



International Relations and Defence Committee

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

Tuesday 18 May 2021

4 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 Fall; Baroness Rawlings; Lord Stirrup; Baroness Sugg; Lord Teverson.

Evidence Session No. 12

Virtual Proceeding

Questions 112 - 120

Witnesses

I: Professor Wei Liang, Gordon Paul Smith Professor of International Policy, Middlebury Institute of International Studies; Linda Yueh, Fellow in Economics, St Edmund Hall, Oxford University, and Adjunct Professor of Economics, London Business School.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Professor Wei Liang and DrLinda Yueh.

Q112 **The Chair:** Welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords. Professor Wei Liang, Co-chair of the International Trade and Economic Diplomacy Programme, Middlebury Institute of International Studies in Monterey, California and Dr Linda Yueh, Fellow in Economics, St Edmund Hall, Oxford University and Adjunct Professor of Economics, London Business School, thank you very much for joining us to share your expertise as we continue our evidence-taking session for our inquiry into the UK's security and trade relationships with China.

As always, I remind Members and witnesses that this session is on the record. It is transcribed and broadcast. I also remind Members to declare any relevant interest before asking their questions. If there is any time remaining at the end of the formal run of questions, I will invite my colleagues to ask supplementaries. As ever, I try to give priority to those colleagues who have not had a chance to ask a question by that point.

I begin by asking the first question, which as always is general in scope, before I then turn to my colleagues who will ask more focused questions. How and in what ways does China use its economic strength as a foreign policy tool? How should the UK respond to this approach?

Professor Wei Liang: Thank you for the opportunity today to be here. Thank you for your kind invitation.

I want to answer your question by first saying that China's economic diplomacy has evolved over time. From the beginning stage of China's opening up, the priority of China's Government was through economic diplomacy to maintain a more co-operative international environment so that China would be able to grow economically. At that time, the emphasis was to maintain a good working relationship with China's business partners, their neighbours and the great powers, especially the United States, the European Union, the UK and Japan. That was the priority.

That has changed over time. Nowadays, because of the size and global influence of the Chinese economy, we have seen that economic diplomacy has evolved into economic statecraft, which is by definition to apply or to use economic means to achieve non-economic goals. We have seen that economic means have been used as an incentive or sometimes as coercive measures to influence other countries' foreign policy and to carry out China's non-economic goals, especially in the region of Asia-Pacific.

Dr Linda Yueh: Thank you very much. I echo what Professor Wei Liang has said and thank you for the opportunity to be here and to have this discussion.

My comments follow on from what she has just outlined. The willingness to use economic tools as a part of foreign policy is evident in a few cases where China has already done so to increase its influence and its access to markets. Chinese economic tools have been deployed for a lot of different foreign policy goals. For instance, Belt and Road has increased access to certain markets. We have seen vaccine diplomacy and their use of trade sanctions such as tariffs against Australia for supporting an investigation into the origins of Covid. Those are all examples that come to mind.

China is not the only country that has done this in recent times. For instance, Japan and South Korea are in a trade war for lots of reasons, partly economic but also non-economic. That context probably informs what the UK's response and approach might look at. This strengthens the need for the UK's economic diplomacy to align economic and non-economic aims and tools; in other words, integrating its policy to suit what the 21st-century world looks like at the moment, which means there is a conflation of foreign economic and foreign policy.

I have just chaired the LSE Commission on Economic Diplomacy. Essentially, our overriding recommendation is that, given this context, the UK, thinking about China but also other countries, would need to consider this changed approach. We need to also look at our trade/investment policy and our foreign, national security, development policy aims and have a way of contending with what the landscape increasingly looks like.

One immediate recommendation comes to mind. To reduce the likelihood of using economic tools in this way requires strengthening the global rules-based system, particularly the World Trade Organization. The aim of having multilateral rules around trade is to reduce the use of trade in non-economic ways in some respects. The DSU, the dispute settlement mechanism of the WTO, the appellate body - reform in all of these things would help to strengthen rules and maybe reduce discretion in this area.

The Chair: I will keep to the current run of asking Professor Wei Liang to answer first and then turn to you, Dr Yueh, until we get to question 5 when we turn to the UK and its allies. I shall reverse the order then and I shall go to Dr Yueh. It is my way of trying to ensure that each of you goes first for a reasonable time during the run of questions.

Q113 **Lord Boateng:** I declare my interest as Chancellor of the University of Greenwich and a board member of the Syngenta Foundation.

A distinguished previous witness this afternoon, Sir Sherard Cowper-Coles, quoted on no less than three occasions Chou En-Lai, who was of course the father of the external relationship between China and the rest of the world. Chou En-Lai was undoubtedly a wise man and he said something else, too, which perhaps is relevant to this inquiry. I would like your response to it in relation to China's current approach to the international rules-based system. Chou En-Lai said, "China is a very attractive piece of meat, coveted by all but very tough, and for years no

one has been able to bite into it". That is an interesting quote.

Is there a Chinese approach to global governance? What is the role and how does China see the role of multilateral organisations such as the AIIB or regional agreements such as the RCEP or the CPTPP? How do they fit in to the Chinese governance model? Are Chinese approaches to regionalism and multilateralism compatible with the rule-based international order?

Professor Wei Liang: This is an important question because, here in the US, almost every day we discuss about whether China is trying to challenge the US-led neoliberal rule-based international order. In answering your question, I want to start with the bigger picture of how China envisages global governance. China's vision is similar to the European Union's or UK's vision, which is that the US is a single superpower but, increasingly, we are living in this multipolar world. That is an important starting point.

Also, China has been a strong supporter of the UN system because of the fundamental principles of respect for sovereignty and non-interference. They are principles that China believes and has insisted on for decades. They are also the foundational principles of China's own foreign policy. With regard to China's support for multilateralism, especially the UN framework, peacekeeping and the WHO, those are the best examples. China has supported multilateralism in very selective ways. Generally speaking, because of China's leverage in the global economy, China has been more assertive in reforming the global economic governance, especially the WTO, the IMF and the World Bank.

If we look at the examples you gave, the AIIB is the best illustration of China trying to create a China-sponsored multilateral institution to showcase that China is supporting existing international order and multilateralism. Currently, the AIIB has over 100 members including the UK and 18 other European states but the AIIB has excluded the United States. This has been the best platform for China to try out some of its own ideas for global governance.

I want to highlight a few here. The AIIB has three terms: green, lean and clean. China is emphasising the importance of efficiency. Boards of directors are non-residential and do not meet frequently, and they have delegated lots of power to the president. The AIIB has been used by China to emphasise it is less legalised but more development-friendly and more developing country-friendly. If you look at the voting power calculation adopted by the AIIB, it is 100% GDP-based. It has not used the World Bank approach to include, for example, a complicated formula, which comprises a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserve (5 percent). Because developing countries usually have weaker scores on those soft institutional indices. That is a way to show that even as the donor country they can also treat the borrowing country more equally. That kind of thinking has also been reflected in the AIIB.

I want to conclude by saying that China is trying today to throw out some of its alternative ideas on global governance. To answer your question about whether China is trying to challenge the rules-based international order, it is hard to conclude that. What I have seen is that China is definitely trying to challenge the US dominance in the existing international order, but China has benefited greatly from the existing international order. I do not see a reason why China is trying to overthrow it because, arguably, China is one of the largest beneficiaries of the existing international order.

Dr Linda Yueh: China is keen to have a role that fits its economic weight in the global economic order, multilateral organisations and the international financial institutions or IFIs. Changing, for instance, the voting in the Breton Woods institutions of the International Monetary Fund and the World Bank has been discussed for some time.

Part of your question is around whether that is consistent with a global rules-based system. Perhaps I will phrase it differently to what we have just heard. We are in an era where great power competition will characterise the US-China relationship. That almost inevitably leads to fragmentation because, if you set the rules, they will be rules that suit you. China wants to have a greater say in lots of areas of global rules, which are incomplete. In my area, economics, the World Trade Organization rules cover trade and goods fairly well but not so much services, digital trade and data. There are a lot of gaps where rules can still be made. Both China and the US would like to be the one making those rules. That leads to fragmentation, which is not consistent with having a global rules-based system.

One development in terms of the US-China great power competition is seen in the reports that China is trying to join the CPTPP, which is the Pacific Rim trade agreement. China is part of RCEP. You mentioned both of these in your question, Lord Boateng. It is seeking to join the CPTPP trade arrangement, which also includes countries in the Americas. You might recall that the CPTPP was the TPP, which included the United States until the Trump Administration pulled out of the Obama-era push for this trade agreement. It became known as the TPP-11 and was then adopted as the CPTPP. I do not know why there are so many trade acronyms—there must be a reason for them. The fact that the US is not in the CPTPP and it looks like China is now reportedly interested in joining is another example of what we are likely to see for some time, which is this vying for influence between the US and China.

Baroness Fall: I declare my interest as a senior advisor at Brunswick.

Many of us have heard of the Belt and Road Initiative but it is less known in its form of the Digital Silk Road. Tell us a bit more about what you believe its aims are. What are the main driving forces, domestically and internationally, of the DSR? What reception does it get in different regions? In what ways might we in the UK interact with the DSR? Does it in any way come as a challenge to our security interests?

Professor Wei Liang: Thank you for the question. The Digital Silk Road started from 2019. It has been identified as one of the priorities of China's Belt and Road Initiative. It is composed primarily of three areas. One is what we are more familiar with, the digital and telecom infrastructure, to build that physical infrastructure to help with connectivity. The other two components are e-commerce and smart city projects. China has carried out a number of the smart city projects in Southeast Asia, in particular in Malaysia and the Philippines. E-commerce and the smart city projects complement the digital infrastructure. After you build infrastructure, you want to be able to deliver the content. A large number of China's high-tech companies have evolved in this Digital Silk Road Initiative. For example, Alibaba and Huawei have been key players.

I want to highlight the importance of this issue. We know what is going on with the tension and the rivalry between the US and China. Many scholars and policy commentators have called it the US-China trade war. But, no, this is not about trade, this is a tech war. Here the emphasis is that the Digital Silk Road is an important channel for China to export its high-tech products through a number of China's high-tech companies. We have read a lot about the manufacturing in China and the Made in China 2025 initiative. Together with this Made in China 2025 is China Standards 2035, which is an equally important initiative carried out by the Chinese Government to promote China's power and influence in global standard setting.

We heard just now about the importance of high-tech competition globally. One important aspect is which country's national standards will become the global standards, especially in the new emerging technology areas where the global standards have not been set. Here are the data governance rules and e-commerce standards, because China is a big power in e-commerce already, and e-commerce is thriving in Asia compared to the US, North America and Europe. China has a lot of influence and power in this area. When we look at the power of e-commerce, we have to mention the importance of data; Asia has a large population, which can be translated into data power. Data will be the power of the 21st-century economy.

The main aim of China's Digital Silk Road is to promote the building of the infrastructure to be able to carry out Made in China 2025 and China Standards 2035 initiatives and compete with other developed countries in the high-tech sectors.

Dr Linda Yueh: I will perhaps address the remaining parts of the question that Baroness Fall mentioned.

One estimate by the Council for Foreign Relations in the United States found that one-third of the 138 countries participating in the Belt and Road Initiative are co-operating on the Digital Silk Road projects. Some data they cite suggests that in Africa, China already provides more financing for information and communications technology than all multilateral agencies and leading democracies combined across the

continent. That might give a sense of how underfunded some of the places where the Belt and Road Initiative is found. The adoption of China's setting of tech standards embodied in a lot of these infrastructure projects gives a sense of the degree of fragmentation that this might mean for the rest of the world.

In terms of our economic interests, it increases the UK's interests in promoting a less fragmented and more global rules-based system based on trying to create global tech roles. Our export strengths are in services. We are the second-biggest exporter of services in the world and we are one of the top exporters of digital services. To facilitate accessing markets, it would be helpful to have global rules and not different rules in different markets. One way in which the UK can position itself in the 21st-century world is to see the trends in data and trade and gaps in global rules and to do our best to promote a more global rules-based system. This is clearly a very challenging area, as we have just discussed.

Baroness Sugg: Following on from that previous answer, what are China's positions on WTO reform and the Doha Round issues? How do Chinese positions in services, data governance and intellectual property compare to those of the UK? In terms of IP and in relation to the latest Five Year Plan, we have seen China signalling that IP protection is a priority. How should we see these developments and how will they impact the UK?

Professor Wei Liang: Thank you for the question. A few days ago, the UK Trade Secretary Liz Truss called for the urgent reform of the WTO "to get tough on China". That explains China's position in terms of WTO reform. China has mixed feelings about it. One primary reason a large number of WTO members, including the US, the UK and many other developed and developing countries, feel that the current practice and rules of the WTO are flawed and not effective is because of China's participation in the WTO. China has been viewed as causing many of the problems so that the WTO stops functioning properly. That is one big context.

The other thing I want to emphasise is that, as I discussed earlier, China on the one hand has benefited so much from its WTO membership. Let me give you some statistics. When China joined the WTO back in 2001, its GDP was about 10% of the United States and today it is about two-thirds. China today is already the largest trading country in the world and for more than 130 countries in the world China is their largest trading partner—not the United States or the European Union. That shows the weight and the influence of China in global trade.

However, while being the largest trading country in the world, China has not been an active player and has not been provided with the room for making trade rules. So it is not like China is 100% happy with the WTO. However, China is taking a defensive position in terms of WTO reform, in the sense that China shares a lot of the concerns of other developing countries, especially the BRICS countries—Brazil, Russia, India, and

South Africa— but not in the ways proposed by the European Union and the US.

Here the UK and China share a similar position in terms of former President Trump's blockage of the appointment of the WTO dispute settlement appellate body members. That was viewed as damage done to the credibility and legitimacy of the WTO, because dispute settlement is one of the WTO's most important functions. Under President Biden today, that issue has been resolved, because the European Union, the UK and US are working together to relaunch the meetings and trying to solve the problem. Then the US probably in the near future will no longer block the appointment of the appellate body members.

The other key contentious issue about the WTO reform is China's developing country status. This is both a political and also an institutional controversy. Institutionally, the WTO has never had the rules to define which countries are developing and which countries are developed. Through WTO history, it has always been up to each individual member state to self-claim whether they are developing or developed. As a political issue, of course, if you look at the size of China's GDP or the size of China's trading powers, they are growing, but if you look at the GDP per capita, it is still lower than half of the countries in the world.

Also, politically, I want to emphasise the importance of this developing country status for China. A fundamental principle of China's foreign policy is that China is the largest developing country in the world and is standing together with other developing countries. China is not ready to let go its developing country status. I consider it more feasible not to stick with the debate about whether China is a developing country but to gradually remove the benefits that China is still enjoying with its developing country status, the special and preferential treatment.

Recently, the new deputy director-general of the WTO and former Chinese ambassador to the WTO, Mr Zhang Xiangchen, made a quite interesting remark. He said that within all the WTO agreements, about 155 clauses talk about developing countries and special and preferential treatment but only 25 involve direct benefits to the developing countries. Among those 25, China currently is enjoying eight clauses that benefit developing countries. In my view China is willing to negotiate to get rid of those over time or gradually. We could work on that area. In practice, if China agrees to no longer enjoy the special and preferential treatment and benefits of being a developing country, but China wants to self-claim as a developing country, it could be negotiated.

Dr Linda Yueh: I will quickly add a couple of thoughts to that. The new director-general of the World Trade Organization is trying quite hard to make some progress in terms of areas of reform. A current sticking point is that the US, EU and UK are looking to remove industrial subsidies. This is an issue that China views as contentious and has for some time because of its state-owned and state-controlled financial system, and subsidising state-owned enterprises or other companies has been a longstanding issue.

In return, China wants removal of agricultural subsidies. China imports a great deal of agricultural products and food. That probably gives one example of many issues where there will be a difference in stance because of different economic systems, different political systems and different levels of economic development.

In terms of the impact on the UK of both the 14th Five Year Plan and the Made in China 2025 strategy, in the next four years or so China is aiming for 70% of the inputs into high-tech sectors and certain high-tech industries to be domestic and a greater degree of having innovative components produced domestically. That points to China's own tech standards evolving with less global input. That makes it more challenging for the UK to promote a global rules-based system on tech.

The Chair: Thank you. Before turning to Baroness Blackstone for our next question, I remind the committee that I shall now go to Dr Yueh first for responses. Also, having an eye on the time and being extremely keen that we are able to reach the climate change question, I propose that the next questions from Baroness Blackstone and Baroness Rawlings should be asked together. They refer to the UK and its allies. I shall ask, please, our witnesses to respond to both those questions at the same time.

Q114 **Baroness Blackstone:** How does the EU approach to Chinese investment, in particular the EU-China Comprehensive Agreement on Investment, compare to that of the UK? Are there elements of the agreement that should be replicated for the UK-China relationship?

Q115 **Baroness Rawlings:** How should the UK navigate between the US and China challenge in forming its interests in security and trade? What are the potential advantages and pitfalls of emulating the US approach? You mentioned the importance of size. Did we have more clout when we were part of the EU or not?

Dr Linda Yueh: The EU-China investment agreement is intended to replace the different bilateral investment treaties—up to 27, potentially—between individual EU nations and China. The Comprehensive Agreement on Investment, or CAI—another acronym; I did warn you at the beginning—does introduce more transparency around subsidies and has some greater degree of opening of certain sectors in China, which is not dissimilar to the phase 1 trade agreement between the US and China.

My quick take on that is that they were sectors that China was already prepared to open up more, such as services, to introduce greater competition. But when I say more, I just mean a bit more. That has always been the contention because China wants to develop the sector on its own terms. This investment agreement is perhaps more feasible than a trade agreement because lots of investments are already happening. An investment agreement for the UK along similar lines would have not a well-trodden path but a path, whereas a free trade agreement would be much more substantial in terms of contentious issues. From that perspective, it begins to level some more of the playing field vis-à-vis China, which is a long-standing sticking point between China's degree of

opening compared to the degree of opening in the United States and in Europe. It goes some ways perhaps down that road but, as with all these agreements, the proof of the pudding is in the eating. Whether or not it achieves that opening is yet to be seen.

Your second question about how to navigate in a great power competition - it is tricky. The UK will have advantages by not being the US or China, if I can put it that way. It is possible for the UK to help the US and China to come together on shared interests. I am thinking specifically of global public goods and I know we will come to climate change.

The pitfall in this is that a lot of interests of the UK will be more closely aligned to the United States in areas that are not my area such as security, for instance, and that it is viewed as anti-China. That is inevitable. There is a lot of scope for the UK to forge its own path, to set its own economic diplomacy combined with its values and principles and still to be an honest broker and try to bring together areas of shared interest and technical expertise to forge some of these global rules around tech, services and data. It is challenging.

Professor Wei Liang: I also want to start by discussing the China-EU BIT. One important geopolitical context for the negotiation and the conclusion of the agreement is that it was concluded before Biden's new Administration. From what I have read, the US Government talked to the EU and was hoping very much that the agreement would be postponed until the new Biden Administration took office. The agreement was sending a signal to the outside world that the EU tried to have an independent China policy.

Also, in the background, in the midst of the US-China trade war, we have seen what the terms of the agreement have delivered. As Professor Yueh said, China has agreed to open up a number of sectors, especially the services and financial sectors. Those are the offers of China's unilateral trade and services liberalisation. Those are considered as immediate economic benefits for the European companies if the agreement can be or will be ratified in the future .

At the same time, the European Union has also strengthened and tightened its FDI screening, targeting China. On the one hand, China is opening up its market for European investment. At the same time, for China's investment into the European market, the national security-related screening has been tightened. China is willing to make those concessions, despite the fact that its investment in the European market will become even more difficult in the short term.

An implication for the UK is that, if we look at the US-China rivalry, everyone seems to agree that it will last for a long period of time, so European companies, British companies can benefit from it. Just like during the US-China trade war, China unilaterally lowered its tariffs to the rest of the world, and many economists say that European companies and British companies have benefited because the US has to pay punitive higher tariffs when it exports to China than the American companies'

competitors, which are the European companies and the British companies. They will be able to enter into the Chinese market and export to China more easily. That is considered an economic benefit.

In terms of the UK's strategy, that is a difficult one because we have to look at the political and strategic importance of alignment between the US and the UK, the most important allies in the world, but at the same time economically decoupling with China does not seem to be a feasible or desirable option for the UK. The UK does have a lot of economic interests at stake if the UK was closely aligned with the United States to conduct an economic or high-tech decoupling with China.

The Chair: Thank you. I hope our witnesses will excuse me but, as I mentioned earlier, I am particularly keen that we use your expertise for the question on climate change. I will say to my noble friend Lord Teverson that it will be over to him in a few seconds to ask his question on climate change. I will then revert to the expected order and, after Lord Teverson, I will go to Lord Anderson and then Lord Alton.

Q116 **Lord Teverson:** The UK is one of the leaders in global climate change diplomacy, and of course the biggest emitter is China. There is a feeling that this area perhaps should be isolated from the rest of international relations because it is all around the future of the planet. Indeed, having read *China Daily*, *Global Weekly* recently, that seems to be the official line as well. It all sounds a bit cuddly to me.

Given the dependence on success of China itself, surely it has leverage in this area globally. How do you feel this area will work out? Can it be isolated or is that wishful thinking? Is diplomacy in this area something that will work with China?

Professor Wei Liang: Yes, climate change is such an important question and I am so glad that I have an opportunity to answer you.

Climate change is important for China and also important for the UK for different reasons. When we discussed earlier the WTO, trade and investments, we emphasised the importance of the size of Chinese economy. But here, China's leverage in global climate change talks is primarily driven by the fact that China is the largest emitter in the world. China's emissions are already more than other developed countries combined. If we do not include China and do not bring it on board, it is meaningless to talk about addressing the global climate change challenge. It is impossible. That gives China a unique importance.

The good news is that there seems to be an emerging domestic consensus in China also to fight against global warming because China has suffered tremendously over the last 30 years from air pollution and environmental degradation. There seems to be a domestic consensus that it is about time for China to address the issue of the environment and air pollution seriously. President Xi Jinping committed China to carbon neutrality by 2060. The assumption is that China will peak in its emissions by 2030 and they will then decline over time. China will have

to work hard to develop its alternative energy and new energy technologies. This is also related to the high-tech competition that we talked about earlier.

More than anything else, the UK will host this year's global climate talk in November, COP 26, but it was a notable event at the end of this March when the UK invited 35 countries to a meeting to address climate change and development, China was invited but did not show up. That was happening among all the political discussions about the economic sanctions against China on the Uighurs and Hong Kong. I am afraid that even though China is committed to climate change and China is important for the success of the COP 26, which the UK is hosting, other non-climate change issues may politicise this important global issue.

Dr Linda Yueh: It is possible but hard to work on shared interests with China in this area for the reasons that have just been outlined, but it is possible because China's push to address climate change has domestic political drivers, so it is in its interest to be contributing to the global climate discussions and aims. That is where I see it is possible.

It is challenging for all the reasons that have already been discussed. I would also mention that China relies more on technology to address climate change than on changes in behaviour. That is slightly different perhaps to western countries. Typically this is a divide between developed and developing countries for lots of reasons. Technology is already existent in a lot of western countries. Thus, there are differences in the approach to climate change.

Can the UK play this role? Yes, because the UK is not the US. I know I come back to this point a lot. As an example, you might remember that the appointment of the director-general of the WTO went on for a little while longer than people had hoped, partly because of a difference between the views of the US and China. Not being the US is already an advantage.

The other advantage is that the UK has quite a lot of expertise in the green finance area as well as in green tech. We have strong technical and other expertise. China is keen to have that. In that sense, the UK is well placed to make progress on this hugely important issue, although I have no doubt that there will be a conflation of this issue with other aims, which is the other theme I have been discussing. We will come to that in just a moment.

The Chair: Thank you very much. Lord Anderson, I am now returning to the normal run of questions.

I have found out from the broadcasters, courtesy of the helpful people who assist our committee, that we could squeeze in an extra five minutes, if our witnesses are able to stay just a little past our time, so that I could also get Lord Alton's question in. It looks as though the

witnesses are saying yes. Thank you so much. Lord Anderson, please.

Q117 **Lord Anderson of Swansea:** Australia is heavily dependent on the Chinese market for the export of its raw materials but Australia has been subject to a series of punishments, largely sparked by its decision to call for an independent inquiry into the Covid outbreak in Wuhan. Even last week, there was a decision to suspend all activities under the framework dialogue.

What lessons are there for us in the bilateral relationship between Australia and China? China appears to have gone rather over the top in response. Can we learn anything from this relationship?

Dr Linda Yueh: There are quite a lot of lessons here. One I would see is that we need a multifaceted approach to China. As we have said, there are shared interests when it comes to climate change, but China is also a competitor in other respects. Its willingness to use economic tools to achieve political ends—that calculus—needs to be incorporated into the UK's economic diplomacy.

Stepping back, to give a broader example, I am an economist so the area I know best is economics. The EU when dealing with Switzerland has been willing to use financial listing agreements in conjunction with other political aims. The United States traditionally separates economic or financial tools from political considerations. We need to know that China is a country that is willing to use them and conflate the two. That changes the way that diplomatic relationship needs to be conducted. That is the biggest lesson I would take away from China and Australia.

Professor Wei Liang: I would echo Dr Yueh. In the first place, the UK should never—and will not—develop that kind of economic dependence because of the fact that one of Australia's main exports is raw materials and minerals. That has never been the case for UK. Australia's particular export profile has put it in a more vulnerable position.

Secondly, a more fundamental question is about the US's allies and their relationships with the United States. Should the US's allies support the US on an issue-by-issue basis or just stand by the US on every single issue, whether political, strategic or economic? That is a question for us to think about.

To go back to the AIIB, a lot of our debate domestically here in the US was about whether the US made a mistake by not joining the AIIB. The US as an outsider cannot have any influence on the operation, the governance or project approval. It does not have a say about what is going on within the AIIB. The UK, being an insider, can work together with other European members and together with influential voting powers to shape and influence the course of action from within. That is another way of thinking.

The Chair: Thank you. You have made it possible for us to squeeze in our last question from Lord Alton. Over to you, David.

Q118 Lord Alton of Liverpool: I thank our witnesses for the evidence they have given us. I declare my own interest as vice-chair of the All-Party Parliamentary Groups on Uyghurs and Hong Kong.

I want to take our witnesses back to what they have both said about the importance of promoting a more rules-based system and what has just been said about the dangers of economic dependence. Given genocide and slave labour in Xinjiang and the freezing last week of \$500 million of assets in Hong Kong of imprisoned British citizen Jimmy Lai, as well as reports that China now owns £135 billion of assets in the United Kingdom, including critical national infrastructure, what consequences does all this have on the way we do business with China? If you were advising the UK Government today, what actions would you propose they should take on economic co-operation with China?

The Chair: We saved the easiest one, of course, until last. Just the reverse.

Dr Linda Yueh: I would propose three things. One is to strengthen the value basis of UK foreign policy to uphold, for instance, no use of forced labour in supply chains. The UK must have a foreign policy that will uphold its values.

Remember that this is multifaceted. A second facet of this is that we need an economic diplomacy framework that is transparent about how non-economic issues fit in with economic policy. For instance, the UK will scrutinise foreign investment based on its own non-economic interests—these values and principles that we have discussed—in certain strategic sectors. It is about transparency and having a framework that lets our partners know where we stand, how we judge, how we trade and how we invest.

Finally, I would still focus on shared interests. Climate change is the one that we have discussed quite a lot. I would broaden it out to global public goods, including global health. As many of your witnesses have said throughout your sessions, and indeed as we have discussed today, if we are going to make progress on climate, we need to appeal to shared interests with China on this issue.

If I can squeeze in a bit more on the strategy, the UK can play a role in formulating global rules based on technical expertise. I want to be quite clear here. Even as we live in a world that conflates economic and non-economic, as we have been discussing, and lots of issues get politicised—as lots of them should—quite a lot of the global rules that should govern the 21st-century world economy are increasingly fragmented. By bringing together private sector expertise and variable networks of countries with shared interests in formulating those rules, we can help to make progress towards improving the multilateral rules-based system. I would encourage all countries to be responsible stakeholders.

I have said this about five times: we are in a good position to do this because we are not the United States. This is a massive change to how

20th-century global governance is now done with the superpowers. We are just in a different era.

Professor Wei Liang: I will be brief here. I would emphasise two things. First, when the UK is dealing with a rising power like China—a non-western country that does not necessarily share many western political beliefs—it is important to be pragmatic. We are living in this complex world and in certain areas the UK will need to co-operate and in certain areas it will compete with China. In certain areas, probably, the two countries will disagree with each other.

Based on that, it is important to build a coalition not just with the United States but with other like-minded countries and, through that coalition, try to negotiate with China and try to better understand each other's disagreements and concerns. A firm confrontation and economic sanctions against the second-largest economy in the world today seems to be unrealistic and it is difficult to be effective. Consultation, negotiation and dialogue are much better diplomatic means to help each other and better understand each other.

The Chair: I thank both of our witnesses. In this session, you have enabled us to cover ground that we had not yet been able to explore adequately. Thank you very much indeed for your expertise this afternoon. I look forward in the future to seeing both of our witnesses in real life because there is so much more we would like to have asked. Thank you for your contribution. I formally close this public session of our committee. Thank you and goodbye for now.