



Select Committee on International Relations and Defence

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

Monday 26 April 2021

2.10 pm

Watch the meeting

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

Evidence Session No. 8

Virtual Proceeding

Questions 73 - 79

Witnesses

I: Bonnie S Glaser, Director, Asia Programme, German Marshall Fund of the United States; Dr Elizabeth C Economy, Senior Fellow for China Studies, Council on Foreign Relations, and Senior Fellow, Hoover Institution, Stanford University.

USE OF THE TRANSCRIPT

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

Examination of Witnesses

Bonnie Glaser and Dr Elizabeth Economy.

Q73 The Chair: Good afternoon. It is my pleasure to welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords Dr Elizabeth C Economy, Senior Fellow for China studies, Council on Foreign Relations, and Senior Fellow, Hoover Institution, Stanford University. We are also hoping to welcome our second witness, who is suffering a few IT problems at the moment. Bonnie S. Glaser is a Senior Adviser for Asia and Director, China Power Project, Centre for Strategic and International Studies.

Thank you for joining us today to share your expertise, as we continue our evidence-taking sessions for our inquiry into the UK's security and trade relations with China. At this stage, I always remind members and witnesses that this session is on the record, transcribed and broadcast. I also remind members that, if they have any relevant interests to declare, they should do so before they ask a question.

It is indeed my pleasure to say that it looks as though the IT issues may have been resolved, and we are able to welcome Bonnie Glaser. Bonnie Glaser, thank you so much. I have done the introduction and explained the IT hitch. We will now move to the questions. In asking the first question, I shall ensure that I ask Dr Economy to answer first so you can take a breath before being launched into this process. Thank you for your perseverance in getting through all the IT problems.

I shall begin by asking the first question, which, as ever, is very general in nature. Then I shall turn to my colleagues, who will ask more focused questions. IT can be a problem. I have been known to have the odd glitch or so over the last week, so I can assure witnesses and members that, if anything happens to my IT, Lord Stirrup has kindly said that he will step in to ensure that we can flow on unhindered by IT.

What long-term policy towards China can we expect from the Biden Administration? What will its key features be?

Dr Elizabeth C Economy: It is a pleasure to be here and have the opportunity to discuss US-China relations and the transatlantic relationship. Let me begin by noting that there has actually been a fair amount of continuity between the Trump Administration and the Biden Administration. People have been surprised by how much has not changed both in the threat perception with regard to China and in the content of more sensitive issues relating to Xinjiang, Taiwan, Hong Kong and even the trade war.

That being said, the approach that the Biden Administration is taking to China is fairly radically different. I would point to three areas in particular. First, the Biden Administration is focused on bolstering the rules-based order. By that, I mean things like freedom of navigation, free and fair trade, basic human rights, the rule of law and working with allies to reinforce those norms.

Wherever China is attempting to transform norms, values and policy preferences, whether that is about sovereignty issues within the Asia-Pacific region, through the Belt and Road Initiative or in multilateral institutions, the Biden Administration's focus is not only on pushing back but also on creating and advancing policies that will support the liberal international order.

The second focus is on enhancing US resilience, on the one hand defending it against what are perceived to be malign Chinese activities—whether it is intellectual property theft, influence operations or disinformation campaigns—while at the same time repairing and rebuilding the United States. President Biden brings a unique sensibility to the office. He is a blend of a traditional moderate Democrat who takes very seriously commitments to the American working middle class and manufacturing sectors, and a progressive thinker on environmental, ethnic and racial issues. His infrastructure plan, for example, is rooted in clean-energy technologies and innovation, but it also includes reskilling coalminers to ensure they have access to clean energy jobs and bridging the digital divide. That is really the second part: making sure the United States is strong internally.

This Administration is committed to cooperation with China but along very narrow lanes. By that, I mean they are focused on very specific issues: climate change, Iran, North Korea or perhaps global public health moving forward. The Chinese are quite frustrated by this approach. They want a broad-based strategic dialogue so they can talk about things like new relationships among major powers and a community of common destiny for mankind. The Administration is interested only in trying to find areas of cooperation where they can make real progress. It is difficult for China to turn these down, because these are global challenges, and China has set itself out as a global leader. Those are the basic elements of the Biden Administration policy towards China.

Bonnie S Glaser: My deepest apologies for the technology problems. I had to dial in on my phone. I do not know why my computer is not working. I will be brief in my answer to the first question so that we can catch up.

I agree with all of what Liz has said. Strategic competition is really going to remain a dominant feature of the US-China relationship throughout the Biden Administration and likely beyond. President Biden is not going to pursue a strategy of containment or regime change. The focus is on running faster rather than slowing China down, but also on protecting American interests and trying to shape China's policy where possible.

As Liz said, reinvigorating America and strengthening US alliances are really top priorities. There is deep recognition that, in order to compete more effectively, the US must strengthen itself at home. We have to reinvigorate our economy, our innovative technological base and our military capabilities, and strengthen our deep network of partnerships and alliances.

Beijing's consistent message is that the US is to blame for all the problems in the bilateral relationship and that the ball is in the US's court. If that remains its approach, the prospects for improving US-China relations are rather dim. In other words, Biden's China policy will depend in part on what Beijing's policies are. Focus areas will be developing and defending trusted, critical supply chains, protecting intellectual property, preventing China becoming dominant in key strategic technologies—that is really at the core—and preventing China shaping the world's economic rules, technology standards and political institutions in ways that would be damaging to the United States and other Western countries.

I agree with Liz that co-operation is definitely on the table, but it will be, as she said, in narrow lanes. The most promising areas are potentially climate and Iran. There will be efforts on arms control and non-proliferation, including North Korea, but co-operation in these areas will be far more difficult.

Q74 Lord Stirrup: Good afternoon. I would like to ask our witnesses whether, in your view, we are seeing the emergence of a new Cold War, centred around groupings aligned on one side with the US and on the other with China. In asking that, I am very conscious that defining 'a' Cold War as opposed to 'the' Cold War is not necessarily easy. I am talking not about an exact rerun of the Cold War with the Soviet Union, but about a geopolitical confrontation between two sets of norms and values that are of such a scale and nature to justify the label of "Cold War".

Bonnie S Glaser: This is a question that continues to be intensely debated around the world. It is always worth pointing out that, yes, there are differences between what is developing between the United States and China and what existed between the US and the former Soviet Union. Of course, the US-China trade relationship is enormous; it exceeds \$600 billion annually. There is huge investment in China by multinational corporations. We have extensive people-to-people exchanges. Yes, everybody accepts that there are significant differences with the Cold War with the USSR.

Technology is at the centre of the US-China competition. It was not absent in the US-Soviet competition; we had the space race, but it really is at the centre. I would like to focus on the fact that many people say, "This is really not a Cold War, because ideological competition was at the heart of the US-Soviet Cold War". I would argue that ideology is not absent in the current US-China competition. I expect that the ideological element will become more important in the future.

In a speech in January 2013, Xi Jinping stated—this speech was an internal one and was made public only several years later—that socialism would eventually prevail over capitalism. Beijing is increasingly touting the superiority of its governance model and exporting components of it to other countries. The Biden Administration is emphasising the fundamental difference between the West and China over core values. They are determined to demonstrate that open-market democracies deliver better outcomes for their people than authoritarian systems.

The ideological component is real; it is going to get bigger. We should not ignore the fact that some of the elements of the US-Soviet Cold War are actually present in the US-China relationship.

Dr Elizabeth C Economy: If I were going to characterise whether we are in a Cold War, I would call this maybe Cold War-lite at this point. As you suggested, the world is not yet divided into camps and we are not battling over proxy wars, but I agree with Bonnie that there is ideological competition. It may not be a purely socialist or communist competition with democracy, because China really is not a communist country, but it is certainly about authoritarian versus democratic norms.

China has put forth its own model as competitive with that of a liberal market democracy. We just heard, for the first time, Wang Yi and Yang Jiechi, China's two top senior foreign policy officials, both say that China does not support the rules-based order and that it was constructed by 12% of the world's population. They support the UN-centred order. That is critical, because it tells us that they are not supporting the norms that have underpinned the liberal international order for the past 70 years.

I would also point to the economic and technological decoupling, or what I would call selective decoupling, that is under way on both sides. China itself has certainly started this process. It is also linked to issues of human rights and national security. The proposals China makes, such as its technology proposals within the United Nations, have contained human rights issues within them. For example, the proposal on new IP would give the state the ability to control internet access to every device for every citizen. There is a fundamentally different way of thinking that China is bringing to the table.

The two militaries, the US military and the People's Liberation Army, view each other as potential military combatants. There is an open question about whether China will move to develop informal alliances. It is something that they say they would never do. They talk all the time about how the US should dismantle its alliance system, since it is anachronistic, focused on China, and unfair. They used to say that about overseas military bases as well, and now China has its first logistics base in Djibouti. As we look to China-Russia relations and China's relations with other authoritarian regimes, it would be wise for us to pay attention to strengthening military relations as well as political and economic ties.

Q75 Lord Alton of Liverpool: I declare my interests as a Patron of Hong Kong Watch and Vice-Chair of the All-Party Parliamentary Groups on the Uighurs and on Hong Kong.

Can I thank our two witnesses and move us on from Cold War-lite to trade war? How much of an impact has the so-called trade war with China had on the United States? To what extent is national resilience now a dominant theme? Are the countries so economically and inextricably intertwined—you just gave us the number of \$600 billion a year—that it has placed the US in an economic stranglehold?

Dr Elizabeth C Economy: Certainly, the two economies are closely intertwined. US exports to China represent 7% of all exports from the US. China's exports to the United States represent roughly 17.5% of all its exports. The trade war had a significant impact, unfortunately not the one President Trump desired. It cost the US economy about 0.7% of GDP and somewhere between 175,000 and 300,000 jobs. American families paid an extra \$1,200 apiece on average in 2020, and the US economy contracted for three out of four quarters in 2019. It also created a lot of uncertainty in the US economy.

From the perspective of the United States, the Biden Administration is looking, sector by sector, to try to understand what the impact of the trade war has been, and to determine where it needs to be unwound and where some things might stay in place. Where Chinese imports competed head to head with US goods, such as in steel or washing machines, we found that jobs expanded, but the US lost jobs in many areas where companies relied on Chinese components.

China has not fulfilled its part of the phase 1 trade deal. It is about 40% short of its purchase agreements. That being said, a number of areas of US exports skyrocketed as a result: everything from semiconductors to medical products and some areas of agriculture. Right now, we are in a space where we are trying to understand exactly what the impact of the trade war has been, but also how we can work with our allies, frankly, through the World Trade Organisation to push China harder to open its markets consistently, to eliminate nonmarket barriers to entry, to live up to its pledges on intellectual property, and to reduce and eliminate its subsidies.

There is a lot of work to be done to reinforce the norms in the World Trade Organisation. This Administration, unlike the previous one, will be prepared to tackle this with partners and allies.

Bonnie S Glaser: It really is a very important question. Liz has given some of the statistics that I was going to give, but maybe I can add a few more. US exports to China in petroleum and gas declined 47% and 90% respectively in 2019. American farmers have lost a significant portion of what was once a \$24 billion market in China. It may be difficult to regain all of that. As Liz said, China has not lived up to the phase 1 trade deal. By the end of last year, only 58% of that commitment was reached. These impacts have not been undone, because most of the tariffs remain in place.

The US and Chinese economies are certainly deeply intertwined, but targeted decoupling is inevitable in areas related to national security. We have to remember that it is also due to Chinese policies that aim at self-reliance. The Chinese are increasingly trying to reduce their overall dependence on foreign sources. They describe their new policy as "dual circulation", which I interpret as meaning that China wants the rest of the world to rely more on China, but China wants to rely less on the world. China is also trying to unwind some of this dependence.

The US has greatly benefited from trade and investment flows with China. They have supported economic growth, consumer choice and job creation. US exports to China in 2019 supported over a million jobs in the United States. With China forecast to drive one-third of global growth over the next decade, surely companies want to maintain market access to China. Despite the pandemic and the trade war, investment in China by multinational corporations is actually increasing.

People often suggest that, because China purchases so many US treasuries, it has some leverage over the United States, but this is actually a myth. These are some of the safest investments in the world. China's purchases sometimes increase or decrease, and China and Japan have been the largest foreign owners of debt, but Americans are actually the largest holders of US debt. The amount held by China and Japan individually is approximately 18% of foreign-held US debt and 5% of total US debt. More importantly, if China were to sell these treasuries, it would have a profoundly negative impact on the US economy and on the global economy. That would redound very negatively, of course, on China.

This economic interdependence will continue, but, as I said, there will be targeted decoupling. Liz correctly said that the Biden Administration is trying to figure out how best to proceed so that American and Western interests are protected.

Q76 **Baroness Fall:** I declare my interest as a Senior Adviser to the Brunswick Group. I would like to go back to what we touched on at the beginning about continuity with the Trump Administration. To what extent can we talk about consensus between the Democrats and the Republicans on US policy towards China? What are the dividing lines? How do you see those playing out over the next few years?

Bonnie S Glaser: There is greater convergence in the US Congress on China than on any other issue. This includes the assessment of the challenges posed by China and the need for the United States to push back against malign Chinese behaviour. We currently have the draft of the Strategic Competition Act 2021. It is almost 300 pages. It covers virtually every aspect of China policy and demonstrates the strong bipartisan agreement on the approach to China. Americans overall view China more negatively today than at any time in recent decades. Latest Pew polls tell us that 79% have an unfavourable view of China. Nine out of 10 Americans see China as either a competitor or an enemy. Majorities in both parties describe China as a competitor; only minorities in each group label China as an enemy.

Of course, differences exist. Republicans tend to have more negative views towards China than Democrats, and they tend to support tougher policies. About 83% of Republicans and 68% of Democrats—this is nationwide, not in Congress—hold an unfavourable view of China. Two-thirds of Republicans, but just under half of Democrats, view China's rise as a critical threat to vital American interests.

There are areas of important convergence. Democrats and Republicans agree on applying sanctions related to human rights abuses, strengthening ties with allies, blocking Chinese involvement in building US communications networks and prohibiting the sale of high-tech equipment to China. A majority supports working with China when possible on issues such as arms control and climate change.

Among the public, Americans disagree about how to counter China in some other areas. The largest partisan gap is over whether the US should prioritise being tougher on China or building a stronger economic relationship with China: 72% of Republicans prefer the former, but only 37% of Democrats agree. Democrats tend to be more supportive of co-operation with China, and the majority of Republics remain sceptical.

China is still being used by some Republicans to attack the Biden Administration, President Biden and the Democrats as being too soft on China. I expect that, as the midterm elections approach, China will be used by some Republican candidates to win votes.

Dr Elizabeth C Economy: Bonnie really covered the waterfront, but let me add a couple of points specifically on Congress. It is interesting to note that China has always been a bipartisan issue, but it used to be that you would have a large group in the centre and then small groups on the side that were very focused on human rights or Taiwan. There was always a shared sense of what China was about between the Democrats and the Republicans.

Now you just have one large group that is focused on strategic competition and retaining US leadership in the liberal international order. Bonnie mentioned the Strategic Competition Bill, but there are two other Bills that have broad support within Congress that are tied in some way to China. There is the Endless Frontier Act, which will commit about \$100 billion of funding to technology to boost US innovation. Marco Rubio and Elizabeth Warren, a Republican and a Democrat, have a bill that looks at US overreliance on foreign countries and the impact of FDI on the US pharmaceutical industry, DNA analysis industry, et cetera.

There is an enormous amount of consensus right now. If I were to point to some differences, rather than the issue areas that Bonnie has elucidated, I would say that the Republicans are prone to more inflammatory rhetoric, for example calling China "communist China". They are more prone to the hunt for spies within US universities. The Democrats are more concerned about individual rights and protections, and considerations of openness, perhaps.

Then there is a divide on issues that are related to China but not China-specific. You might have more support coming from the Democrats than the Republicans for cooperation with China on climate change, in part because Republicans are not as supportive overall of taking strong action on climate change. When you are looking at the United States today, you should think of China as one of the issues, if not the issue, garnering the most bipartisan support.

Q77 Lord Anderson of Swansea: Good day to our witnesses. This is probably related in some part to the party divide as well. We noted that, in a political article on 15 April, HR McMaster wrote that Secretary of State Blinken had told NATO Allies that they would not have to choose between Washington and Beijing. McMaster, however, called for tough love with China and alleged that some European leaders were choosing servitude over sovereignty. Do you agree? What do the Biden Administration expect from their allies both in Europe and in the Indo-Pacific regarding China?

Dr Elizabeth C Economy: I love the way you phrased the question. The US approach may be characterised as hoping for the best and preparing for the worst in terms of what it expects from its allies. Consultation, co-ordination and co-operation are probably the bywords of the Biden Administration.

There is an understanding that, within Asia, the US already has a greater shared understanding of the challenge China presents, certainly on the security front. We could look at Australia, which was actually out ahead of the United States on issues like influence operations and Huawei. There has been a big surprise at the degree to which India and Prime Minister Modi have become enthusiastic about the Quad. The entire region—including countries that are not our allies, such as Vietnam—depends on the US security umbrella. The ties with our Asian allies and partners did not fray under the Trump Administration in the same way they did with our European allies and partners. There is not the same degree of repair needed there.

The UK and the European Union clearly have not felt the same degree of security threat from China, but there is a very strong shared sense of the values-based challenge. The question is really the extent to which the lure of the Chinese market will take precedence over a common effort to push back against China's efforts to change the rules of the road. I thought it was terrific to see everyone stand up together on Xinjiang. The UK's position on Hong Kong has been very strong, but ultimately we will need a more focused, coherent and coordinated plan to deal with China.

I think what Secretary of State Blinken was pointing to is that the United States is not going to adopt the Trump Administration approach of bullying other countries. The U.S. realises that it cannot force other countries to stand with it and organise themselves around human rights, technology, trade and freedom of navigation in order to shape the world in a way that reflects democratic values. It would like greater engagement; it would like Secretary-General Stoltenberg as opposed to Merkel and Macron. It hopes that every country is going to realise that, much like climate change, if everyone does not do his or her part, the entire world will be at risk, and we need to forge common ground and common purpose with regard to our strategy for China.

Bonnie S Glaser: On some issues, a clear choice has to be made. Whether you have 5G in your network is a choice for any government. Other issues are not so black and white. The Biden Administration hopes

that U.S. allies will co-ordinate closely to put pressure on China to change its objectionable practices and policies, and to encourage it to act more responsibly. The June G7 meeting in Cornwall really provides an opportunity to show that likeminded countries are willing to take concrete actions. They have just come out with some of the issues that will be on the agenda: climate change, health security, joint economic responses to Covid-19 and elevating shared democratic values.

The Biden Administration has high expectations on a range of issues. It will not be dictating; it will not be bullying, as Liz said. It really does hope that, through consultation and co-ordination, the US and Europe can do a lot together. I want to mention some of these issues. Human rights are extremely important to the agenda of the Biden Administration. There is hope that China can be pressured more over the use of forced labour in Xinjiang. The EU move to sanction Chinese officials involved in Xinjiang human rights abuses was very much welcomed. We will be looking to align policies on the 2022 Beijing Olympics. So far, officials have been very careful to say that they have not taken any position and have not talked very much with their allies, but this is coming up soon. It is less than 10 months away.

On maritime issues, yes, I agree that security is not front and centre in Europe's concerns about China, but the US hopes that Europe will do more to support international law in the South China Sea. I want to highlight the joint Note Verbale issued by the UK, Germany and France last year, which asserted that China's exercise of historic rights in the South China Sea does not comply with international law. That is an excellent example of how the US and our allies can work together. The US, Australia, the UK, Germany and France are now very closely aligned on that.

We will look to countries that have naval capabilities, and certainly the UK is at the forefront of that, to increase presence operations. On freedom of navigation, the UK is the only other country that has conducted a FONOP within 12 nautical miles of a Chinese-occupied feature. We are now seeing France step up somewhat more. We look forward to the UK dispatch of the HMS "Queen Elizabeth" to the Indo-Pacific by the end of the year. These kinds of operations are crucial to signal that Europe has a stake in the preservation of peace, security and an international law-based approach in the region.

On North Korea, we will be asking Europe to pressure China to abide by UN sanctions. On Taiwan, there is more that European countries can do that is not necessarily related to military areas. That is in the realm of helping to ease Taiwan's international isolation and developing more parliamentary ties. We have something called the Global Co-operation and Training Framework, where we hold workshops with Taiwan. The UK has recently sponsored one of these workshops for the first time. Sweden has also sponsored one of these workshops. Japan is now a full partner. It is essentially highlighting and enabling Taiwan to showcase its

expertise in areas like global health, women's empowerment and media literacy.

On climate, the Biden Administration looks to press Beijing to do more, to set actual targets to reduce its emissions and to move up its 2030 target for reaching peak carbon emissions. In the very big area of economics, trade and tech, we all need to work together to confront China's economic abuses and to curb high-technology transfer to China in areas that could strengthen China's military capability. We will need to be working together on that, and that is going to be high on President Biden's agenda.

Q78 Lord Teverson: Can I just say how much I agree that it may not be a Cold War, but it is absolutely an ideological one? I want to follow on from your answers to Lord Anderson about the UK role. We had our Integrated Review, which stated that we were going to pursue deeper engagement in the Indo-Pacific, in support of shared prosperity, regional stability and stronger diplomatic and trading ties, in a tilt to the Indo-Pacific.

In your opinion, how could the UK contribute to regional stability in the Indo-Pacific beyond what you have already talked about? Is it sending the aircraft carrier that you talked about? Is it becoming a full member of the CPTPP?¹ We are a Security Council member, a member of the P5. We meet China there whenever those sessions take place. Should we have more leverage there?

On the United Nations, you say that China wants to get away from the rules-based order we have put in there, although it believes in the United Nations. How does it reconcile that with its breaking of UNCLOS?²

Bonnie S Glaser: Yes, the Chinese are very focused on the UN as the centre of the rules-based order, but there are aspects of it that China does not like. It is seeking to insert its norms into the United Nations. In areas such as cyber governance and human rights, China is very invested in trying to shape the rules-based order, not to overthrow it. China is not disruptive like Russia is, but certainly in areas such as UNCLOS China claims that it is in accordance and compliance with all the rules, when in fact it is not.

China has taken on only a portion of the norms that are established in UNCLOS; it has different interpretations, for example, of when countries can operate in its territorial seas. The Chinese would argue that their refusal to accept the 2016 ruling by a tribunal under UNCLOS was consistent with UNCLOS, because China opted out and did not recognise the jurisdiction of this arbitral tribunal to begin with. It is a legal argument, but it really is not convincing.

What can the UK do in the Indo-Pacific? This is so important and will be even more crucial in the future. Responding to Chinese challenges and

¹ The Comprehensive and Progressive Agreement for Trans-Pacific Partnership

² The United Nations Convention on the Law of the Sea

assertiveness to the regional and international orders requires that major democratic nations step up to protect our shared interests.

I will highlight six areas that are crucially important. One, as you mentioned, is CPTPP. The UK's application to join is a welcome step. Not only would becoming a member benefit the UK in various ways, but, importantly, it would transform the regional trade agreement into a global one and incentivise other nations to join. I hope it would incentivise the United States to join. It would certainly help to defend the principles of global free trade and rules-based commerce.

The second is what I mentioned in the area of freedom of navigation operations and cruises in contested maritime areas in Asia. This would help to uphold international law and a rules-based approach to managing disputes. By signalling that the UK has an interest in preventing the use of force to settle differences, this will contribute to the strengthening of deterrence, help keep the peace in the Taiwan Strait, the South China Sea and the East China Sea, and ensure open trading routes.

Thirdly, the UK can work alongside the Quad countries to contribute to addressing regional problems, especially in non-traditional security areas and transnational arenas, like global health and resource scarcity.

Fourthly, I mentioned that the UK can strengthen its unofficial relationship with Taiwan and help ease Taiwan's diplomatic isolation, in ways that the UK is comfortable with and that are consistent with its One China policy.

Next, the UK should strengthen its ties with South-East Asian nations. South-East Asia is pivotal in the Indo-Pacific. South-East Asian countries do not want to be under Chinese hegemony. They seek to expand and strengthen relationships with major powers outside the region. The UK can help with their maritime capacity building efforts and should become an ASEAN³ dialogue partner.

Finally, the UK can contribute to economic development, poverty reduction and high-quality infrastructure. For most countries in the Indo-Pacific region, economics is inseparable from security. Countries seek alternatives to Chinese loans and Chinese companies. I wholeheartedly endorse the Integrated Review's proposal to use the UK's ODA⁴ more strategically in the Indo-Pacific. This is an area where we all need to be far more effective than we have been so far.

Dr Elizabeth C Economy: Bonnie has provided a wonderfully comprehensive list of suggestions. I will add a few to them, but most important is to link your strong support for a rules-based order to your actions in the region. It needs to be a consistent and whole of country commitment. It cannot be simply dipping a toe in the water; it must be jumping in feet first.

³ Association of Southeast Asian Nations

⁴ Official development assistance

Bonnie ticked off joining the CPTPP, freedom of navigation operations and engaging with Taiwan. Another area where the UK has a lot of strength is in capacity building, including political capacity building, through what was previously DfID and what is now the Foreign, Commonwealth and Development Office. The UK, the US and European Union countries can work to think through a strategy looking at the weaker democratic countries in South-East Asia, and how we can bolster their norms and laws to support democracy.

We now find, looking at China's growing global influence, that it is not enough for the United States and its traditional partners and allies in Asia and Europe to stand up to China. When we bring 20 or 25 countries to the United Nations to criticise China on Xinjiang, China then brings 50 countries from the developing economies to say that China is doing the right thing. Together, we need to think about developing a much more expansive set of partners and allies, and understanding which countries we can work together with. That will depend on our willingness and ability to get in there and engage in political capacity building and strengthening democracies throughout the region.

The UK's move to bring the Asian democracies into Europe for the G7 meeting is great. The stronger the connection between NATO and the Quad, and between Europe and Asia, the better. The UK can play a pivotal role in leading that effort.

As far as the United Nations is concerned, Bonnie is right. The most pressing issues where China is trying to undermine norms are human rights and internet governance, but it also uses its influence to shape other issues. We can look at what happened in the early months of the pandemic, the unwillingness of the World Health Organisation to speak out aggressively on what was going on inside China, and China's ability now to withstand a real investigation into the origins of COVID-19.

We need to transform the way the United Nations operates so that China is not able, with its lack of transparency and its lack of rule of law, to have such an impact on the health and well-being of the rest of the world. Frankly, the United Nations will be an essential battleground—I do not use that word lightly—for norms and values moving forward.

Q79 The Chair: This is about China's 14th Five-Year Plan, which was announced in March this year. It focuses on innovation, including increased spending on research and development. How concerned is the US that China is catching up in technological development, especially in next-generation technology such as the 5G network and artificial intelligence? What should the US response to these developments be?

Dr Elizabeth C Economy: On a daily basis, the United States media blast every Chinese technological achievement. We are bombarded by the rise of China's technological capabilities. US officials are of two minds. There are those who look at the United States and think that, by and

large, the United States still retains overall a technological lead, that we have a natural advantage with our educational system, our openness and our strong tradition of basic research, but that we are in danger of falling behind, because we have not been strategic. China clearly has some areas of core technological leadership, and we need to do more and invest more in order to maintain our leadership.

There is a second group, which is more concerned and has a darker vision of the US's relative strengths and weaknesses now and moving forward. It is quite alarmed about the state of US innovation, and it believes that it will be very difficult for the United States to compete, given Chinese resources and the uneven playing field that China is creating, as Bonnie mentioned, through dual circulation, its Made in China 2025 programme and, of course, flat-out IP theft.

The response of the Administration and Congress is all hands on deck. The President has elevated the Head of the Office of Science and Technology Policy to a Cabinet position. The Endless Frontier Bill, which I mentioned earlier, transforms the National Science Foundation into the National Science and Technology Foundation. The critical distinction here is about wanting to move from basic research, a traditional stronghold of the United States, into more applied research and technology, developing regional technology hubs and university-based technology centres to focus on issues like AI, quantum computing and advanced manufacturing.

We have also developed a fairly robust—some might say too robust—entity list and set of export controls. All these things will be looked at very closely, as Bonnie mentioned earlier. The Administration will try to make sure that the United States is both not supporting China's technological development in areas that would be harmful to US national security, and limiting opportunities for China to hollow out US core technology through investment and, again, IP theft.

The effort will be on thinking through critical supply chains, and developing technological standards with our allies through the United Nations and other standards setting bodies. You may have seen that Secretary of Commerce Raimondo has proposed an American as the head of the ITU, the International Telecommunication Union. This would be the first time in 50 years that an American held the position. The Chinese have held it for the past eight years. The Administration is taking a multilevel approach, looking to compete at home and through multilateral institutions.

A major thrust of the US Strategic Competition Bill, which Bonnie referenced earlier, in Congress is on infrastructure and US support for infrastructure overseas. I imagine that much of it will also deal with digital infrastructure, again working with our allies and partners. That is a third level of competition that the United States is prepared to pursue with China.

Bonnie S Glaser: China's system provides some advantages and, of course, has some disadvantages. It is authoritarian and top down. They

can put a lot of resources into something and try to advance their capabilities. You could look at areas like semiconductors and see that, in fact, China has not been all that successful. It has been subsidising the industry for years. Just last week, Morris Chang, the founder of the world's leading chipmaker, the Taiwan Semiconductor Manufacturing Company, or TSMC, said that China is still five years behind the capabilities of TSMC.

China will continue subsidising this industry, but US capital investment and government support for the semiconductor industry is also on the rise. The Chinese face huge challenges in their drive for self-sufficiency, and in fact the US ban on exporting certain chips to China has had a significant impact on Huawei and China's 5G development.

To give you an example, the Made in China 2025 plan, which Liz mentioned, is just one of China's many industrial policies. This one came out in 2015. They set a goal of producing 70% of the chips consumed in China. At that time, they were producing 10%. In the last five years, they have increased that to 16%. They just have not made that much progress. There is one forecast by a semiconductor research firm that China may reach 19.4% by 2025. China continues to struggle in the area of semiconductors.

In 5G, China's lead is often exaggerated. In fact, China has had some problems, because it has moved so quickly that it has encountered difficulties. There has been poor integration of its 5G network with its 4G network. China will continue to use its traditional industrial policy model of subsidising national champions in the technology industry and implementing procurement rules to the advantage of Chinese companies. They probably will close the gap in some areas, but where the United States is investing I have confidence that we will do well, because China's top-down system does not lend itself to innovation and to the quick dissemination and application of technology.

You asked about recommendations of what the US should do, and Liz has already mentioned some of the steps the Biden Administration has undertaken. There are some things we have to do along with our allies. We really have to strengthen intellectual property protection. In some areas, China has achieved a lot of progress because it has stolen intellectual property from our companies.

We need to do more to improve the innovation environment domestically, and that includes investing more in research in next-generation technologies. The Trump Administration significantly expanded, for example, AI research funding and created the National AI Initiative Office. Some of the steps taken by the Trump Administration were very positive, and the Biden Administration have built on those.

We desperately need to increase federal spending on research and development. R&D spurs innovation, invention and patenting activity, as well as job creation and productivity, of course. We have been allowing our companies to invest in R&D while reducing dramatically our federal

investment in R&D. We have to remain open to global talent, including students from China, and invest in attracting and retaining human talent. We should put in place, as I mentioned, targeted technology transfer restrictions for a limited number of leading technologies and apply them to firms with clear ties to the Chinese military and national security interests. We should focus on standard setting, alongside our allies, and ensure that standards are compatible with our shared democratic norms.

We have to set clearer rules for research collaboration with China. There is a great ecosystem between Chinese, American and other partners in the development of certain technologies. We have to figure out ways to preserve that and yet not let it spill over into areas that would enable China to gain access to sensitive technologies, and particularly to apply them to its military capabilities.

Thank you again for the opportunity to testify before the committee today.

The Chair: Can I thank both Bonnie Glaser and Dr Elizabeth Economy, not only for the breadth and sheer depth of your testimony, but for being able to do that in time and overcoming the problems we encountered with our information technology link-up at the beginning?

I am of a generation that still finds it an absolute miracle that we are able to have conversations across the pond, so to speak, in this way. It is so crucial that we do. The US is the UK's greatest ally. Working internationally is vital. You were right earlier, Dr Economy, to talk about parliamentary engagement with respect to another country. Parliamentary engagement overall is essential on the international stage, and you have enabled us to have that today. Again, thank you to our witnesses.