HOUSE OF LORDS

Select Committee on International Relations and Defence

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

Wednesday 17 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; Lord Teverson.

Evidence Session No. 3	Virtual Proceeding	Questions 22 - 37

Witness

I: George Osborne, former Chancellor of the Exchequer.

USE OF THE TRANSCRIPT

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

Examination of witness

George Osborne.

Q22 **The Chair:** Good morning. I welcome George Osborne, former Chancellor of the Exchequer, to this meeting of the International Relations and Defence Select Committee in the House of Lords. Mr Osborne, thank you for joining us today to share your expertise as we carry on with our inquiry into the UK's security and trade relationship with China.

I remind members and our guest witness today 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 time at the end of the round of formal questions, I shall invite colleagues to pose supplementaries. As ever, I will go first to those who do not have a question in the main list. That will mean that I call upon Lord Boateng, Lord Mendelsohn and Baroness Rawlings at that point. The session will end by 11 am.

I will begin by asking the more general question, and then turn to my colleagues to ask more focused questions. Mr Osborne—George—you oversaw what has been described as the golden era of UK relations with China. What were your policy objectives, and what was the rationale behind formulating them?

George Osborne: Baroness Anelay—Joyce—thank you very much for inviting me before this committee. Many of the people on this committee I know and have worked with. It is a delight to appear before you.

The central challenge was the same challenge that we face today, which as part of the coalition Government was how you deal with the geopolitical challenge of the re-rise of China, which is on course once again to be the largest economy in the world. It is the longest-enduring civilisation in the world, yet it is clearly also an authoritarian system of government that engages in human rights abuse and has an approach to things that we would not always share. That was the central thinking: how do you deal with that?

What I, Prime Minister David Cameron and Deputy Prime Minister Nick Clegg wanted to do was to find a way of engaging with China in a more meaningful and deeper relationship that recognised the threat, but also sought to try to co-opt China into the international order, which it had not been present at the creation of but which we felt it had a key interest in sustaining. That was the approach. I think it was realistic. It understood that many of the world's biggest challenges like climate change or biodiversity loss were not going to be solved without the engagement with China.

There was also a recognition, shortly after the banking crisis, that China played an absolutely key part in keeping the world economy going during that period, and that there was a way for Britain to have something more than a simply transactional relationship with China and to have something on a deeper level, as I say, while at the same time understanding the cyber threat, the potential military threat, the human rights abuse and so on. It was a deeper relationship.

Frankly, reading the Government's security document which they published yesterday,[1] I see a lot of continuity in what is being proposed now, and I very much welcome that.

Q23 **Baroness Blackstone:** Thank you. You will probably not remember this, George, but I was chair of the British Library when you were trying to develop soft-power relationships with China. I opened an exhibition with the Chinese Minister of Culture at the National Library of China, which was borrowing a lot of our British library material on Shakespeare. It was rather successful, so in some senses I am a beneficiary of this policy.

What do you think the key successes were resulting from the closer relations you have just been describing, which you and David Cameron fostered in the trade and investment areas? Do you think they have endured?

George Osborne: First, I think that cultural diplomacy was a key part of what we were trying to achieve. I think the UK was a little slow to the party, actually. Countries like France have been smarter at deploying their cultural assets. There is enormous love of Shakespeare in China. Indeed, to be fair to the Government before ours, the Labour Government, the Chinese Premier was invited to Stratford-upon-Avon, because he really wanted to visit Shakespeare's birthplace.

It is just being more strategic in the deployment of those assets. Indeed, finding new opportunities for our great museums and cultural institutions was part of upgrading our relationship with China and taking, as I say, what I hope was a more strategic approach.

The Government obviously changed in 2016. I think because of Brexit, Britain turned inwards over the years afterwards, but I see re-emerging now some of the approaches that we took. I think there will be an enduring legacy, and I see some of it, as I say, in the security document that was produced yesterday.

Knowing that I was coming before you today, I thought about the concrete achievements. One of the most interesting British achievements is probably one of the least heralded; it was the creation by China of something called the Asian Infrastructure Investment Bank. This was a Chinese proposal for a new international institution. There was already the Asian Development Bank, but the Chinese had essentially been shut out of that institution and not been given the weight in the institution that you would expect of the largest economy in Asia.

China therefore proposed creating the Asian Infrastructure Development Bank, and I think there was a real possibility at the time that this institution would be established outside the international norms, not

[1] Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy

using the rule of the law, the established code of conduct for an international institution, and would become seen as a sort of China puppet. However, because Britain got involved—we signed up and became a founding member—British officials were absolutely instrumental in drawing up the rules of the Asian Infrastructure Development Bank, the code of conduct, the proper standards for the body, and many other western countries quickly followed suit and joined.

There is an example of real British influence, of essentially diverting China away from a course of action that I think could have been prejudicial to our interests, recognising its scale and its ambition and channelling it in a way that created an institution that endures today and is doing some good in that part of the world. It is very different from other China policies in that part of the world, like the One Belt, One Road initiative.

I think that is an example of Britain being able to deploy what it is good at, which is creating international institutions, making sure they adhere to the rule of law and setting high standards for those institutions.

There is another achievement in the narrower Treasury sphere. I was very keen for London, and for the rest of the UK—obviously I speak more broadly of UK financial services, because places like Edinburgh are also central to this—to be a home for Asian finance; to be the western arm of the emerging finance out of the growth of Asia and the growth of the Chinese currency, the renminbi.

That was by no means assured at the time, and we made a big effort to create the infrastructure for the Chinese currency to be traded here. Previously it had only been traded out of Hong Kong. China issued a sovereign bond through London, the equivalent of a UK gilt. That was a pretty remarkable step for it to take, and it endures to this day. It is not just Chinese finance; there are all sorts of other types of Asian finance, and London has emerged as a real Western centre for that. That will prove particularly useful as quite a lot of European financial markets move back to the continent.

Q24 **Lord Campbell of Pittenweem:** Helpfully, these last two illustrations lead into the question that I wanted to ask. As you describe it, it appears that the Treasury was rather at the forefront of strengthening these relations with China, not apparently the DTI, nor indeed the Foreign and Commonwealth Office, although I have no doubt it played a role. How did you turn out to be, as it were, the leader of that initiative?

George Osborne: The first thing I should say is that it was a whole of government approach. It was led by the Prime Minister, David Cameron, supported by his Deputy Prime Minister, Nick Clegg. David had created the National Security Council, which I think was one of the great governance innovations of that coalition Government. That enabled a co-ordinated approach across government, including the military and intelligence agencies, to China. We had several lengthy discussions about that.

So I would say that it was a whole of government approach and that it was supported broadly across government. Indeed, there a memorable and big UK visit to China early on in the life of the coalition.

Inevitably, a lot of the positives of the relationship with China were likely to be economic at the time, and indeed it remains the case today. The Treasury leads on economic diplomacy, so inevitably when it came to questions of Chinese finance and connecting the stock markets—in the end, that did not happen, after my time, but it was one of our initiatives promoting trade and investment—that was something that the Treasury led on and I led as Chancellor. Later on, when the Chinese state visit happened, I was the First Secretary of State by then and played a deputising role in some of that visit.

There is an interesting question for your committee, which I felt as Chancellor—this was the case before we left the EU and is even more the case now—which is that the Treasury does a huge amount of Britain's diplomacy, because economic diplomacy is incredibly important. In those days, it was the relationship with the eurozone. Now it is a lot of the relationship with the EU, it is the relationship with China, and it is engagement with organisations like the IMF.

All these things are very important. The National Security Council was really the first attempt that I saw to consistently bind the Treasury into a whole of government approach and make sure that it was aligned in its objectives with the Foreign Office, with the development department, with the intelligence agencies and so on.

If anything, my suggestion now outside government and outside politics would be that you could achieve even greater co-ordination. In fact, given the way the Cabinet committees are structured in the domestic sphere, nothing can move without the Treasury giving its approval. Things cannot even come to a Cabinet committee until they have Treasury sign-off.

There might be a way—and maybe, as I say, the document produced tomorrow is a step towards that—where there is more co-ordination in things like the approach to Europe. I would say that there is still work to be done on that—let us put it that way—and it would not take up many pages in the document produced. You should have more co-ordination between the government departments. I think creating a Brexit department was a mistake; Europe is too big an issue to be put in one department. You need the Foreign Office, the Treasury, the Cabinet Office and No. 10 all working together to come up with a coherent approach.

The Chair: Thank you. You have put your finger on the issue of co-ordination, which has been a vexing matter that the committee has certainly discussed. That was helpful, thank you. I will move on to Baroness Fall.

Q25 **Baroness Fall:** Thank you and good morning. I start by declaring that I am a senior adviser at Brunswick Group.

George, welcome. I was struck by your point about continuity. Beyond all the rhetoric, to what extent do you think that the Government's China policy has shifted? The document yesterday talked about systemic competition. Do you think that summed up our policy correctly? What does that mean, do you think?

On a more personal level, I was interested in whether your views on China had changed at all. Looking at it from the other end of the spectrum, many China watchers believe that Xi has changed the way in which China is run. I reflect on your time as Chancellor and I think of the summer of 2015 and your trip to China—very unusually, to Xinjiang province. Do you have any thoughts about that? Would you go again today, given what we know now?

George Osborne: Look, China has changed. It has become more assertive and more nationalist. The West has changed; since I left office, we have had Donald Trump as President of the United States, and, let us be clear, there has been some nationalism here at home as well. The world has become more fragmented, more nationalist. There have been things China has done that are not acceptable, such as the interference in Hong Kong and the democratic structures there and the suppression in Xinjiang province.

Things have changed, but if you had asked me in 2013 when I went to China—indeed, I had a very successful visit with the Mayor of London at the time—whether we knew then that China was an authoritarian state, I would have said yes. Did we know that there were human rights abuses inside China? Yes, we did. Did we know that China was a challenge to the democratic institutions in Hong Kong? Yes, we did. None of these things was unknown at the time. Indeed, in every meeting I ever had with the Chinese leadership at the time, we would raise these issues; I would raise these issues, and the Prime Minister at the time would raise these issues.

What has not changed is the question of what you do about this situation. What do you do about the fact that China, for 18 of the last 20 centuries, has been the largest economy in the world and will be again in this century, and the fact that it is a sixth of the world's population, or thereabouts? It is an incredibly long-enduring civilisation. It is not going anywhere anytime soon, so what do you do about its 're-rise'? That question hung over the world in 2013, and I think it hangs over the world today.

Yes, there has been change, but the kind of things we did back then—commissioning the aircraft carrier, which will now be sent to the Far East; launching the offensive cyber programme, which was talked about in the government document yesterday; creating the National Cyber Security Centre; buying the fifth generation of fighter aircraft—were all very hard-headed decisions to deal with the potential threat, not just from China but from others such as Russia, and to protect Britain's security going forward, while at the same time trying to think of a way to deal with the great geopolitical challenge of China.

As I say, I do not think that challenge has gone away; it has just got greater. If anything, the West has been more fragmented in its approach than it was back then. Looking at it from Beijing's point of view, I do not think you would feel that the West is coalescing around a single approach.

China is changing and has become more assertive, but the question of how you deal with it has not changed. That is why Boris Johnson should be congratulated for seeing off the hotheads who want to launch some new cold war with China, and for instead promoting an approach that is realistic about the threat that China poses but that also wants to engage in the opportunity of talks about increasing trade and increasing investment from China and that essentially tries to co-opt China rather than confront China. To me, that was the approach back then and it is the approach today.

Q26 **Lord Stirrup:** Good morning, George. It is interesting, because you have touched on what seems to me to be the key issue, which is the question of balance. The potential security risks of our financial and economic connections with China have become a much greater concern in recent years, or at any rate they certainly achieved a much greater degree of public and political prominence. Of course, the Integrated Review touched on that yesterday. We have the National Security and Investment Bill going through Parliament at the moment, which seeks to address these issues to a limited extent but, not unnaturally, does not say much about how you make the judgments.

To what extent do you think these security risks can be assessed and quantified, and do they warrant a change in the UK's approach? How is that balance to be struck if we cannot come down in some sort of positive and substantive way on what those security risks are?

George Osborne: The first thing I should say is thank you, because we worked together on the defence review in 2010. I remember at the time, partly because Britain had been engaged in long-standing conflict in Iraq and Afghanistan, that there was a big push for all our investment to be essentially in lightly armoured mobile deployable forces in the kind of conflict we have been engaged in in both Iraq and Afghanistan.

We decided to invest in the kind of hard-war fighting capability of aircraft carriers, fifth-generation fighters and new submarines and so on, which, for a more dangerous world in which there is the rise of these powerful competing nations, I think showed a good foresight. The Government continue to build on that at the moment.

I think we look at the security risk of investment in a one-sided way. We assume that any Chinese investment or engagement in our economy is only a threat to us, but it is also an opportunity to entangle China with us and to have shared objectives. There are plenty of people inside the Chinese regime who think that it is over-extended into the West and that it should not be exposing itself to the West in this way. It is more the moderates inside the Beijing administration who say, "No, we need to engage with the world". Chinese investment in the UK is as much an opportunity for the UK to have leverage over China as the other way around.

An authoritarian system is most alarmed by insecurity, instability and economic chaos. You saw how concerned China was when the Shanghai stock market fell in 2015-16. I always thought that encouraging Chinese investment in the West, not just in the UK, was a way of supporting the reformers and internationalists in China and again co-opting China into a world order which it had not really been involved in building after the Second World War but which it is very much in our interests that it feels an ownership in.

Then you come to the specific question of the risks if you have a Chinese sovereign wealth fund investing in a UK infrastructure company. You have to ask yourself what actual damage it could do were you to get into an extreme situation. In an extreme situation, it would just lose its investment. The UK would step in and not allow it to damage our water supply or whatever it happens to be; the Chinese sovereign wealth fund has a big investment in some of our water companies.

Yes, you have to assess risks. We did that notably with Huawei. The then Cabinet Secretary, the late Lord Heywood, created a cyber centre with GCHQ heavily involved in assessing the potential risk of Huawei's technology to the UK. Obviously I was not part of subsequent Conservative administrations, but as far as I can see they have all basically come to the same risk, and the same assessment: that the risk can be managed. The only thing that tipped things recently was the US sanctions, not any new discovery about China.

I think you can undertake proper assessments. You obviously would not allow the Chinese to be involved in the most sensitive areas of your national security or your technology. We have a ban on exporting high technology to China that can be used for military purposes. Those are sensible protections, but accepting Chinese investment into the UK I think enhances our security, because it forces China to engage with the world. Therefore I am very pleased again to see the Boris Johnson Government saying explicitly that they want more Chinese investment.

Q27 **Lord Anderson of Swansea:** George, part of the continuity that you mentioned in yesterday's Integrated Review was the call for increased trade and increased investment from China into the UK. That was met with a fairly torrid response by some, whom I think you called "hotheads" in the Commons, including my good friend, Julian Lewis, who referred to it as "the grasping naivety of the Cameron-Osborne years", which particularly refers to you, I guess.

How do you respond to that, and what do you think of the increasing investment, remembering that we are in a period of increasing competition from both the United States and the EU, including Germany? What can we offer that they cannot? What incentives can we give that might attract more investment from China into the UK?

George Osborne: I have known Julian for 25 years and he has never been much of a fan of mine, and clearly that remains the case, so I am sorry he is unpersuadable.

Again, what I find interesting about the current Government is that clearly the China policy is being directed by the Prime Minister, which is the way things should be. That is a good thing. Another good feature of the document released yesterday was that there was a call for a greater understanding of China, because this is a long-existing civilisation, the longest dynasty existing on earth. Increasing the understanding is a good thing.

An interesting question for the UK now that we are not in the EU is what the UK should do. The European Union, it seems to me, is attempting to pursue a middle course and has just concluded a trade and investment treaty with China, which we would have been part of. One of the interesting challenges or dilemmas for the British Government is whether to replicate that trade and investment treaty, because, as far as I can see, the trade policy to date has been to try to replicate the EU agreements with different parts of the world. Whether there will be a rush to replicate the EU treaty, I do not know.

As for the United States, I think we have to wait and see. The Biden Administration are having a big review of China policy. So far as I understand, there will be three camps. There is the security establishment in the United States, which quite understandably wants to address the potential defence risk from China. There is the economic team, who understand that China is a very large part of the world economy and will remain so, and that we are deeply interconnected and want to continue with that. Then there is the John Kerry climate change theme, which understands that there is absolutely no prospect of any progress on climate change unless you have positive co-operation from China. They face very similar questions to the ones we face.

My overall view is that for all my life, ever since Henry Kissinger visited China, there has been a broadly consistent approach, with ups and downs, and moments like Tiananmen Square, when there was a big step back, but, broadly speaking, the West and different Governments—Conservative, Labour, coalition, Republic and Democrat—have all taken the view that the best thing to do is to try to co-opt China into the global order. That is what I see the Biden Administration doing. That is what I essentially see the European Union seeking to do. I do not think that the UK needs to do something dramatically different from what it is doing already. As I said, the course that it set out yesterday is one I very much support.

Q28 **Lord Alton of Liverpool:** I declare my interest as vice-chair of the All-Party Parliamentary Group on Hong Kong and as a patron of Hong Kong Watch.

George, drilling down into the answers you have given to Lord Anderson and to Baroness Fall in particular, to what extent do increased trade and investment links with China have an impact on the United Kingdom's willingness to disagree with the Chinese Communist Party, for example, over human rights violations or to hold them to account for genocide in Xinjiang, its activities in the South China Sea or towards Hong Kong and Taiwan? Is it legitimate to trade with a genocidal state?

George Osborne: I think the Foreign Secretary put it rather well this morning, as I understand, in what was supposed to be a private call, which is that if you only deal with people in countries that share all your values, we will, sadly, have a pretty limited range of countries that we engage with. Last time I checked, we had just left our big alliance with most of them.

I think you have to be realistic about the world as it is. My view is that you should always raise concerns about human rights abuses and about things like the democratic institutions of Hong Kong, and that you should take unilateral action, such as the granting of visas to Hong Kong nationals, which again is a move I would very much support.

I was only the photocopy boy in the John Major Government in No. 10, but I always thought it would have been better if we had offered visas or citizenship back then. I always think you have to raise those things. I always did and I know that David Cameron and others in the British Government always did. I personally think you are more likely to get a hearing and are more likely to be heard if you engage with China rather than not.

The alternative strategy, if one were to exist, would be to try to contain China in a cold war-type vice, and I am just not sure that the West is unified enough or has the resources even to begin to undertake that task. China is vastly more integrated with the economy and the world than the Soviet Union was. It does not pose that imminent military threat that the Soviet Union did. If you really want to go down the path of confrontation, you had better be careful what you wish for. We may end up there. Maybe none of this will work. Maybe the attempt to co-opt China into the global world will not succeed.

Without sounding too academic, we have all heard and read about now the Thucydides trap and how quite often the world fails to deal with the rising power, but that will not be a very attractive world. I would say: prepare for that, have your defences, have your intelligence agencies, have your cybersecurity and offensive capabilities as well as the offensive, but nevertheless try the alternative route, which is much more likely to lead to an increase in human happiness, and indeed to a better situation for those who currently are on the wrong end of the authoritarian regime in China.

The Chair: Thank you. Just before I turn to Baroness Sugg for the last in our formal run of questions, I just remind colleagues that there is time for supplementaries. I will give precedence to those who did not have a formal question, so after Baroness Sugg I will call upon Lord Boateng, Lord Mendelsohn and Baroness Rawlings first. Other colleagues, of course please do indicate by the hands-up function if you would also like to come in with supplementaries.

Q29 **Baroness Sugg:** Morning, George. It is great to see you. You spoke about the importance of co-opting China into the international order on climate finance and so on. How important do you think it is for us to work with international partners on China? Obviously the co-ordinated approach has proved difficult, and we are seeing that middle course tracked by the EU and are waiting to see what will emerge from the US, but how practical do you think it is for the UK to work more coherently with our allies and partners on China?

Secondly, what benefit do you think we would see to the UK if we did take a bit more of an independent approach to China in order to see some of the gains? You mentioned AIIB earlier.

George Osborne: When it comes to some specific issues like climate change, unless there is co-ordinated engagement with China, nothing will happen. There will not be the progress we want.

More broadly, you would hope that on security issues there is a co-ordinated response among our allies, and there is clearly already a huge amount of co-operation between our militaries and intelligence agencies and the like. The big question is Britain's relationship with Europe rather than its relationship with China. That is the central question. If you want to have a co-ordinated response to China, you have to start by having a co-ordinated response with France and Germany.

It seems to me that that remains the big missing piece of Britain's foreign security and economic diplomacy policy—I guess understandably, given everything that has happened in recent years—but it is certainly a task for this Government to address. Then you can start having the conversation about a more co-ordinated approach to China. It would be good to have those conversations. I guess I am not enormously optimistic that they are about to happen anytime soon.

The Chair: Thank you. In addition to the three colleagues whose names I have already mentioned, I can see that Lord Stirrup has put his hand up. I will start with Lord Boateng.

Q30 **Lord Boateng:** Thank you, Chair. I declare my interest as Chancellor of the University of Greenwich and a board member of the Syngenta Foundation.

Treasury orthodoxy, George, with which we are both familiar because it transcends the coming and going of mere politicians, is sceptical, if not hostile, to industrial policy. I wonder if, in the light of the vulnerability of our supply chains to China which Covid has revealed, you think that we should be rethinking our approach to industrial policy as a positive response to the vulnerabilities that we now know exist.

George Osborne: I guess the Treasury is a bit sceptical that the industrial policies that come and go with every Government really make a huge difference. It is certainly very sceptical of any kind of policy that involves supporting individual companies. I think the Government invested in a satellite company, so we will how that comes along.

However, as you will remember from your time there, Paul, there are things which the Treasury consistently thinks it is worth spending money on. The Treasury is a big supporter of science. Every Chancellor submission I ever got was, "You should increase spending on science. You should increase the investment coming into higher education through reform of student finance".

I do not know if you would call it industrial policy, but it is about doubling down on Britain's science, increasing the amount of money coming into our higher education sector, and driving the transport improvements. I chair the Northern Powerhouse Partnership, putting together the infrastructure that allows the northern cities to make sure that the sum is greater than the parts. All those things I think are worthy industrial policies.

I would not get into thinking that a Government will know what a supply chain should look like. The markets are already doing that. The companies have already started to diversify their supply chains because of the China risk, as you might put it, and the pandemic. By the time a government report came out on sourcing lithium batteries or something in two years' time, the world would have already developed its supply chain. The UK's interest is in allowing that to happen quickly by having free trade and open markets and the free flow of capital.

None of these approaches is absolutist. I always retained the ultimate safeguard—we did this back then, and they do now—of a state interest in who owns the key strategic companies that help us to build our nuclear deterrent, for example, and in their future. Beyond that, more centrally, you let the market do its job.

Q31 **Lord Mendelsohn:** I was very interested in your observations about the economic strategy underlining what you were doing and your observation that the world and China's position have changed. It is a much more considerable digital leader. In fact, in 2020 it was the only one of our major partners where bilateral trade increased, partly because of Brexit and partly because of the Covid crisis.

I am very keen to know what your thoughts would be if you were looking to target an economic strategy now, and particularly what you think about our problems in opening up access to China's markets. The WTO accession has not been particularly successful for opening up markets, although it has led to liberalisation inside the country. What else could we do, or do with partners, there?

Secondly, on the investment side, I would like your assessment of whether it has led to a renaissance in northern cities and whether we would ever be in a position to direct investment to that purpose in quite the way we had hoped or when you first started that approach.

George Osborne: Chinese investment in northern cities has been very successful. I brought the various civic leaders of the northern cities with me on a very successful visit to China. Again, I do not think that in any way compromised our national security. Far from it: increasing our economic strength and making sure that there is economic growth outside just the south-east of England makes you a stronger, more robust country.

You are quite right: one of the constant challenges is making sure that there is equivalent market access in China, but that is all the more reason to engage in dialogue and to try to reach agreements, such as the agreement we were in the process of reaching that would allow the Shanghai and the London stock markets to connect. That was a question of increasing China access. Look, you have to keep pushing it.

One of the things that was welcome in the document yesterday is the talk, as I said, of increasing our understanding of China. I think we sometimes look at this enormous country of 1 billion people and assume that it is a kind of monolithic enterprise with a single government view. I think we are sometimes overawed by its long-term strategic thinking and so on.

The truth is that there are lots of different factions in their Government, not unlike our Government, and not unlike our politics, which this call represents. There are those in China who are very hostile to allowing British companies access to Chinese markets, and who think that the state should run everything in China and that it is a national security risk to allow British investment into China and British companies to do things in China. There are those in their political system who are more centrist, internationalist and reformist. We should be doing things that support their side of the argument rather than the other, because that increases our own security and the security of the world.

Q32 **Baroness Rawlings:** Morning, George. Thank you very much. What you have been telling us is really frank and fascinating.

I want to ask you a very simple question that relates more to the hat you wore as Chancellor. The West and further countries afield seem to have amassed huge debts, and even larger debts since Covid. What is China's position, and are we all in debt to China? Who are we in debt to?

George Osborne: We are mainly in debt to the Bank of England, which has been buying up a lot of our debt. It has always been a concern in the United States that China owns too much of the US Government debt—US gilts. This is a point I made earlier: that in some ways it exposed China as much to US action as it did the US to China. The fact that China is such a holder of US Government debt has given the US a real lever over China. When you lend a lot of money to someone, you have a big interest in their future and they have a big interest in yours. I do not think we have to be overly concerned about that.

If you want my broader view, the more in debt a country is, the more vulnerable it essentially is to events and to rising inflation and rising bond yields, and to all the things we have been reading about at the moment in the financial press. I absolutely applaud my successor but two, the current Chancellor, in being the person in government saying, "Look, we have to start thinking about curbing spending and raising taxes".

Sometimes people assume that I have said things that are critical of what he is doing. I am not critical, because I know what a hard job it is and that he has to make his own choices about which taxes and which bits of spending. I know it is very difficult, having been there, but the fact is that he is the one, having rightly spent money in the pandemic, saying that we now have to think about how we will get the public finances back into order. I very much support what he is doing.

Q33 **Lord Stirrup:** If I have understood correctly, one of your arguments has been that engaging with China, including financially and economically, might help to engender change in China. Some people would argue that that simply will not happen. We have heard one person tell us that China seeks to make the world safe for authoritarianism. We would not want to see a return to a full-blown cold war, but one of the features of the Cold War between the West and the East was an alternative social, political and economic model that in the end proved extremely attractive and much more attractive than the opposing model.

The Government have said in their Integrated Review that they want to be less concerned with maintaining the status quo and more concerned with shaping the international order of the future. In the context of our relations with China, to what extent do you think that acting with friends, colleagues and allies to create that viable and credible alternative system to the authoritarian model that we see in China, and which indeed is growing in other parts of the world, is a crucial part of our strategy going forward?

George Osborne: Look, like all of us, I am a very strong democrat and I am a great believer in the strength of democracy over authoritarian systems in the long run. Our closest allies and friends will not always be other democracies. It is one of the reasons why I was not in favour of leaving the European Union, which was one of the big democratic alliances in the world. That is the alternative model you can hold up there.

On the other hand, it would be naive to assume that this long-enduring civilisation, which was around long before we were in our current form and has always had an authoritarian approach to managing things, will become a Western democracy overnight. There are Asian models that we have seen develop very successfully in places like Korea, whereby an authoritarian approach gives way to a much more democratic approach in an Asian model. Maybe that is more the direction we hope China will develop in, but I do not think we should be naive about it. That is a word I have often used in all this conversation. We should not be naive about that.

I am about dealing with China as it is today, which is an authoritarian state but an extremely powerful one. We need to find a way to co-opt it into a global order in a way that, without its participation, will be ineffective. If you do not have China engaging with the United Nations, the United Nations will not work because China has a veto. If you do not have China engaging in the IMF, the IMF will not work because it is the world's second largest economy. If you do not have China engaging in the World Health Organisation—a very current issue over the last year—how will you ever get any kind of co-ordinated global approach to the pandemic? That has been one of the great tragedies of the last year: that among Governments there has been very little globally co-ordinated approach to the pandemic. Thankfully, there has been a great deal more co-operation among scientists.

You do not want to give up on the existing order, because trying to create a new one is extremely difficult. Historically, new orders have tended to be created only immediately after the aftermath of some complete disaster, like a war. Trying to get the institutions that we have to work for the future is the best hope we have. We have to do this anyway, now we have left the EU, with new relationships and new alliances, and starting with a new relationship with the European Union.

Q34 **Lord Anderson of Swansea:** George, you made a very powerful case for engagement with China. Can you give any evidence of influence, or the effect of such engagement on human rights generally, on Xinjiang or on Hong Kong?

George Osborne: It is difficult to know, because things took a very different turn of direction, driven partly by events in China and partly by the change of Government in the United States and so on. I do not know what would have happened if we had had a less confrontational approach to China. I gave the example of the Asian Infrastructure Investment Bank, which I do not think would have been founded on principles and standards that we would approve of had we not been engaged and which, as a result, does not support investments that lead to the abuse of human rights and the like.

At least if you are engaging with China, when you raise issues like Xinjiang or Hong Kong you have a chance to be heard and have leverage with the Chinese system, rather than just issuing a press release from the Foreign Office that no one in Beijing even reads. I think that is a more realistic approach. You have to believe that China will care about the views of those countries that it has important relations with. We can be that country, which certainly seems to be the approach that this Government are pursuing, as I say.

Q35 **Lord Alton of Liverpool:** George, can I take you deeper into the reply that you have just given to Lord Anderson? We are signatories to the 1948 convention on the crime of genocide and international treaty. In the context of Xinjiang and now the decisions of the Canadian Parliament, the Dutch Parliament and the US Administration in saying, "This is genocide", would you have any red line about when it is legitimate or not legitimate to trade with a state that is accused of the crime above all crimes? Where do we draw the lines? How, anyway, do you trust a country that has reneged on its word on another international treaty, the Sino-British treaty, governing the rule of law, human rights and the fundamental freedoms—two systems, one country—in Hong Kong?

George Osborne: When I was growing up, my mother worked for Amnesty International and I spent part of my childhood raising money for Amnesty International. There is a very important role, not just for charities but Western Governments, in identifying the abuse of human rights and obviously identifying anything that is a potential genocide and calling it out. I simply do not have all the information about what exactly is going on in Xinjiang and whether it should be classified as genocide or not. The British Government have not done that yet, and nor have the United States Government, but should we call out those abuses? Yes. Did we? Yes, we did.

The question then is about the best way of dealing with it. We are talking about the world's most populous country, alongside India. We are talking, as I said, about the world's longest-enduring civilisation, soon to be the world's largest economy. You have to work out which approach is most likely to help the people who are on the wrong end of its authoritarian regime. Is it about engaging them with the West, exposing them to alternative models of governance, and driving prosperity in China, which over my lifetime has done more to lift people out of poverty than any aid programme or any kind of government initiative imaginable? What is the best approach?

On a containment policy, I do not think it is possible to assemble it, for a start, so it is not even a realistic option for the West. Even if it were, it could lead to much greater suffering and a much less pleasant outcome. I guess I am one of those people who says, "Deal with the world as it is, not as you would wish it to be", particularly when you are dealing with the world's largest country.

Q36 **Baroness Sugg:** How much of a concern do you think the One Belt, One Road Initiative is to our strategic interests? How important do you think it is that the UK remains a major player and investor in development in Africa and around the world in order to counter that initiative from China?

George Osborne: The One Belt, One Road Initiative is essentially a Chinese foreign and economic policy, which is to engage countries in its neighbourhood and indeed much further afield, to increase Chinese ties with those countries, to increase Chinese investment in those countries, to increase Chinese trade to and from those countries and increase Chinese development assistance to those countries, not development assistance to the standards that you would have insisted on when you were a Minister.

That is the One Belt, One Road. You can complain about it and say that it should not happen—that will have zero effect, let us be clear—or you can try to co-opt and make The One Belt, One Road Initiative more an international initiative. The West has turned down the opportunity to do that, an opportunity that I think was available two or three years ago. Then you are left with counteracting it with your own soft power and development budget and with trade and engagement with the rest of the world and central Asia and Africa and elsewhere.

As I said earlier, I am not here to criticise the Government's decisions, because I know how hard it is to keep the public finances in kilter, but during the period I was Chancellor, when money was very short, we raised the international development budget to 0.7%. It was not just a humanitarian policy, although that was its primary objective. It was a policy driven by our sense of Britain's national interest in increasing British influence in the world, spreading British values in the world and addressing Britain's national security concerns, because more prosperous and developed countries are less of a threat that comes from the sort of chaos and instability that comes from poverty. That was what we did.

I cannot help but notice that the Government, only just recently having announced that they will cut the budget to 0.5% of GDP, are now saying that they will increase it to 0.7% again. All I can say is that the longer you leave it, the harder it is to make up the difference. You end up having to do very big leaps in individual years, as we found right at the beginning of my time as Chancellor when we were ramping up. Once you get to 0.7%, maintaining it, particularly when your economy has shrunk, is not so difficult.

The Chair: Our final question is from Baroness Blackstone.

Q37 **Baroness Blackstone:** I will cheat, if I can, and ask two questions. My first is about the science base that you mentioned, and higher education. There are huge numbers of Chinese students studying in the UK and the numbers go on growing exponentially, given the size of China, as long as the British HE sector remains one that is perceived as one of the best in the world. Are you worried about what has been argued by some people: that some of our intellectual property is being threatened by what they describe as an incursion into UK research via Chinese interests? Do you think there should be some kind of eventual ceiling on the number of Chinese students?

My second question is quite different. You have said on a number of occasions that China is the biggest country in the world. It will be overtaken quite soon by India as the biggest country in the world. It is obviously not as economically developed as China, but it has enormous potential and high levels of economic growth. It is a democracy, even if sometimes flawed, and it does not have the same problem of significant human rights abuse, at least at the moment.

George Osborne: On India, it is interesting. David Cameron's first big trip as Prime Minister was to India, and I see the current Prime Minister is planning a big trip. Clearly trying to increase British engagement with India is something I strongly support. It is a democracy, for all the messiness of the democracy on such a large subcontinent. I was the first

British Minister to go and see Prime Minister Modi when he was elected. I remember at the time phoning up William Hague, who was the Foreign Secretary. I said, "Let's just get on a plane and go. The guy has been elected and if we go now we will get in to see him before everyone else turns up". William was very much up for that.

There was a bit 'umming' and 'ahing' because Modi, in his time as a provincial governor, had been accused of various abuses of human rights, or rather the regime had been accused of stirring up intercommunity violence. I remember reticence from the official system: "I don't know. We should be careful about that". I was like, "This is the new Prime Minister of India, for God's sake. If we are not engaging with India, who are we going to engage with?" William very much shared that view and we got on the plane, took the one British politician who seemed to know him very well, who was Priti Patel, and the three of us went off to meet the new Prime Minister of India.

I am very supportive of the engagement with India, but the one thing I would caution is that there is a whole string of British Governments who think there is a special relationship with India. My experience is that the Indians do not always have that view of the relationship with Britain. When I was Chancellor I was given a coin set as a present, which celebrated the first war of Indian independence. I naively asked what that was. It was what we would call the Indian mutiny. There is a complicated history with India as well, but I am all for engaging.

Very briefly on Chinese students, because I know we are out of time, I briefly went to college in the United States and it gave me a lifelong affection for that country. My view is that the Chinese students who come to the UK will have an affection for and a connection with the UK and, by the way, will be exposed to an alternative system of government, as per an earlier question. That is a good thing. Obviously you have to have some checks on making sure that the sensitive research that might be used for nefarious purposes and in a hostile way should be protected. I am all for that, but it would be a huge mistake to go down the path of saying that Chinese students are not welcome. That is exactly the kind of soft power we should be deploying. It is more likely to lead to a China we can deal with in the future.

The Chair: Thank you, George, for your in-depth answers to such a wide range of questions over the last hour and three minutes. Thank you for allowing us to stray a little bit beyond the 11 o'clock limit.