HOUSE OF LORDS

Select Committee on International Relations and Defence

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

Wednesday 12 May 2021

11 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. 9 Virtual Proceeding Questions 94 - 103

Witness

I: Lord Sassoon.

USE OF THE TRANSCRIPT

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

Examination of witness

Lord Sassoon.

Q94 **The Chair:** I welcome to this meeting of the International Relations and Defence Select Committee of the House of Lords Lord Sassoon, former Commercial Secretary to Her Majesty's Treasury and currently president of the China-Britain Business Council. Lord Sassoon, you are most welcome. 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 relationship with China.

At this stage, I again remind members and our witness that this session is on the record, transcribed and broadcast. I also remind members as always to declare any relevant interest before asking their questions. If there is time remaining at the end of the formal questions, I shall invite my colleagues to ask supplementaries. As ever, priority will be given to colleagues who have not yet had the opportunity to put a question to our witness. I shall begin by asking a question that is general in scope. Following that, I shall turn to my colleagues, who will ask more focused questions.

You were one of the main advocates of closer economic ties with China in what has been described as the golden era. What was your reason for taking that view, and has your opinion changed?

Lord Sassoon: Thank you for inviting me to attend and be a witness at this committee and for your commendably thorough inquiries. I should also put on the table the list of my current engagements with China, for the avoidance of doubt. You have said that I am president, as I am, of the China-Britain Business Council, the CBBC. I also chair the financial and professional services sector's China Market Advisory Group, I am a member of the committee of the Hong Kong Association, I am a member of the international advisory group of China Investment Corporation and of the global advisory board of the Japanese bank MUFG, and I am a trustee of the British Museum. Having put that all that on the table, I should stress that I am speaking in a personal capacity today.

I will answer the question about why I thought we should have stronger, closer economic ties with China by setting out what I was thinking in 2010 when I came back into the Treasury in government, five years before the rather unhelpful tag of the "golden era" was invented. My thinking in 2010 was based on four factors. The first was the size and growth that we were seeing in the Chinese economy. The second was the significant underperformance of UK trade to China, particularly exports. The third was the fact that there was no focus in our economic relationship, a focus which the Chinese like to have in economic relationships. The fourth was the particular opportunities that we could see opening up in the Chinese economy that played to the strengths of what the UK had to offer.

If you will permit me, I will add a bit of colour and data to those four factors. The size and growth of the Chinese economy is of course well-known, but it is perhaps worth reminding ourselves that in 2002, when I first joined the Treasury as an official, the UK economy was larger than China's but by 2010 China's economy was more than twice the size of the UK's, which is astonishing, really. In 2000, mainland China was our 26th largest export market. Even if you aggregate Hong Kong and China, which I normally do, China was still 10th on the list. In 2010, we were exporting to Hong Kong and China combined about the same amount as we were exporting to Belgium. That was to a country that was twice the size of the UK, so there was a huge opportunity.

Third, to the question of focus in the economic relationship, as I said, the way that China operates its economic ties is that it likes to have a focus. With Germany, for example, there was a strong focus on manufacturing, while with France the focus was on the nuclear industry. In 2010, the Chinese ambassador came to me in the Treasury and said, "Well, what are we going to do to focus and improve our ties?" First, in 2010, we identified infrastructure as a theme. The following year, 2011, at the economic and financial dialogue in London, financial services became the second major theme.

To my fourth point about opportunities in the Chinese market for British firms, in 2010 we were seeing Chinese policy moving from an economy that was investment-led to much more of a consumer-driven economy, which was needed to balance off growth in China. That clearly played to the UK's strengths in consumer goods of all kinds. China was starting to actively internationalise its currency, the renminbi, which presented significant opportunities for us in financial services. There were many other issues relating to Chinese policy to improve services in healthcare, the environment and education, which played to the strengths of Britain. So those were my reasons for advocating closer ties from 2010 onwards.

You asked me whether my opinion had changed. It has not. The Chinese economy continues to grow very strongly, and for post-Brexit global Britain there is no opportunity in the world for greater growth in trade, and therefore jobs in the UK, than I see from China.

The Chair: Thank you very much for launching us into this part of the session.

Q95 **Lord Alton of Liverpool:** Lord Sassoon, you mentioned infrastructure just now as one of the four themes that you felt were hugely important. The UK's membership of the Asian Infrastructure Investment Bank was seen as a key achievement of the so-called golden era. What level of influence has the UK had in the AIIB to date? How important is the AIIB both for the UK and for China?

Lord Sassoon: One of the important strands of UK policy towards China which was explicit from 2010, and before that to a degree—we have a distinguished former Chief Secretary to the Treasury with us this morning in Lord Boateng, who was focused on China well before 2010— but one of the main focuses in UK policy towards China when I was in government was to bring China into global governance, more than it had been, and for it to take an active participation in multilateral organisations.

The importance of the AIIB for the UK and China is that it was the first multilateral organisation that was backed and created by China, so it was very important for the UK and the global community to make sure that it was a success. That the UK applied for membership in early 2015 and was therefore at the table in the negotiating sessions on the governance of the AIIB was very important.

I note that the AIIB president, Jin Liqun, has studied hard the governance models of the World Bank and the IMF, and had a vision to create a model institution that drew on the best of previous models but took the governance forward. With the backing of the UK and other countries in discussions about turning this into reality, we had an important role. I think that the AIIB is now seen as a model of its kind, with China demonstrating that it could create an effective institution.

The UK has a senior vice-president on its board in the shape of another distinguished former Chief Secretary and colleague of mine, Sir Danny Alexander. You can talk to the Treasury and get its direct experience, but it is represented in its governance through having representatives on the board of the institution. I also know that the senior management of the AIIB draws on other UK sources of advice as the institution evolves.

The AIIB has been important and shows that, where you can draw China into working on a positive project, we can have significant influence that works well for both sides and for global governance.

Q96 **Baroness Fall:** You have reaffirmed your commitment to the importance of trade with China for the UK and the growth of our economy. I want to dig a bit deeper into some of the hazards that go with that. First, we see UK trade having problems with the polarisation of the world today, boycotts of some of our British firms in China and difficult issues with supply chains. You also mentioned the multilateral world today, and I wondered about the WTO. We still have problems there: who is going to address this and what needs to be done next?

Lord Sassoon: There are a lot of strands to your question. To take the last one first, because it is the really big one, the WTO still plays a very important role in global governance. China was admitted to the WTO over 20 years ago, when its economy was in a very different shape and place from where it is now. The whole trade architecture of the world has changed. The UK has applied, and I very much welcome this, to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

China and some members of the CPTPP are members of another grouping, the Regional Comprehensive Economic partnership (RCEP). I hope that the UK will have a broader overarching strategy on how we play our memberships and see this evolve. Directly, I agree with you, Baroness Fall, that the WTO is in need of reform and China’s role in it needs to evolve. It is a project on which close engagement with China is needed. Nothing was possible under the Trump Administration, when the US was not prepared to participate in key aspects of the WTO’s activities, but you are right to identify it as an important part of the agenda for the future.

We saw a recent well-publicised boycott of one high-profile and very successful UK fashion brand. We have seen it of certain Japanese and other brands. I would observe that, historically, the Chinese consumer bounces back. There have been some short-term boycotts in the past, particularly of Japanese brands, but the Chinese consumer very much appreciates a well-designed, good-value product and these boycotts have not typically lasted very long. They did not recently for British goods.

On the other hand, the Chinese consumer is proud of what China itself is capable of producing. The new factor is that Chinese consumers now also like to buy Chinese-made high-quality goods. That has been seen most graphically in how they have switched heavily into buying Chinese-made mobile phones in recent years. It is challenging, but undoubtedly if British firms have a good-quality consumer product to sell, the market is open.

Certainly our firms see trade barriers, as they do in many countries. In the latest CBBC survey, 53% of companies responding said that they had market access issues. Is 53% high or low? I do not know, but these are real barriers, sometimes with difficulties getting licences or because certain Chinese regulations are different province by province. A lack of transparency and the speed of processes are things that people complain about in the UK and in other economies, but there are then questions about level playing fields and whether state-owned enterprises in China get advantages from subsidies. Yes, they do. There are questions about IP protection and technology transfer. Certain sectors are still very closed, such as the banking market. I could develop these, if you want, but there are a lot of issues and barriers there. If I were producing a list of policy recommendations for the UK Government, quite a few of them would be focused on some of those barriers.

Q97 **Lord Teverson:** I will follow that, Lord Sassoon, and give you an opportunity to go through more of those, because we are particularly interested in barriers to trade and investment. I always think of one that you have already mentioned, IP risks. Is it government criticism of the lack of rule of law or the lack of dynamism of UK industry? When it comes to that, we always look at Germany as being particularly successful in its exports to China, yet it is a manufacturer exporting to the world’s greatest manufacturer, which is almost coals to Newcastle. What have we been doing wrong or, more importantly, what can we put right?

Lord Sassoon: As I said in my answer to Baroness Anelay’s question, the UK was certainly slow to focus on China. It was an embarrassment to me even in 2013, when I became chairman of the CBBC, that we were exporting less to China than, say, Italy was. Part of that relates to the shape of our economy versus the German economy in particular, with its strengths in manufacturing, but it was more than that.

I have said that the "golden era" was an unhelpful tag that many people in the UK and China were cynical about—I remember being in Beijing only a couple of weeks after the state visit in 2015 when a senior Chinese official said to me, "Golden eras don't last for ever, so what are we going to do to make the most of it while it lasts?" So there was indeed a lot of scepticism about the golden era.

But to your point, Lord Teverson, it created a massive focus on China, and a lot of what we have seen in the great pick-up in British business's focus and success in exporting to China came from that golden-era focus and specific actions such as the fact that David Cameron, when he was Prime Minister, took more businesses on his trip to China, especially smaller businesses, than had ever been taken on one of his trips before.

The German example shows us that if you have a very high-quality product, the Chinese will buy it, even if it is relatively expensive, because it is manufactured in a high-cost country. I do not like to pick out too many individual companies, because that is invidious, but the extraordinary success of Jaguar Land Rover in China in recent years shows the same effect. We have a larger manufacturing sector in this country than, say, France, and we should not play that down. One of the outstanding successes in China for Britain, which counts as an export to France but not to China, is all those Airbus wings and other parts of Airbuses, plus the Rolls-Royce engines. We should not run ourselves down as underperforming the French or the Germans.

When it comes to barriers, certainly IP has always been up there, and it is an area on which the CBBC, the Great Britain-China Centre and the British Government have focused on with, I would say, considerable success. I remember a one-on-one meeting in 2008 between Prime Minister Gordon Brown and President Hu Jintao. When the Prime Minister said, "China needs to put a proper IP protection law in place", the President told him that actually the National People's Congress really did not want to give priority to IP protection; the NPC could sometimes be difficult, just as the UK Parliament sometimes could be. So we have moved forward hugely, with a lot of encouragement and help from Britain.

There are dedicated IP courts in China and companies are now able to get protection in those courts. To take an example, Peppa Pig, one of the most recognised brands among the children of China, just as in the UK, was recently found to be in the category of so-called 'well-known trademarks' in China by a Chinese court, which gives it the highest level of protection. So a lot of progress has been made, although there are a lot more things to be done.

I have to say that it upsets me that the prosperity-funded work on IP protection, which benefits British businesses, has been chopped under the latest round of cuts, which rather goes against what the Foreign Secretary said to your committee recently about trade being one of the priorities. I just throw that in. The Government could be doing even more in this area.

Lord Teverson: Do you think we are hobbled by being primarily a service economy and that that is where the barriers are, as opposed to manufacturing, which partners like Germany specialise in?

Lord Sassoon: I think that is completely right. It is always a much harder and subtler game to unblock barriers in services. I could give examples of where the Chinese need us in services and where we are making progress, but you are right that it is more difficult. Still, it is a huge prize, and British business is pressing on in services.

Q98 **Lord Anderson of Swansea:** You said in answer to a previous question that Chinese exporters and investors like to focus, and you gave the examples of nuclear in respect of France and manufacturing in respect of Germany. From the perspective of Chinese investors, which sectors of our economy are most attractive to them? Presumably, they then tend to cluster in those sectors. What challenges do they face? What are the potential risks of that sector as a result?

Lord Sassoon: Just to clarify, Lord Anderson, do you mean the risks to us?

Lord Anderson of Swansea: To us, yes.

Lord Sassoon: Let me start with where the Chinese are in Chinese-owned—for these purposes, let us say Chinese mainland-owned—operating companies. The latest survey by Grant Thornton identifies 838 Chinese-owned companies operating in the UK, with about £92 billion in turnover and 75,000 employees. They are heavily clustered in manufacturing and industrial businesses. There is the effect of a small number of companies, such as the Chinese investment in British Steel, accounting for a high proportion of the numbers, but there is still a focus on manufacturing and industrial.

When it comes to the more let us say passive investments, the focus has been on infrastructure and property—in water, energy and airports, and obviously nuclear power through Hinkley Point, and a lot of property in the City has been most publicly evidenced. Those are what I would highlight.

When it comes to the challenges, this is often the first experience the Chinese have of making major investments outside China. They are not used to doing what we would think of as conventional Anglo-Saxon due diligence before they make an acquisition, so they can run into difficulties afterwards by not having gone through things in the way British businesses would do when making acquisitions abroad. I know that the Chinese authorities have worried in recent years about the number of investments that have been made here and elsewhere that have turned out not to be great investments for Chinese investors, because they have not thought it all through. That is the greatest difficulty that they face.

I know that in the short term they are reporting some anti-Chinese feeling. This is the first time I have ever heard of that—on a personal level, I hope it is only a short-term thing—so that is new but on the current agenda for Chinese businesses operating here.

Lord Anderson of Swansea: That arises from the pandemic, I guess.

Lord Sassoon: You should ask Chinese business people about that, but I think it is a consequence of the pandemic combined with the anti-China mood that there has been in the last year in parts of the political sphere and maybe in the media in this country.

To the point about risks, I see no significant risk for us that is not being managed properly in this country. We have talked a lot about Huawei, but I think that was properly managed. People talk about nuclear, but the fact is that China is only a minority investor in Hinkley Point, and I understand that the Chinese expertise in how to get a new nuclear plant up and running successfully is very important, because it is the only country with much recent experience in the field.

The introduction of the National Security and Investment Act is entirely warranted, but not because of any specific China factors. It is unfortunate that the presentation of it appears to have been partly a reaction to the mood around China last year, but provided that, as the Government say, it is operated on a level playing field and looks at the risks rather than the nationality from which the risk arises, it is a perfectly sensible approach.

Indeed, the Chinese are not the least bit surprised. When a Chinese Minister was in London in 2007 and they were thinking about new outward investment, there was a meeting in No. 11 with the Chancellor, who was asked, "What are the UK restrictions on inward investments?" The answer given was that there were specific restrictions on defence, media ownership and banks, and that was it. The Chancellor left the room and the Chinese Minister said to me, "Did I hear that right? Are you saying that those are the only restrictions the UK has?" So the Chinese completely understand these matters.

We should think back a bit. In the Lilley doctrine debate 30 years ago, the now Lord Lilley proposed that we should not have UK companies privatised only to be taken control of by state-controlled foreign companies. As the committee may remember, the concern then was French state-owned enterprises taking over ours. So we have been here before and it is a healthy debate. In summary, I think the UK is taking a proportionate approach, but we should make clear at every stage that we treat all countries independent of their nationality.

Q99 **Lord Boateng:** I declare my interests as chancellor of the University of Greenwich and a board member of the Syngenta Foundation.

Lord Sassoon, you have been close to the heart of the UK's economic relationship with China over many years in different roles and have made a huge contribution. Last year, you said, "We need to manage any dependency we have on China to make sure it is safe". I think you have explained that in your response to other members of the panel, but you went on to say, “I think we should exploit every opportunity we have to make China more dependent on us”.

Could you elaborate on that a bit? My understanding of China’s approach to these issues—for very understandable reasons, given China’s history, which you know far more about than most—is to avoid dependency on any country, almost at all costs. They do not want to be dependent. So what did you mean by that? What sort of leverage might we ever have on an economy as great as China’s, with China’s history?

Lord Sassoon: Thank you for what you said about my engagement in China. Of course, your family and personal engagement with China goes back a long way. I wrote those words about dependency last year at a time when the debate was very live, as it still is. That debate seemed to be driven by people who wanted to say that we were heavily dependent on China, maybe recklessly so.

Interestingly, at about the time when I wrote that, the Henry Jackson Society, not known to be a great supporter of closer ties with China, published a report in May 2020 that looked at the dependency of each of the Five Eyes countries on China. It was a very rigorous study looking at 5,910 categories of goods. It found that the UK was by its definition dependent on China in 229 categories out of those roughly 6,000, which was the least dependent of the Five Eyes. That was not necessarily what I was expecting to see. The UK number was 229. There were 595 categories in which Australia was said to be dependent, and the US, for example, was found by this study to be dependent on China in 424 categories.

So on all the objective evidence, there is some dependency on China. As I said in answer to Lord Anderson, I think we have managed it in a proportionate way and have further developed our approach in the last year. I also think that since I wrote those words, the Covid experience shows that we may have a dependency on much closer friends and allies that we previously had not thought about, from what has been happening on the vaccine front. I recently got one of the Covid testing kids through the post that said very clearly on the back of the pack by which company in China and in which city it had been manufactured. I am very happy that we are buying these things. Is that a dependency that we should have or not? I do not know. I mainly advocate for a level playing field, as I have said.

Turning to the question of Chinese dependency on us, this was really a reaction to the “glass half empty” approach that it was all one-way traffic—we could not invest in its telecom sector, so why should we have China in ours? There are plenty of sectors in which China needs British goods and expertise, and the more we can get into those sectors, the more the Chinese should be dependent on us.

I shall mention one or two of these. As we know, China has a rapidly ageing population, and it has great concerns about how it is going to fund health and welfare in future. Incidentally, it does not want its welfare system to be as heavily dependent on the state as ours is; they think it is unaffordable. That is very interesting—they are going to go their way and we are going to stick with ours—but it means that they have to create a savings market of the sort that they have never had in China, so they do not have the expertise. They recently handed out important licences to two of our big savings providers. That is an area on which we should make them depend on us.

In a very different area, they have a great need for high-quality prescription drugs. They are not able to develop or manufacture anything like what they need in certain areas, so one or two of our global pharmaceutical companies are performing extraordinarily well in China. I call that dependency, as it meets a very important policy need of the Chinese Government.

I could mention other areas. There are specific areas of space technology where we can fill in with things that China absolutely needs, although there are of course other areas where they are well ahead of us in space. There are areas in environmental protection, the greening of their cities, where we have an enormous amount of offer.

Those are a few of the examples—I could give others—where we want to make a very big push, as a lot of our businesses do, to gain market share while the opportunity is there. And have the Chinese worry about why these Brits are doing so well, just as we sometimes worry, with reason or not, about the Chinese here. I hope that answers the question.

Q100 **Lord Stirrup:** Speaking last year about the UK-China relationship, you said that, "Playing the blame game might feel good, but it would be no substitute for a serious and thought-through strategy". Since then, we have had the Integrated Review, which said that Britain should play a key role in building the open international order of the future, which should put global trade at the heart of global Britain. It also characterises China as a "systemic competitor", but says that we should have a more positive economic relationship, deeper trade ties and more inward investment in China.

Does that constitute a strategy for China, in your terms? If not, what should be the key elements of a strategy for China that would balance these sometimes-conflicting objectives? Finally, do you think that we in the UK have the skills, particularly the diplomatic skills, to handle and manage what is likely to be a sophisticated and challenging strategy on China?

Lord Sassoon: I very much welcome the Integrated Review and its commitment to us continuing to develop a balanced policy towards China. To one of your specific points, the review identifies the need to build additional China capabilities across government. I completely agree with that. Given the reduction in our diplomatic footprint over recent years, which Baroness Anelay and others will know much more about than me, and with it the diminished analytical pool of talent on China, a lot more needs to be done. If I were drawing up a list of policy recommendations to government, the education of officials, maybe even of Members of the two Houses, on China and its history would be policy recommendation number one.

When it comes to the designation of China as a "systemic competitor", as you put it—I think "challenger" is the word in the Integrated Review, but I do not have it in front of me—the Chinese themselves are clear, but might not have put it in the same terms, that competition is going on. They talk about a model being adopted across countries in the developing world to build what the China leadership calls a "community with shared future for humanity".

I do not believe for one minute that the Chinese, unlike other state actors, want to undermine our democracy or impose their system on us, but I think the concept of "community with shared future for humanity" sets up some form of competition in the developing world. Frankly, as a businessperson, a free marketeer and an ex-Treasury official and Minister, I think competition is a good thing on the whole, and I do not shy away from it. The strategy in the Integrated Review is realistic about what is going on and rightly acknowledges the nature of the challenge or the competition.

That in no sense means that we should shy away from our fundamental values or from being prepared to stand up for them. We clearly need to work with like-minded countries, inside and outside Asia, to get our points across and be fierce competitors, where appropriate, but in the context of a better awareness than we have of the cultural sensitivities, which are getting in the way of progressing things with China at the moment. There are issues such as climate change, health and sustainable development, another area in which Lord Boateng and others are involved, where we have to work closely with China or we are not going to meet our goals.

At the same time, to come back to business, we have to make sure that British businesses, particularly in giving support to small businesses where necessary, are absolutely scrupulous when it comes to supply chain issues, labour protection and so on. One of the issues that comes indirectly or directly from the Integrated Review goes firmly back to the way in which British businesses operate and the need for support for them.

Q101 **Baroness Rawlings:** Thank you for your very interesting answers so far. Apart from a successful career in the ministry and the Treasury, I wonder if I could ask you a little about your experience in the private sector and how you feel that the atmosphere in business has changed with the present leader. What effect has the change in Hong Kong had on businesses?

Lord Sassoon: As far as the private sector is concerned, it is undoubted that, as China develops its own capabilities, some sectors will become much more challenging for the British private sector. Equally, as I have said, there are huge opportunities still there. There are particular issues about level playing fields and the subsidies that go into Chinese state-owned enterprises, but they themselves recognise that they need to get to grips with this issue. They no more want to be subsidising state-owned enterprises than we did 30 or 40 years ago. In my last round of meetings with a business delegation in Beijing, in November 2019, Vice-Premier Hu Chunhua opened up rather interestingly about their need to get subsidies out of their state-owned enterprises.

To your point about the present leader, China is certainly far more assertive in its approach to the world than before. That brings challenges, but at the same time they repeatedly stress their ongoing drive to open up their economy, and it translates into real policy action. Of course, we would like it to go further, but Premier Li Keqiang is particularly driving the business agenda forward. He would probably like it to go faster in some respects. We press hard but, from a business perspective, while China is more assertive itis equally determined, in selected areas, at its own pace and where it suits its domestic policy agenda, to continue opening up.

There are other things that business and I personally find more difficult. There were think tanks, as we recognise them, opening and debating business and economic issues 10 years ago, but all that seems to have shut down. Books were being written on economic topics by their Ministers; I contributed a chapter to quite an important investment book written by one of their Ministers a few years ago. None of this sort of thing is possible now, so engagement is more difficult at multiple levels.

What to say on Hong Kong? From a business perspective, the continuing success of the rule of law, with British and other Commonwealth judges continuing to be on Hong Kong's Court of Final Appeal, is enormously important for businesses engaging in Hong Kong. You will have seen Lord Sumption's recent piece on that in the *Times*, and it seems that it is not going to change. Hong Kong has proved to be a hugely resilient place to do business in the past. It faces competitors from mainland China. If you go to Hong Kong airport now, you will see the towers of Shenzhen rising up. It is clear that Singapore will not give Hong Kong an easy run for its money, but Beijing still needs Hong Kong as a two-way conduit for investment out of and into mainland China. It is also, arguably, the most successful equity market in the world these days. So I think that Hong Kong has many challenges, but it would be unwise to write it off from a business perspective.

Q102 **Baroness Blackstone:** You have not mentioned universities at all this morning. I wonder what your view is of the UK's relationship with China in higher education. There are two aspects to that. The first is the recruitment of a substantial number of Chinese students to the UK; indeed, they are the largest group in our international student world. The second is research and innovation. There is an increasing amount of joint research work going on with the Chinese.

Some commentators, and Jo Johnson is one of them, have suggested that this is a dangerous route to have gone down. There are big intellectual property issues, which the Chinese do not respect. I wonder what your view is of this and whether it is something that we should continue and do more of, as an area of interdependency that we should cultivate, which we talked about earlier, or one that we should be cautious of and cut back on.

Lord Sassoon: I am glad you have reminded me that we need to discuss the education sector, which I probably gave only a passing reference to, and specifically universities, which you have drawn attention to. It is important to talk about it. There are now over 120,000 Chinese students at UK universities and, as you will know more than me, around 7% of university revenue comes from China.

It is not for me to judge. The sector can say what it feels, university by university, is an appropriate balance of revenue and students. But it is an enormously powerful part of the UK's soft power and influence, and of the Chinese general understanding of the UK, which we should in no way reign back, and the Government have no intention of doing so.

Others have described the Chinese seeing the UK as a fair-weather friend, and I completely rebut that. The part that education plays is at the heart of this, along with Chinese appreciation of British culture, Shakespeare and so on. The Chinese have a very high regard for the UK, and they see this as part of a continuum that goes back to the Attlee Government's early recognition of the new China, through the Heath and Thatcher Administrations to where we are today. This slightly broadens your question about universities, but I think that the education strand with China sits there as central to our close and long relationship.

I agree that the research and innovation piece requires careful watching, but that is not specific to China. We have been extraordinarily open to fundamental research. We still produce more Nobel Prize winners and citations per head than any other country, and we have arguably been too open on this with all countries over the years. You can go back to microwave technology and all sorts of things which the US exploited what was developed here, so this is not new. We have not got it right for decades. I am no expert, but I agree with Jo Johnson that it is an area that we should continue to look at.

Q103 **Lord Campbell of Pittenweem:** What do you make of the Chinese Government's response to Australia, which argued for an independent inquiry into the pandemic? Also, by rather extraordinary coincidence, no sooner had Canada extradited a senior member of the management of Huawei to the United States, then two Canadian citizens were arrested in China. Is any of that sinister? I will leave that question hanging in the air.

Lord Sassoon: I wish I could leave the answer hanging in the air. The serious point goes back to us needing a much better understanding across government and, to some extent, across business—this is partly the role of the CBBC—to understand how the Chinese may react to different scenarios and actions that Governments or businesses take, so that we can anticipate and be prepared for that.

There is also a big tension out there. China is a country that still suffers considerable growing pains from the extraordinary journey that it has been on in a very short time. It needs to understand that, on the one hand, countries such as Britain very much want to bring China into systems of global governance, but that, if it is going to be at the top table, that requires certain standards of integration and behaviour within the accepted global order.

I do not think it is necessarily helpful, in the time we have, to touch on individual cases. The general answer is that there are growing pains and there is a lot to be learned on both sides. As would not surprise you, I believe that closer engagement with China, talking to it firmly about issues where there are red lines, is the right approach for the UK. That will lead, among other things, to great benefit for British two-way investment and jobs in our country.

The Chair: I formally thank you, Lord Sassoon, for the depth and breadth of experience that you have brought to us today and for the answers that have reflected it. It has been most helpful. Thank you.