



International Relations and Defence Committee

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

Tuesday 18 May 2021

3 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; Lord Campbell of Pittenweem; Baroness Rawlings; Lord Stirrup; Baroness Sugg; Lord Teverson.

Evidence Session No. 11

Virtual Proceeding

Questions 104 - 111

Witnesses

I: Sir Sherard Cowper-Coles, Chair of the China-Britain Business Council, and Group Head of Public Affairs, HSBC Holdings plc; Fang Wenjian, Chairman of the China Chamber of Commerce in the UK, and General Manager of Bank of China in London.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Sir Sherard Cowper-Coles and Fang Wenjian.

Q104 **The Chair:** Good afternoon. I welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords Sir Sherard Cowper-Coles, Chair of the China-Britain Business Council and Group Head of Public Affairs, HSBC, and Mr Fang Wenjian, Chairman of the China Chamber of Commerce in the UK and General Manager of the Bank of China in London. Welcome to you. Thank you for joining us today to share your expertise as we continue with our evidence-taking sessions for our inquiry into the UK's security and trade relationship with China.

As ever, I remind members and witnesses that the session is on the record, transcribed and broadcast. I also remind members of the committee to declare any relevant interests before asking their questions. If there is any time remaining at the end of the formal run of questions, I shall invite my colleagues to ask their supplementaries. At that stage, I try to give priority to colleagues who have not asked questions by that stage.

I will begin by asking the first question, which is always quite wide in scope, and then I will turn to my colleagues for more focused questions. How do you and how do businesses view the current economic relationship between the UK and China? What are the benefits and downsides of the current relationship? Sir Sherard, I will start with you before I go to Mr Fang.

Sir Sherard Cowper-Coles: Thank you very much, Lady Anelay, and thank you to the committee for inviting me to speak. As you said, I am speaking in my capacity as chair of the China-Britain Business Council, an organisation which Lord Sassoon chaired until 2019, and which Lord Powell of Bayswater, Lord Nelson of Stafford and Lord Sharp, among others, have chaired in its 67 years. It was set up in 1954 to protect and promote trade between Britain and China. I want to emphasise, in giving evidence to you, that the CBBC is pro-Britain and pro-British firms, pro-British jobs, pro-British prosperity. We act in the interests of our 500 or so members, spread right across the United Kingdom, ranging from some of the great British multinational companies through to some of the smallest SMEs, all doing business with China.

In the first quarter of this year China and Hong Kong together have become the UK's single largest partner in trade in goods. If you disaggregate the European Union into its member states and include Mode 3 service exports, China and Hong Kong are now Britain's second largest economic partner after the United States. We are dealing with a great economic power, a growing economic power and one of increasing importance to the United Kingdom. There are four major strands in that economic relationship. The first is the trade in goods and services, which is growing rapidly. There is a deficit in goods at the moment, although it is narrowing, and a surplus in services. The export of legal advice, engineering advice, accounting services and a lot else to China is a big

British net surplus. In the other areas, including investment, China had a stock of investment in the United Kingdom of about £3.2 billion in 2019, compared with over £100 billion for the United States, and there is a British stock of investment in China of about £10.7 billion, according to the ONS.

The two other strands in the relationship, all very important, are students and education. Before the pandemic there were about 120,000 Chinese students at British universities, which accounted for about a fifth of the full-time places here. According to the British Council, Chinese students here bring in about £2.5 billion annually to the United Kingdom economy. Over the last decade more than 650,000 Chinese students have studied in Britain, and they account at the moment for about 7% of the income of the higher education sector. Even in the past year with the restrictions of the pandemic, more than 80,000 Chinese students received UK student visas.

Finally, tourism. In the year before the lockdown, 880,000 Chinese tourist visits were paid to the United Kingdom, seven times more than 10 years ago. Those tourists spent about £1.7 billion, mainly in London, Edinburgh and, I am afraid to say, in Bicester outlet village in Oxfordshire. They spent about four times per head as the next highest spenders, my old friends the Saudis, and they account for about 25% of all tax-free shopping by tourists in the United Kingdom.

Research done by the China-Britain Business Council last year showed that between 114,000 and 129,000 full-time jobs across the United Kingdom in Scotland, Wales, Northern Ireland and the north of England are directly attributable to this economic relationship with China. As the Minister for Asia, Nigel Adams, very wisely said to the Foreign Affairs Committee recently, it is inconceivable that a country like the United Kingdom, particularly post-Covid, post-Brexit, would not do business with an economy of the size and importance of China. It is not just the size of the economy; it is also the innovation. Many of the technologies of the future, whether it is high speed rail, autonomous mobility or fintech, are in China. Our technological tomorrow can often be seen today in China.

That is the upside. The downside is, of course, the fears, particularly in the United States but also in some quarters here, about Chinese domination. There are sincere worries in many quarters about the nature of modern China, but my argument is that we have to have the confidence to engage economically with China post-Brexit, post-Covid, and accentuate the positive. As that wily old Chinese leader, Premier and Foreign Minister Zhou Enlai said, we need to seek common ground while acknowledging the differences.

The Chair: Thank you, Sir Sherard. Mr Fang, may I turn to you and invite your response?

Fang Wenjian: Thank you, Baroness Anelay. It is my great pleasure to be here today to answer any questions from the distinguished members of this committee. I also thank you very much indeed for listening to a

voice from the Chinese business community here. Today I am speaking in my capacity as the chairman of the China Chamber of Commerce in the UK, although I am also general manager of Bank of China London branch. Bank of China has been here for over 90 years now, so we value this country as our root here to grow. The China Chamber of Commerce has been here for 20 years. This year is our 20th anniversary and we are here to represent the Chinese business community and business interests in the UK. We represent over 150 formal members and we provide a platform for Chinese investors here and to interact with the UK Government or UK business partners.

I want to make three observations on the question of the economic relationship between the UK and China. I will try to be brief. First, in our opinion, the economic relationship between UK and China is deepening steadily, continuing the trend in the past decade. If you look at the statistics, we can even say that the UK's and China's economic relationship is the best it has been in history. Sherard has shared many numbers, which I will not repeat. I will add just one thing for the Chinese business community here. In the past decade, our investment in the UK has more than tripled, and even in the last year, when the pandemic was so deep, Chinese investors still made an investment of £4.7 billion into the UK, which is a 30% increase in value. I just wanted to highlight that.

Secondly, people should not take the momentum for granted. We know that the government-to-government relationship has changed from a golden era to the current stalemate situation. If we do not do anything about the deterioration in the relationship between the two countries, and the anti-China sentiment here, it will have a cooling effect on the economic relationship. That is our observation. Our feeling is that there is a lack of consistent and coherent policy on China, which is creating uncertainty for the business community. We know that business does not like uncertainty. Uncertainty means that it is difficult for us to make strategic decisions. That is also something that I want to highlight.

Thirdly, in order to understand the Chinese business community's sentiments in the UK we conducted a survey in November last year to see how they feel about the prospects and the future in the UK. I am glad to report that in general the Chinese business community is cautiously optimistic about the prospect of continuing to do business in the UK. In general, it is optimistic: about 74% of the Chinese companies we surveyed will invest all or the majority of their profits in the UK for reinvestment, and over 95% of the surveyed members responded that they will continue to see the UK as part of their global strategy. However, people remain very cautious because of the factors that I mentioned just now. A lot of them are adopting a wait and see attitude on strategic decisions now to understand more and to see what happens next.

Those are the three points that I want to make on the overall feeling about the economic relationship now.

The Chair: Thank you for those very helpful opening remarks.

Q105 **Lord Boateng:** I declare my interest as Chancellor of the University of Greenwich and as a board member of the Syngenta Foundation.

Sir Sherard, you have described China as a great power, and as an important trading partner, as indeed is the case. Mr Fang, you have referred to cautious optimism on the part of the Chinese business community in the UK, and optimism is always a welcome sentiment. What is your assessment of the National Security and Investment Act? Do you think it takes the right approach, and how is it seen by both British and Chinese companies?

Sir Sherard Cowper-Coles: I think the principle of the National Security and Investment Act, as it now is, should be beyond dispute. The China-Britain Business Council has welcomed it. Every country has a duty to protect its national security interests and it is only right that inward investment should be scrutinised. At the same time, we need to see how the Act will work in practice, whether the new investment security unit in the business department will be properly resourced, what number of applications for investment are called in, and whether it will have a chilling effect on perfectly legitimate investment into the United Kingdom.

Given particularly some of the rhetoric in the other place when the Bill was introduced, there is a feeling on the part of some of our Chinese friends—and Mr Fang can address this—that perhaps it was targeted at one particular country rather than at all investment into the United Kingdom. In short, it is absolutely fine, indeed highly desirable in principle, but let us see how the Government implement it in practice in an actor-agnostic, fair and efficient way.

Fang Wenjian: The Chinese community believes that there is logic in the explanation offered by the UK Government about why they wanted it, but I must admit that the Act is perceived as being targeted at Chinese companies, especially given the context: it was introduced when the UK was banning Huawei from the 5G network and casting doubt on nuclear project co-operation.

All this is context, and that is exactly your purpose, but the Chinese community is worried about whether it is targeted at it. It is the timing of the Act, and its content covers a wide scope; it covers 17 industries and a lot of detailed requirements. It will dampen, to some extent, the enthusiasm of Chinese companies for investing in the UK if people do not explain very clearly or if it is not implemented in an appropriate way.

There may also be other unintended consequences of the Act. It imposes restrictions on investment in many sectors, including technology, and it may have a negative impact on start-up and small enterprises in the UK, especially in the biomedicine technology area. Many start-up and small companies are interested in China's vast market and hope to attract Chinese investment to get into the Chinese market. This type of restriction will make it difficult for Chinese companies to invest in start-up and small companies here in the UK. That may be an unintended consequence of it.

It may cause a loss of talent in the UK or talent moving to other areas. Technology is a big area that will be restrained by the investment Act, but this kind of restriction will make it difficult for Chinese companies, especially if they are in a restricted area, to continue to invest. People may think that they should invest elsewhere, that they should invest in Ireland or other countries. This will not be helpful. Many Chinese companies, including Huawei, have wanted to set up their R&D centre in the UK. They have a plan to invest heavily in research and technology, but continuous restriction, if there is a lack of clarity, will cause difficulty for them.

In order to make sure that this Bill can be implemented correctly, it is very important for the UK Government to make sure that there is clear explanation regarding the scope. What is the definition? How do you define national security? Take technology, for example. There are few projects that do not incorporate some kind of IT, technology sector. Even agricultural products or the consumer industry may use AI technology. How do you define AI as a restricted area of investment? There is this kind of confusion, so please clarify the definition, and please also clarify the process, the procedure, for approval.

There is another unintended consequence: that the Act may increase the cost for small companies. It is fine for large companies—we can pay fees to consulting firms to get approval and to pass a review—but an extra fee for external consultancy help to get a project approved is a cost, a burden, for small companies. I would like the UK to pay attention to these kinds of consequences when it comes to implementation.

The Chair: Thank you very much. Before I turn to Baroness Blackstone, who will ask the next question, I should explain that I like to try to change the order of responses around so that, for example, Mr Fang is not always the second person to answer. I shall go to Mr Fang first for the next two questions, which will come from Baroness Blackstone and Lord Alton.

Q106 **Baroness Blackstone:** I think what you have both said so far implies that there is interest in both China and the UK in increasing bilateral trade, but could you tell us a bit about what you see as the obstacles to this? Which sectors do you think offer the best opportunities? Could you tell us how far there are issues that require government engagement for this trade to increase?

Fang Wenjian: As you said, there is definitely interest, and I think there is more than interest. The Chinese side wishes to see the UK as a strategic partner in doing business together, so it is definitely positive there.

On the potential barriers, as I said in my opening remarks I think one of the potential barriers is a continuous deterioration in UK-China relations. People need to pay attention to that issue and address it. We have seen the momentum slowing. The total value of Chinese investment is still increasing, but the number of deals has slowed dramatically. We are not

clear yet to what extent that is because of the pandemic and to what extent it is because of geopolitical reasons. Let us see.

The other obstacle, which I elaborated on just now, is the potential restrictions on Chinese investment imposed by the National Security and Investment Act. Let us make sure that it is not perceived as targeting Chinese companies only. Fair, robust, open and transparent implementation of the Act is very important.

I touched earlier on the fact that we are quite concerned about the rising anti-China sentiment here. It is something that we need to pay attention to. If it continues, it will not be helpful. For business people, when we make strategic decisions for our head office in Beijing, I think we will look to where we feel welcome. If we do not feel welcome in the UK, if we feel that we are more welcome in other places, it will be important for people to divert their future business to other places.

On sectors, according to China's five-year strategic plan, there are clearly areas where there will be huge demand in China. For example, there is great market demand in China for medical, educational, high-tech and other products and services, and China will continue to open up sectors such as telecommunications, the internet, education, culture and medical care to foreign investors, so there is great potential there. Also for Chinese companies coming to the UK, we pay great attention to the business co-operation opportunities in the fields of life science, medical equipment, environmental protection, education in science and technology, and agri-food. Sherard touched on technology earlier, and I think that scientific technology co-operation will be a very important area for both countries to co-operate and work together on.

On government support, there are a few things where government can definitely play a very important role. Government can, for example, maintain a healthy, stable relationship between the UK and China, and strengthen the stability, transparency and openness of investment and trade policy. It can also improve the efficiency of the administrative process, the approval process, especially when a Bill is introduced.

Another important point, and maybe both sides will continue to take some action, is that we want to see the Government restart trade discussions between the two countries, including on EDF and the China-UK JETCO.

Sir Sherard Cowper-Coles: I endorse every word of what my friend Wenjian has just said, particularly his last point about encouraging Ministers to resume the official dialogue with China through the Joint Economic and Trade Commission—the JETCO—and the economic and financial dialogue, which are both very important for opening up opportunities in both directions.

To illustrate the importance of the government role in this, perhaps I could tell a couple of anecdotes, which might appeal to some members of this committee, about what Government has done to help. Some of you

may know that in 2011 Britain and China signed a market access protocol in the agriculture sector. Since then, over the last 10 years, Defra, the British agriculture department, and the Chinese opposite numbers have been working to enable British pork producers to sell into China the parts of the pig that we do not normally eat in the United Kingdom. Chinese inspectors came over to Britain and licensed 10 British pork factories to send to China pork trotters and other unmentionable parts of the pig that are not normally consumed in the United Kingdom. That was a win-win and it would not have happened without government intervention.

Similarly, another government department, the Department for International Trade, has intervened just in the last few months to get the Chinese requirement that all cosmetics sold in China must be tested on animals lifted. As a result, one of my members is now selling into China hundreds of thousands of pounds worth—and soon, I hope, millions of pounds worth—of cruelty-free cosmetics into what is now the largest cosmetics market in the world by some measure. That would not have happened without government intervention. It is very important.

I also underline what Wenjian has said about anti-Chinese feeling here. Some of it may be associated with the pandemic. A lot of it sounds very familiar to what I saw and heard about when I was ambassador to Israel: that people experience racist comments here in the United Kingdom that may be very small in number, but the anecdotes circulate rapidly and lead to a chilling effect and to fear. It is something that I know every member of this committee would condemn without reservation, but some of the rhetoric, particularly in the other House of Parliament, may unintentionally and indirectly have contributed to the anti-Chinese feeling that is very damaging to both sides.

By contrast, the British Council conducted a survey in China recently that showed that, despite the rhetoric coming out of Westminster, an astonishing 81% of Chinese people had a positive view of the United Kingdom.¹ That may be partly because of some of our soft power exports: the Premier League, and another export that I am not sure members of this committee will be familiar with, although perhaps your grandchildren might be—an export known as Peppa Pig, which has just been licensed by the Chinese intellectual property court as a protected trademark and a major British export to China.

We are very popular in China. There are around 300 million Chinese with an upper-middle class income, all very keen to buy Scottish salmon, English pork trotters or Land Rover Discoveries or to fly in aircraft with Rolls-Royce aero-engines. It is very important that we keep up that connection to protect jobs across our United Kingdom.

The Chair: Thank you for those reflections. I shall now go to Lord Alton for his next question.

¹ The British Council has clarified that Sir Sherard was referring to a statistic on Chinese perceptions of the overall attractiveness rating of the UK, which was 81%.

Q107 **Lord Alton of Liverpool:** I declare my interest as vice-chair of the All-Party Group on Uyghurs and the All-Party Group on Hong Kong. How do you see a UK-China trade deal going forward? What are the priority areas for goods and for services? If there is one, over what timeline would a trade deal be likely? Let me press you further on the potential obstacles that were mentioned by Lady Blackstone a few moments ago. You identified various factors but did not mention events in Hong Kong, supply chain transparency, slave labour and the House of Commons decision to declare a genocide in Xinjiang, which I think, Sir Sherard, we would both agree is far from cruelty-free. Do those obstacles matter and should it just be a case of business as usual?

Fang Wenjian: On the trade agreement, from the point of view of the Chinese business community we hope that a trade agreement can be reached between the UK and China. It would be good for both. A trade agreement is not one country granting favour to another country. A trade agreement is supposed to be mutually beneficial, so if we can get a trade agreement signed it will be good for both countries.

On the priority areas, I am sure that both Governments know better than me, but I would guess that there are areas of co-operation between the UK and China that have great potential and are already very significant—the financial industry, healthcare, the service industry and so on, and they should be given priority attention when the negotiations start. However, as I say, I am not an expert in this area.

Both Governments must have their own priority areas on which to focus. At the moment, it is unfortunate that, to my knowledge, China is not on the UK's priority list, and we would like to see both Governments sitting down to discuss this. I think that we are open on the China side. My understanding is that the Chinese Government would welcome it if the UK Government wanted to discuss this and put it on the agenda, whether in terms of timelines or content. When it comes to time, in the business community we think that the sooner, the better, but again we leave it to the two Governments to decide.

On the other differences that Lord Alton mentioned, there are always obstacles in a country-to-country relationship. We should look not only at obstacles but at great potential. Even with obstacles, we should engage with each other and try to understand each other more. Personally, I think there is a lot of misunderstanding on the UK side on a lot of issues, including the issues that Lord Alton mentioned. I really want to advocate that. Added together, I have been in the UK for over 13 years now, and the longer I stay in the UK the more I think the UK needs to understand China more. I really feel that not too many people understand China, its history and situation and the challenges faced by the Chinese Government and Chinese people.

There is definitely not enough understanding. On the contrary, there is a lot of misunderstanding about China. Lord Alton mentioned some of those things. I think there is great misunderstanding or even misinformation here. I know this is not the focus of today's discussion, but we want to

advocate that the UK Government continue to do more to promote the UK's knowledge of China and the Chinese people. If you know more about other people, you can have better co-operation.

Sir Sherard Cowper-Coles: I start by paying tribute to all that Professor Lord Alton has done to promote human rights and protect human rights, not only in China but around the world. I know that his views are very sincerely held and are shared by very large numbers of people.

On what is alleged to be happening in Xinjiang, of course my members are not blind to that. They are well aware of it, which is why we are working with the Department for International Trade and the British Retail Consortium, with the encouragement of the Secretary of State for International Trade, to establish guidelines for our members. I would like to place on record before this committee that if we found, having investigated and received evidence, that any one of our members was knowingly using slave labour anywhere in the world—but, of course, we deal with China—we would not regard that as compatible with membership of China-Britain Business Council. Of course, in the end it is for Governments to set out the rules and the red lines for engagement but, as Lord Alton knows better than any of us, the UN itself, through its guiding principles, and the OECD have set out a clear duty on business to do what it can to promote and protect human rights.

I will add a couple of observations from my time as a British diplomat, accredited successively to two countries in the Middle East, one Israel and the other Saudi Arabia, both of which are criticised regularly for alleged abuse of human rights. My experience and my sincere belief is that if we want to help, for example, the women of Saudi Arabia or the people of the Gaza Strip, in every case it is far better to remain engaged and in contact than to walk away and decouple and disengage.

I want to underline what my friend Wenjian said about British ignorance of China. China knows an enormous amount about us. We know so little about China and have forgotten so much of our history, including the utterly disgraceful circumstances in which we seized the territory of Hong Kong from China to promote British opium exports into China. In those days, people like Lord Alton were vigorously campaigning against opium exports. They knew they were entirely wrong, but Lord Palmerston won a vote in the House of Commons by a narrow margin and went to war for an utterly disgraceful cause.

Lord Alton has not forgotten that but many of our fellow Britons have; the Chinese have not. They like us, they want to engage with us. It is a matter of great shame to me that two of the three chief executives of the Chinese banks in London know more about Jane Austen than I do as president of the Jane Austen Society, and I venture to put to this committee that the heads of the British banks in China know virtually nothing about Chinese authors of similar stature.

There is work to be done in redressing the balance of knowledge between our two countries, and that is something that the CBCC will be promoting in the months and years ahead. We all know about America, or think we do. We know very, very little, relatively, about the other great civilisation on the surface of this planet.

The Chair: Thank you, Sir Sherard. Before I go to Baroness Rawlings, who will ask the next question, I will switch back again and from now on I shall go to Sir Sherard first to respond and then to Mr Fang for the last few questions.

Q108 **Baroness Rawlings:** Thank you, Sir Sherard, for your very clear and informative introduction and setting the scene. What do you think was the impact of our Government's decision on Huawei on overall business, even though it only comes into force after the end of this year? How do you think the decision affected the activities of other Chinese companies in the UK and British companies in China? How much pressure do you think came from the US at the time for us perhaps to use US kit instead, like Cisco and Juniper?

Sir Sherard Cowper-Coles: The decision is behind us, Lady Rawlings, and I would rather not revisit it. It was taken for reasons that Ministers know better than any of us. It is now behind us, and I think we must look to the future. As far as my members are concerned, it has, thankfully, not affected our activities in China in any measurable way, but I will leave it to Wenjian to answer on the effect it may have had on his members in the United Kingdom.

Fang Wenjian: It has definitely impacted on my members, because Huawei is an important member of my chamber. Of course, we are not focusing on the particular impact on Huawei. We all understand that there will be a big impact on its strategy in the UK. Its original strategy and ambition was to help the UK to generate more than £100 billion of economic benefit and 350,000 jobs in the UK, and that cannot be realised as it originally planned.

For the other Chinese businesses in the UK, it affects their confidence in the UK, especially, as I said before, their concern that Chinese companies will be targeted by the UK Government regarding the restriction of future investments. I have other companies in the telecom sector that are members, and I am sure you can imagine what they think: "If Huawei has been banned, what about us in the future?" It makes them alert—"What next?"—and makes them think about the future and refrain from making strategic decisions. I know that many of them are adopting a wait and see attitude. Also, to be frank, a few member companies are considering whether they should relocate their regional European headquarters to outside the UK. That is being considered, but I am sure you can understand why people think like that.

I think that a lot of the impact will be on future co-operation in the technology sector or other sectors, which the UK might need from China. Sometimes it is difficult to for you to tell which area falls into a category

that will affect the national security of the UK and which area does not. Again, we need guidance and assistance from the UK Government to help us to understand better what kind of activities are allowed in the UK so that we can proceed and do not have to worry: "Chinese companies, you continue to be welcome in the UK". There is great potential investment. I am not saying that we must do something in particular, but it would be helpful if you could help Chinese companies to understand better the scope of your concern about national security.

Q109 Lord Teverson: It is good to be reminded about the opium wars. I regret even more that it was, as you say, Lord Palmerston, who was the first ever leader of the Liberal Party, newly formed, to have driven that policy, but it is something that we should never forget about wrong foreign policy decision-making.

I want to come back to something rather more present, although it already seems rather distant, and that is Brexit. We have only been outside the single market and EU rules since the beginning of this year, yet it seems a long way away. I am interested to understand how that has affected trade in goods and services both ways—the whole of the trade spectrum—if at all, or whether attitudes that have changed because of that. Also, to sweep up, are there any other barriers that both of you see in access to the market in China for UK companies or the access for Chinese companies in the UK.

Sir Sherard Cowper-Coles: Thank you very much, Lord Teverson. In fact, I think Brexit has had surprisingly little direct effect on my members' ability to trade with China. While this committee was taking evidence last week from Lords O'Neill and Sassoon, we were holding a board meeting, and of the 20 members of the board there, which range from the great companies to the small ones, every single one of them was reporting not only booming exports to China but also, because of the new frictions in the relationship with the European Union, the growing importance for them of their exports to China. It is an indirect effect, and not a direct effect.

You also asked about barriers to trade with China that we have not addressed so far, and perhaps I could expand on the point I made, perhaps rather jokingly, about Peppa Pig and the protection of intellectual property. In the past, this has been a huge concern for British advanced manufacturers selling into China, but I am pleased to report that it is one of diminishing concern. It is an area where, because of lobbying by the British Government, excellent work by the British Embassy in Beijing, using money from the prosperity fund—sadly now reduced to zero in China, the Chinese approach to intellectual property and the protection of it has changed dramatically. Last year, there were 500,000 intellectual property cases before the Chinese courts, and in the province of Guangdong alone there were some 1,000 cases where foreign firms were able to take their complaints before the Chinese courts and win. That is an area where engagement with China is making a difference in the common interest, and I am pleased to report that it is something that my members worry about much less than they used to say five years ago.

Fang Wenjian: I think the impact of Brexit on Chinese business in the UK is mixed. It is one of the subjects we included in our survey last year. For many of our members it has had no negative impact, and business continues as usual, but some members appear to have concerns. Many Chinese companies came to the UK in the past to get entry into the EU, to treat the UK as a gateway to Europe. That kind of strategy will be very difficult in future after Brexit, and that will have an impact on the strategic decisions of Chinese companies.

The second point about Brexit is the uncertainty. Nothing is absolutely transparent yet; there are still disagreements between the UK and the EU in some sectors like finance, which is very important. This kind of uncertainty also affects the strategic decision-making of Chinese companies. People will have to wait until the clarity is there.

The third point about Brexit is the cost for many of our members of operating in Europe. In the past, they could focus on operating in the UK to cover the whole of Europe, but, now, many of us have to set up other operating entities in the EU. That definitely adds to the cost of our operation and makes it too complicated, and there are more challenges in compliance. Those are the negative sides of Brexit. Of course, there are other normal things like Global Talent, visas and so on, but I will not elaborate on that.

We hope from the Chinese business community point of view that in the post-Brexit era the UK can continue to maintain openness and fairness in the market and remain open to foreign investment to mitigate the negative impact of Brexit. We hope that the UK and the EU can reach agreement in the service area, especially for the financial industry; I am from a banking background, and our business has been disrupted to some extent because of the lack of clarity in the agreement. Those are some of the impacts I want to report.

Q110 **Baroness Sugg:** Thank you for speaking to us today. You have both been really clear on the potential and the advantages of a close partnership with China. We have also heard from other witnesses about the balance between a partnership and a competitor. Getting that balance right is a challenge faced by many countries and, of course, not all considerations are economic. We have touched on this in response to a previous question, but could you develop further how you believe the Government should best balance the concerns about human rights and labour protections with ambitions to increase economic co-operation with Beijing? How do you see British companies seeking to achieve this balance?

Sir Sherard Cowper-Coles: Thank you, Lady Sugg. It is a question that goes to the heart of all overseas engagement, and we have not so far in this session referred to the integrated review of overseas policy. If I may say so, I think that puts it extremely well; I have it here with me. There is also what the Prime Minister said in presenting the review to the House of Commons: we need a positive trade and investment relationship, we need a positive economic relationship with China, but we also need, of

course, to protect our national security interests and to stay true to our values—words that are easy to say and very difficult to deliver in practice.

However, we do that by engaging, by speaking honestly and openly—in my personal view, that is usually best done in private in a spirit of friendship and constructive criticism rather than in public—and by using business to export British soft power, whether it is the products I referred to earlier or the whole range of British education. The fact that 667,000 Chinese students have studied at British universities in the past 10 years is a huge element in promoting the kind of world we would like to see.

We need to do it in a spirit of confidence, not of fear, and in a spirit of engagement, encouraging economic interchange because it benefits us, it benefits China and it enables a dialogue about the kinds of difficult subjects that we all know exist. I go back to what Zhou Enlai said all those years ago: seek common ground while acknowledging differences. I truly believe that is the only way forward.

I point out to this committee that it is particularly frustrating for those of us who work in the financial services industry to see our American competitors rapidly growing market share in China in a market where there is huge hunger for western financial expertise, particularly in the field of savings, pensions and wealth management, as China needs to put away money for its old age, as it needs the expertise that only western banks can bring. Because of our Government's unwillingness or inability to push ahead with the economic and financial dialogue, the great British fund managers and multinational financial services firms are not growing market share in the way the Americans are, and to a lesser extent the Germans, despite the rhetoric coming out of Washington.

I hope that when this committee comes to writing its report you will be able to make a reference to the importance of us, as a Government, continuing to push in all these areas, whether it is exporting pork trotters or Peppa Pig or financial services. The only way to do it is by engagement and reasoned argument of the kind that I know this committee stands for.

Fang Wenjian: It is very important to get the balance right. I could not agree more with Sherard about his point of seeking common ground and parking the differences to one side. A very important point is seeking engagement instead of confrontation. Engagement is the only right way forward. Engagement will keep the door open, will help to promote mutual understanding and will help to eliminate misunderstanding on the other side. Confrontation will close all the doors and will not bring you closer to the policy objectives that you want to achieve. Engagement is the only way to help you to achieve the policy objectives. I want to emphasise that.

When I talked to the all-party parliamentary group recently about of the UK, I mentioned the two Ps—pragmatic and positive. Sherard said a lot about positivity, and I agree completely that positivity is very important.

Yes, there are areas of difference, but there are wider areas of common interest. There is great potential for us to work together and to do good things for the people of our two countries and the people of the world, so let us look at that as well. When I say pragmatic, I mean that it is important for UK policymakers to make rational policy that aims to serve the UK's best national interest. I know that people have different views and different values, and that is fine, but when it comes to the country, national interest should be at the core.

Chinese companies are keen to participate in the UK building in the national interest in the post-Brexit and post-pandemic period. Whether it is building a global Britain, levelling-up or building back better, Chinese companies can play their role in all these strategies. They are keen to play their role here and, despite the downsides of Brexit, my survey showed that Chinese companies believe that they can play a role in helping the UK to achieve its national strategy.

That is something we should not forget. Why not let Chinese companies play a role in the UK, because most of them, according to our survey, are here for the long run. Bank of China has been here for 92 years and, based on our survey, over 60% of our members have been here for over five years. We want to take root in the UK. We will follow UK laws and bring benefit to the UK as a country, to UK local communities and to the people in the UK. Let us work together instead of having confrontation with each other.

Q111 Lord Stirrup: It is nice to see an old friend in the witness stand. I am sure that members of the China-British Business Council and the China Chamber of Commerce in the UK would like the political climate between the two countries to be plain sailing, but that clearly will not happen. There will be political differences, sometimes significant differences. Experience has shown that China is likely to react to such differences, sometimes with diplomatic, economic and trade measures.

How well prepared do you think the UK and the Chinese companies you represent are for dealing with this level of uncertainty and with what will from time to time certainly be a bumpy relationship? The weather will be stormy at times, just like it is at the moment. How well will those companies be able to get through those stormy periods?

Sir Sherard Cowper-Coles: That is very good question about resilience and what in your old profession I think would have been called ruggedisation against the conditions one might experience on the battlefield.

The answer for the purposes of this session this afternoon is, of course, that my members and the policy staff of the China-Britain Business Council keep a very close eye on the storms ahead. We have what in your old profession you would have called situational awareness. We scan the horizon and we try to make sure that our members are prepared.

That is the on-the-record line. Privately, of course, many companies would be very worried indeed about a severe downturn in relations,

because of the damage it would do, not just to a very important market for exports, a very important source of investment or students or tourists, but, as I said at the beginning of the session, to a source of the technologies of the future. China today is our technological tomorrow in so many fields. You are absolutely right. It is a key question, and we are aware of it, but at the same time we are, as your question rightly implies, very concerned that we try to insulate this track of political, cultural, educational and investment engagement and manage the political differences on a separate track.

Fang Wenjian: I will try to be very brief. I am conscious of time. Yes, there may be turbulence. From a business point of view, it is down to the Government to make sure that this turbulence is as little as possible so that we can navigate in calm water. That is the number one objective.

No matter what happens, no matter what turbulence or differences there are, let us try to engage and try to have mutual respect for each other. Do not forget that China is one of the biggest developing countries. It is still a developing country and it has a lot of problems. Those problems may be different from the problems we have in the West. Try to show mutual understanding and mutual respect and, no matter how different we can be, never lose respect. I always say that country-to-country relationships are like person-to-person relationships; we can disagree, sometimes we can have a quarrel, but do not lose the mutual respect. That is a very important thing that I want to mention.

The Chair: Thank you. I am always the over-optimist in time and I can see that I am defeated by the time going round. I thank our two witnesses very much indeed for their contributions and apologise to those colleagues waiting in the wings hoping to ask a question. It shows the depth of interest of this committee.