the most of them if we want, ultimately, to encourage our Chinese friends to think more co-operatively with us in the overall engagement, as I hope, even though the prospect is not fantastic.

The Chair: Thank you. That is an excellent note on which to finish. We have reached the end of our session. I thank our three witnesses, Dr Oertel, Professor Brown and Professor Tsang, for their contributions, which are much valued and will assist us in drafting our report.