



International Relations and Defence Committee

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

Wednesday 9 June 2021

10 am

Watch the meeting

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

Evidence Session No. 15

Virtual Proceeding

Questions 136 - 152

Witnesses

I: Graham Stuart MP, Parliamentary Under-Secretary of State (Minister for Exports), Department for International Trade; Mohib Rahman, Deputy Director, North America, China and Asia Pacific, Department for International Trade; Nigel Adams MP, Minister for Asia, Foreign, Commonwealth and Development Office; Rupert Ainley, Interim Director for North-East Asia and China, Foreign, Commonwealth and Development Office.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Graham Stuart MP, Mohib Raman, Nigel Adams MP and Rupert Ainley.

Q136 **The Chair:** Good morning. I welcome to this meeting of the International Relations and Defence Select Committee in the House of Lords Nigel Adams MP, Minister of State at the Foreign, Commonwealth and Development Office with special responsibility for Asia, and Graham Stuart MP, Parliamentary Under-Secretary of State at the Department for International Trade with special responsibility as Minister for Exports. They are joined by their officials, Rupert Ainley, interim director for north-east Asia and China at the Foreign, Commonwealth and Development Office, and Mohib Raman, deputy director, North America, China and Asia Pacific at the Department for International Trade. Thank you for joining us today for the final evidence-taking session for our inquiry into the United Kingdom's security and trade relationship 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 interests before asking their questions. As usual, I will ask the first question, which will be general in scope, and I shall then turn to my colleagues to put more detailed questions. I anticipate that, throughout our inquiry today, members of the committee will ask supplementary questions immediately after the Ministers have answered or responded to their initial question.

Let us begin with the questions today. What are the Government's priorities for their relationship with China? What values are the Government trying to uphold and what are the strategic priorities?

Nigel Adams MP: Thank you very much indeed, Baroness Anelay, and good morning to the committee. Thank you very much for asking us along. In response, as the Integrated Review set out, we want our policy towards China to be defined by our national interest. We want a mature positive relationship with China. That must be based on mutual respect and trust. There is huge scope for engagement and co-operation. China is an important partner in tackling global challenges, as we have seen with pandemic preparedness, biodiversity and climate change. We certainly would not be in a position to have responded to the PPE challenge, for example, earlier on in the pandemic had we not been able to co-operate with China so well.

We will continue to pursue a positive economic relationship with China. This includes deeper trade links and more Chinese investment into the UK. However, at the same time, we will not hesitate to stand up for our values and our interests when we feel they are threatened or when China, for example, acts in breach of existing agreements. Pursuing this relationship requires a robust diplomatic framework that allows us to manage any disagreements that we have with China. We need to defend our values and preserve space for co-operation where our interests align.

In terms of strategic priorities, it is absolutely clear that China is a significant and growing global power. It is the world's second largest economy and a permanent member of the UN Security Council, so it is relevant to many of the UK's global strategic priorities, which are set out in the IR.¹ Of those, I would highlight pursuing deeper engagement in the Indo-Pacific region, in which China is one but not the only major partner for the United Kingdom. It is adapting to China's growing impact on many aspects of our lives as it becomes more powerful in the world. We aim to co-operate with China to address major transnational challenges such as climate change and to work on major foreign and security policy issues, such as we have seen with Myanmar recently or Iran.

It is also about promoting and defending the rules-based international system and our values, which, as I have said, is an integral aspect of our approach to China. Increasing the United Kingdom's soft power is also a vital part of our foreign policy, which was referenced in the Prime Minister's foreword to the IR. We also need to make sure we are a channel for better mutual understanding.

On your question about values, it is important to remember that defending our values is not confined to our approach to China; it is a fundamental part of our foreign policy across the globe. Our approach is timely to the G7. Its emphasis on open societies and free and fair trade shows the values that we believe best advance human prosperity, dignity and security. The United Kingdom will always stand up for human rights, and for freedom of religion or belief, the media, open societies, speech and academia. These are cornerstones of British democracy and of our world-class education sector, and we will not hesitate to defend them. Of course, we will champion and promote free trade and open economies, which, frankly, are in the interests of all countries, not just ours.

These values apply in our approach to the relationship that we have with China. We have to recognise and be very frank that China is an authoritarian state. It has very different values to our own. As a democracy with a free society and open economy, there will, at times, be matters on which we will not agree with China or compromise with China, whether that is on human rights, media freedom, Hong Kong or hostile cyberattacks. Hopefully, that gives you a broad walkthrough of our approach.

Graham Stuart MP: China is an important trading partner for the UK and probably the biggest single economic global opportunity for this country in the coming years. Chinese people constitute around a fifth of the people on the planet, so we think that, unless we engage with the complexities of China and seek to understand them, we will not be able to create a world together that is good for everyone. As Minister Adams has laid out and as is very clearly set out under the Integrated Review, we will challenge China where our values demand it, but we seek a close

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

and strong relationship with them and we look to strengthen our trading and investment ties. On that basis, we seek to proceed.

The Chair: Minister Adams, you made a welcome reaffirmation about the UK supporting the rules-based international system, which is under some kind of attack from around the world. Some of our witnesses have mentioned to us that they believe that China is trying to change the rules-based system in order to better reflect its values, which are autocratic as has been mentioned by witnesses. Can you tell me, in general terms, whether you see that attack on the rules-based international system coming from China, through both the strong diplomatic ties that you refer to and the international system? We will go into more detail on human rights later.

Nigel Adams MP: It is fairly clear that, over the past decade, and particularly over the past few years, we have seen major global and geopolitical developments that have been attempts to influence the multilateral system. China continues to take a selective approach to engagement with the multilateral system. It seeks to present itself as a defender of multilateralism, while, as you will know, forcefully pursuing its own agenda and what it believes to be in its own national interest. That may run counter to our own, so we have to be very wide-eyed in our approach when it comes to these issues. It seeks to modify others and undermine some of the established international norms and institutions, so you are correct in your assumption.

Graham Stuart MP: We look to use every tool available to strengthen the rules-based global system. As Minister Adams has already referred to, these include the G7, the G20 and our new independent position on the WTO. There are opportunities, and we work with allies because we feel that is the best way to contribute to this agenda. We seek to have a rules-based system that works for everyone, including China. We believe that supporting that system, which has seen so many hundreds of millions of people in China and elsewhere lifted out of extreme poverty in recent decades, is the right thing to do, albeit it needs to be refreshed, reformed and improved again in the coming years.

Q137 **Lord Campbell of Pittenweem:** Good morning. The Government's response to the Foreign Affairs Committee report of this House in 2019 was to the effect of, "We will find opportunities to set out more detail on the UK Government's approach to China over the next 18 months". When are the Government planning to publish such a detailed strategy?

Nigel Adams MP: I have come across this question previously. With the greatest of respect to the committee, it is simply not true that the Government have not found opportunities to set out our approach to China in more detail. Since 2019, you will have seen that the Prime Minister, the Foreign Secretary, Cabinet members and other Ministers, including me, have all spoken publicly and at committee hearings about our approach to China.

Most notably, in presenting the Integrated Review to Parliament, the Prime Minister made clear that our overarching approach to China will be to manage disagreements, defend our values but, importantly, preserve space for co-operation where our values align. The Foreign Secretary has made several comprehensive statements to the whole House, including in January this year on human rights in Xinjiang, and again in March, when he set out the sanctions against Chinese officials and entities. I think he appeared before this committee in April. I also gave very detailed evidence to the Foreign Affairs Committee in April.

I could go on. The Foreign Secretary also addressed the Human Rights Council in Geneva in February. He spoke at the Aspen Institute in March after the Integrated Review was published. He has also engaged in extensive correspondence with the FAC about our approach to China. There have been plenty of occasions where HMG have set out their approach.

Graham Stuart MP: I would not add much to what Minister Adams has said. On China as a market, as you will know, DIT has split the world into nine global regions, each of which is headed by Her Majesty's trade commissioner for that region. We produce a regional trade plan within which the priorities, the sectors and our broad approach to trade can be found. We are very ably led by John Edwards, who is the trade commissioner for China.

Lord Campbell of Pittenweem: I think I am right that there is no publication of a detailed strategy. As you might have expected, I have in front of me the Integrated Review. If you look at the bottom of page 62 and the top of page 63, there are about 28 lines. Even on the most charitable interpretation, they can hardly be described as detailed. They contain a perfectly worthy set of ambitions. Given the nature of the relationship and indeed the continuing change in the relationship on not quite a daily basis but monthly, and given the conduct of China, is there not still an obligation to provide more detail, rather than a set of ambitions?

Nigel Adams MP: The IR sets out the UK's vision for its role in the world over the next decade. Given its conclusion that China's growing power is the central geopolitical challenge of the next decade, obviously the UK's overall approach to the world will flow through to our China policy. It sets out clearly how we will approach that relationship. It is fair to say that China does not publish its own full strategy towards the United Kingdom, however helpful that might be for us, but the IR does set out how we plan to deal with China.

We are committed to engaging and developing a robust diplomatic framework to make sure that we can manage that relationship effectively. Two weeks ago, the Foreign Secretary had a lengthy phone call with his counterpart, Foreign Minister Wang Yi, in support of that objective. Also, the IR sets out how critically important it is to work with allies and partners through the multilateral system, including on how, alongside our friends and partners, to deal with China. There is plenty in

there. I am also sure that the committee will understand that there are some aspects of our approach to China that are necessarily withheld from public view.

Q138 Lord Anderson of Swansea: Good morning, gentlemen. In your introductions, you spoke of “better mutual understanding” and global opportunities of trade”. Some of our witnesses have suggested that there is a substantial imbalance between the Chinese knowledge of our history, language and civilisation and our knowledge of theirs, which matters because of its impact on our Civil Service and business. Do the Government recognise the problem? If so, what initiatives are planned, including in the field of education, to increase our knowledge of Chinese civilisation, language and history?

Nigel Adams MP: Again, the IR recognises that we should be doing more to adapt to China’s growing impact on many aspects of our lives as it becomes more powerful in the world. The IR also goes on to commit to investing in enhanced China-facing capabilities. That speaks to your question. Through that, we will be able to develop a better understanding of China and its people. It improves our ability to respond to the systemic challenge that China, for example, poses to our security, prosperity and values, and also those of our allies and partners.

That work has already begun. It is a long-term challenge to create those capabilities. One example is that, in 2011, the then FCO invested in network shift. This was ensuring that there was more resource put forward for BRICS; that is a term we have not heard for some time. That included a cohort of new Mandarin-speakers. This is just one example from back in 2011. Rupert, who is sat here and is our north-east Asia and China director, is one example of that investment that was made back then.

Through Global Britain investment in 2018, the FCO created new slots around the global network to focus on China. Every government department has China experts within it. Most recently, in 2021, we invested £3 million to increase our capability on China. This is allocating additional staffing for key strategic areas. That reflects the acknowledgement that we need to do more to understand and learn from our relationship and to develop that relationship with China. We have allocated more staff in key strategic areas, aimed at protecting our national interests from potential threats. We proactively engage with the international community to address human rights violations, for example, and have also increased our engagement on Hong Kong. We are investing in that relationship.

Graham Stuart MP: In terms of footprint the Department for International Trade has in China, it has a total of 170 staff there across five offices on mainland China, in Beijing, Shanghai, Guangzhou, Chongqing and Wuhan. That is excluding Hong Kong. Of that number, 21 are UK-based staff and 149 are locally engaged staff. We have those people there and we recognise the need to ensure that we increase our understanding of China.

For any of those on the committee interested, I would heartily recommend going to YouTube and looking at Professor Rana Mitter's excellent Ramsay Murray lecture at Selwyn College, Cambridge, last Friday, in which he set out some of the key principles and identifies the sources of conduct in China today from the modern history to the economic legitimacy, which it feels comes from its ability to lift living standards there, which has been spectacular and is now greater than India, at around \$10,000 per head. That is not to not forget traditional thought; Confucianism comes into the mix as well, and although it is not so publicly displayed abroad, Marxist-Leninist thought is also in the mix. It is a highly complex environment in which a fifth of the planet lives and with whom we need to deal.

Lord Anderson of Swansea: Of the 21 UK staff in China, are they all Mandarin-speakers? I recall that in the 1960s, when, as a country, we perceived that we were lacking in knowledge of Russia, we set up the Hayter commission and gave considerable resources to universities to boost Russian studies. Post the IR, are there any new resources planned to increase knowledge of China?

Nigel Adams MP: We do not collect data on how many civil servants speak Mandarin or Cantonese. We have 45 FCDO staff who are qualified up to C1 or C2. Rupert may have more in-depth knowledge of Mandarin speakers across our network. I am sure the committee would like to know how many people are currently engaged in training.

Rupert Ainley: Good morning, everybody. Just to clarify, the figure of 21 UK-based staff that Minister Stuart gave was referring just to DIT² staff. There are about 700 staff overall in our mainland China network, of whom approximately 550 are country-based staff. We have about 150 UK-based staff in our China network at any one time.

Minister Adams mentioned that currently there are 45 people in the FCDO qualified to C1 or C2 level on the Common European Framework of Reference for Languages. That qualification expires after five years. For example, I am a Mandarin speaker, but I am not counted as part of those figures because I took my exam more than five years ago. At the moment, we have 21 people studying Mandarin full-time in the FCDO to be deployed into our China network. There is a cohort of people, as Minister Adams has said, building Mandarin language China capability.

As the IR says, we will look to invest more in our China capability over the next years. The point, as some of the committee members have said, is that this is a generational challenge and it will take time to invest and build up the capabilities that we need.

The Chair: As a quick follow-up to Lord Anderson's question, I was very fortunate to be a Minister at the FCDO for some time, so I appreciate what C1 and C2-level Mandarin means, but most of us will not. Could we please have an explanation of what level of fluency those who have those

² Department for International Trade

qualifications that are current really have?

Rupert Ainley: C1 is an operational level of Mandarin, which means that you can speak in and understand meetings. C2 is extensive Mandarin, where you have much more nuance in your understanding of the language and is assessed as being fluent in Mandarin, according to the framework. C1 really gives you the ability to discuss with the Chinese in Mandarin.

Q139 **Baroness Blackstone:** Good morning to you all. The Integrated Review sets out the goal for the UK to be the European partner with the broadest and most integrated presence in the Indo-Pacific within the next nine years. Can you tell the committee how you define the Indo-Pacific and what scale of resources the Government want to commit to achieve this goal?

Nigel Adams MP: We regard the Indo-Pacific as covering most of south Asia and the Indian Ocean, north-east and south-east Asia, Oceania and the Pacific. There are various broader and narrower definitions. The geographic designation for the new DG Indo-Pacific within FCDO goes west to Pakistan, east to Japan and south-east to Australasia and Oceania. However, in bureaucratic terms, the DG does not include Afghanistan and Pakistan or central Asia. Hopefully that is clear in terms of a definition.

We are very positive about the offer we are making to our partners in the Indo-Pacific. We believe very firmly that we are making an integrated offer that joins up what we can do together in economic development, trade, security, defence, science and open societies. These need not necessarily be exclusive partnerships. Very often we will work multilaterally as well as bilaterally. Often this model will co-ordinate with regional policy initiatives and best practice. For example, we support fully the concept of ASEAN centrality. ASEAN is at the core of the Indo-Pacific and its regional institutions. We work very closely with ASEAN to tackle regional and global challenges, most notably in recent months following the coup in Myanmar.

It is important to clarify that, wherever the bureaucratic lines are drawn, the issues do not stop at the borders. For example, we consider the India-Pakistan-China strategic linkages or how, for example, central Asian energy resources are critical to China's economy. This is very close working between our teams here in London and across the wider region.

Graham Stuart MP: The Department for International Trade has also reallocated significant resource to the negotiation of new bilateral trade agreements in the region, including Australia, the enhanced trading partnership with India, Japan and New Zealand, as well as plans for a digital economy agreement with Singapore.

In addition, working closely with FCDO posts across the region, we have a team dedicated to the achievement of accession to the CPTPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Members of the committee may have seen that last week the 11 members of the CPTPP formally and consensually agreed to begin negotiations with the UK for our accession to that significant trade grouping. DIT, like FCDO, is also leading a full programme of engagement with ASEAN, although in our case, obviously, on trade. The Trade Secretary will hold a second economic dialogue with ASEAN members in September.

Baroness Blackstone: I do not think you mentioned Russia in the list of countries that you provided at the beginning, yet it has a very long Pacific coastline and also has an interesting relationship with China. Perhaps you could comment on that. Could you also say how much priority you give to China among this very long list of countries in this huge area? You cannot, presumably, attempt to build relationships across this very wide area that you identified, both geographically and functionally, with all these countries. Where does China come in your hierarchy of priorities, and what about Russia?

Nigel Adams MP: I will leave Russia to Rupert, because that is literally outside my region; it is probably outside his as well, but I am sure he will thank me for that hospital pass. China is absolutely critical in the region, but the whole region is critical to our economy, security and ambition globally to support open societies, as well as the focus for many of these very pressing global challenges. Of course, we put an awful lot of focus into China, but the whole region of the Indo-Pacific, as the Integrated Review sets out, is incredibly important for us. The tilt, as it has been referred to, is widely covered within our approach.

We have opened three new posts, for example, in the Indo-Pacific region since 2018. We have appointed an ambassador to the ASEAN nations. You may have seen recently that we have been successful in our own right, outside the European Union, in becoming an ASEAN dialogue partner. That is a huge achievement within a short space of time. It also demonstrates our commitment to the region. Of course, China is important to that region. To us, it is the second biggest economy in the world, but we will continue engaging with all partners in the Indo-Pacific region. I believe that the Foreign Secretary has visited four times in recent months. Top-level engagement across the region is essential to develop those close partnerships.

Rupert Ainley: On the Indo-Pacific and the question about prioritisation, as Minister Adams has said, we do work multilaterally and through these multilateral institutions, ASEAN and the CPTPP. That is a very important way of realising our objectives across many groupings of countries. We work in a thematic way as well, so we work out what our key themes are and then which countries we can best work with those on those particular themes. That also informs our analysis of who we most work with.

On the Russia question, the point about the Indo-Pacific and the fact it was not in the list of countries is not to downplay the significance of Russia. Of course, the Integrated Review makes clear that the UK's primary security orientation continues to be in the Euro-Atlantic; there is

also a lot about Russia in there. Bureaucratically, we separate it out because of that. Because Russia is such a large country, we have it in our directorate covering eastern Europe and central Asia, but we have a lot of discussion about what Russia's approaches mean for how we look at the Indo-Pacific and how Russia and China work together. Of course, they exhibit some concerning behaviours and they both have authoritarian visions. We share our policy prescriptions and ideas between our directorates, to look at how we can address both the threat that Russia poses and some of the more concerning behaviours from China as well.

Q140 Baroness Rawlings: Thank you, Minister Adams, for your walkthrough. Sadly, it was not a tour d'horizon, but hopefully that is to come. Meanwhile, the Integrated Review defines China as a systemic competitor. That may not be as balanced as we would like, but I would like to know what you think that means. What are the main areas of competition between the UK and China? Can you name the main ones or perhaps the tricky ones? In which sectors or policy areas do you see China as a direct competitor or threat? That really takes me back to the beginning of my question.

Nigel Adams MP: You are right. There are a number of ways in which we see China as a systemic competitor. Examples, as previously referred to, are its attempts to shape the international order in line with its own values and world view, its attempt to undermine open societies and democracies, its aggressive approach to cyberspace and its approach to economic statecraft, to name a few.

As the defence Command Paper sets out, China's military modernisation, which is proceeding faster than any other nation in the world, will pose an increasing challenge. More generally, it is clear that China is seeking to erode the international values-based system that was developed, as you will know, in the aftermath of the Second World War. China seeks to present itself as a defender of multilateralism while it is trying to rewrite those rules to its own advantage. Like our allies, we recognise that the system has its flaws. We want to revise and reform various elements of the international architecture. As President Biden has noted, we need to be careful not to leave a vacuum. If we do, China will step in and seek to take advantage.

Baroness Rawlings: What you say about changing the world order and eroding the system is very interesting. Do I take it from what you say that you see China as a threat?

Nigel Adams MP: There are areas in which we see China as a systemic competitor. I have outlined a number of areas there, including international order and reshaping it in line with its own view of the world, its aggressive approach to cyberspace, as I mentioned, and economic statecraft. We certainly view them, systemically, as a competitor in those areas.

Q141 Lord Alton of Liverpool: Good morning. I should declare that I have interests as vice-chair of the all-party parliamentary groups on Hong

Kong and Uighurs. As my question is about sanctions, I should mention also that I am one of seven parliamentarians who have been sanctioned by the Chinese Communist Party.

In March, the Government took joint action, with the United States, Canada and the European Union, to impose parallel sanctions on some Chinese officials over human rights abuses in Xinjiang, with the US, of course, also naming it a genocide. To what extent will the Government continue to co-ordinate common responses with partners and allies? For instance, you said earlier that the UK will deepen trade and investment links. How does that square with the US decision this week to impose import controls on cotton from Uighur slave labour or the European Union decision to suspend its investment deal until sanctions on European parliamentarians are lifted? Will we be doing the same? How will the UK continue to stand with its allies should tensions escalate in the US-China relationship, for instance over Taiwan and Hong Kong?

Nigel Adams MP: Thank you for all the work that you do in this area. You are right to highlight the actions taken in March. We will act on our own when we need to, but we prefer to act in good company with our international partners. This helps to form alliances and partnerships, which multiplies the impact that any action that we take can have. This is particularly important in the area of sanctions. It is also important in terms of supply-chain measures, which we may come on to as part of this hearing.

We do not want a situation where China, for example, can hop from jurisdiction to jurisdiction. In March, working alongside the US, Canada and our European Union friends, we were able to send a clear message to the Chinese Government that the international community will not turn a blind eye to serious and systematic violations of basic human rights. We will continue to lead from the front. We have co-ordinated responses with partners. For example, we called for Beijing to end its discriminatory and oppressive practices in the Xinjiang region. It is much better and more forceful when we act with others.

We want to hold China to its freely assumed international human rights obligations. We do that better by being united with our international partners. We have always taken a leading role in growing the number of countries holding China to account. You will have seen that number rise in the last year at the UN, with the last joint statement there. The number of countries signing up to that last joint statement has risen so far to 39. That is a significant increase within the last 12 months. We will continue to work with our international partners and allies on this very serious point.

Lord Alton of Liverpool: Thank you, Minister, but I did specifically ask you about the US's decision this week about imposing import controls and the European Union's decision to suspend trade deals until sanctions have been lifted on parliamentarians. On Monday, I sat through some of the proceedings of the Uighur Tribunal held at Westminster, during which witnesses described being chained, raped, tortured and used as slave

labour. I agreed with the House of Commons' decision that this is a genocide. That is not just a human rights violation, of course. There are treaty and convention obligations that we as a nation are signed up to. Is it licit for us to trade with a state that has been credibly accused of genocide?

Graham Stuart MP: We have announced a series of measures to help ensure that UK businesses and the public sector are in no way complicit in human rights violations in Xinjiang. That includes strengthening the overseas business risk—OBR—guidance to make clearer the risks to UK businesses investing in and with supply chains in Xinjiang. We have also announced a review of export controls as they apply to the situation in Xinjiang to ensure that we are doing all we can to prevent the export of goods that might contribute to human rights violations there.

We have introduced financial penalties for organisations that fail to comply with the Modern Slavery Act. We are also ensuring that HMG and other public sector bodies have the evidence they require to help them exclude suppliers complicit in human rights violations in Xinjiang. We strongly recommend that UK businesses undertake careful and robust due diligence to ensure that their operations do not directly or indirectly contribute to human rights violations. We have said that, if in doubt, we recommend businesses seek third-party legal due diligence or risk advice as necessary.

On some of your other specific points, we bear in mind all the possible tools there are to raise the issues we have with the Chinese. As Minister Adams has laid out, we are working closely with our allies. Our allies and ourselves are in the same position, which is that our offer is there to China. Our offer is there to be a trading partner and work with it, but we will not compromise on our values in doing so. Perhaps this is the nub of your question. I agree that we need to work even more closely with allies going forward, because working together we are better able to change the incentives for the Chinese regime so as to minimise and reduce the likelihood of infringements of both global and human rights norms.

Q142 **Lord Stirrup:** Good morning, Ministers. Since we have got on to the issue of trade, perhaps I could ask you to go into a bit more detail about the UK's post-Brexit priorities for its economic and trade relationship with China. What are the priority sectors for trade and for investment? Do we wish, for example, to see a considerable expansion of the UK's exports of services to China? If we do, what sort of obstacles and challenges are likely to lie ahead for people seeking to do that? How do we tackle those obstacles?

Graham Stuart MP: Clearly, China is an important trading partner for the UK and there is considerable scope for mutually beneficial trade and investment. Trade with China stood at more than £78 billion in 2020. It is important to remember that China is not just the world's second largest economy and the largest trading nation overall in goods, but last year it was the only major economy that had positive GDP growth. China is forecast to grow at above 5% each year through to 2025, so it will be an

engine of global growth and could play a role in supporting the UK's economic recovery.

Strengthening our trading relationship is an important part of my work. China offers more opportunity for the UK economy than perhaps any other market. It is worth remembering that its reform era, as they style it, over the last few decades has lifted hundreds of millions of people out of poverty in China, and that has also contributed to poverty alleviation elsewhere. They have created a huge and growing middle class, which now numbers around 400 million people, who are strongly attracted to UK brands and services. That is why DIT has that full network of staff across China, led by the HMTC, John Edwards, and why we put so much effort into market access work in the country.

There is also a compelling case for Chinese investment in the UK, where it adheres to our laws and supports UK growth and jobs. Chinese investment can help support the levelling-up agenda. From offshore wind to electric vehicles, financial services to urban regeneration and ports to gaming, investment from China has supported jobs and growth across all regions of the UK, and there is the potential to do much more going forward.

As China grows in sophistication and wealth, the opportunities and competition can only be expected to grow. We want trade and investment with China to be mutually beneficial and will continue to pursue a positive trade and investment relationship with them, but we will always do so in a way that ensures our national security and is consistent with our values.

In terms of the priority sectors, a central part of our work in building trade with China is to reduce the barriers that exist to accessing the Chinese market in order to promote UK businesses and exports. China's rapidly growing middle class, as I have said, creates big opportunities in sectors such as education. We already see 140,000-plus students coming to the UK, building a human bridge between the Chinese and British people.

I was pleased to make cocktails the other day for a reception in Chongqing at which there seemed to be a few hundred in the room promoting UK drinks. I was told that there were some people online. Fortunately, they did not tell me, as I did my chat over the cocktail-making, that, in fact, the numbers online were apparently 10 million. There are big opportunities for our high-class food and drink products into this growing market. Creative, consumer and retail, and life sciences such as pharmaceuticals and medical technology are other areas, to name a few.

Trade promotion and market access work are important ways for the UK to increase exports to China. Capturing the benefits from these opportunities will then help to support jobs, wage growth and the levelling up of the economy across the regions and nations of the UK.

You asked me about services. China is seeking to shift to a high-value economy. The UK's strengths in financial, legal and professional services can support those Chinese ambitions. To succeed in this, China will need to open more of its services market to foreign companies. This will help raise standards and encourage the competition that will be good for Chinese businesses and consumers alike. We engage regularly with Chinese regulators to press the case for change and have been successful in a number of ways in doing so.

Q143 Lord Stirrup: You set out a number of compelling reasons for expanding our trade and economic relationship with China. The trouble with that is that you have also this morning repeated the statements in the Integrated Review about standing up for our values and about fighting to defend the international norms and rules that we have had over the last several decades and that are of such benefit to us in the long term.

You have also talked about the need to manage disagreements, almost as if that were a case of sensible people sitting down in the room and making a few tweaks to things. We have seen that China responds to things that it does not like through its use of trade and economic policy and it uses those things as a political weapon, sometimes quite brutally.

You have also spoken about the issue of the Uighurs. With respect, some of your answers seemed almost to indicate that we are okay as long as we cannot be directly connected to the genocide. I am not sure that will hold. It is probably not what you meant anyway.

If we are truly going to do those things that are set out in the Integrated Review and that you repeated this morning, we will see some severe shocks to our trading and economic relationship with China. As a country and a set of businesses and enterprises in this country, are we able to deal with such shocks and to move forward through them? That will take a little more than what seems to be encapsulated in the phrase "managing disagreements".

Graham Stuart MP: The pandemic, of course, helped to expose vulnerabilities in supply chains. My department has led work across government to ensure that our supply chains are as diverse and reliable as possible. That is not a measure taken against China, certainly, but it is about trying to build a more resilient economic system.

With the action, which I am sure this committee fully supports, working with allies to sanction individuals in China, we think we are more effective. I do not disagree with you that we need to become even more effective. We will act by ourselves where that is appropriate, but most of the time we will best work with allies, all of whom recognise that China, being a fifth of humanity, cannot be isolated from the rest of the world. It would not be in humanity's interest to do so. It has its own autarchic ambitions, with Made in China 2025.

The dependency does not run one way; it runs both ways. There are examples of where they have brought in bans on imports and, a few

months later, when they have found that rocketing prices are causing difficulties at home, they have then dropped those bans. I hope that, over time, we can engage and work with them, rather than seeking to isolate a quarter of humanity. We accept that it is fundamentally an authoritarian regime and therefore we will never see eye to eye. I do not see, and despite your question I do not believe that you would see, that there is an alternative route to working with allies to project our values while none the less trading with this regime, whose values, in many areas, we have such strong disagreement with.

Q144 Lord Teverson: I was reading an article in the *FT* this morning that said how well Australia had managed to diversify its exports following the bad time it has had from China. During Liz Truss's appearance at the International Trade Committee in the Commons on 19 May, she said that the UK and its allies "have been too soft on China's unfair trading practices for too long". It sounds almost like a declaration of a trade war. What are the Government's priorities for the WTO reform regarding China? How do the Government plan to achieve them and equalise those unfair practices that we see?

Graham Stuart MP: The Trade Secretary, as you say, spoke at the International Trade Committee about this being a crucial year for global trade as we seek to recover from the pandemic. We will use our leadership of the G7 trade track to work with like-minded countries to shape the future of global trade and WTO reform. As part of that, one of the key areas of focus will be on ensuring that democratic, rule-following, free market economies are not unfairly penalised through market-distorting practices, whether from China or elsewhere.

UK businesses are increasingly competing against harmful industrial subsidies, opaque state-owned enterprises, forced technology transfer and the use of below-market financing. To tackle this, we are working to modernise the trading rulebook and create a toolbox of our own to challenge harmful market-distorting practices, including from China. We will work multilaterally, bilaterally, plurilaterally and unilaterally in order to pursue that, if I have not overlateralised my laterals.

At the WTO and the G7, we will be seeking to drive multilateral reform and ensure that the rules properly address market-distorting practices. We are using our G7 presidency to develop proposals that address unfair subsidies, including prohibitions on the most distortive forms of subsidy, strengthening transparency and working with the OECD to improve our evidence base on the incidence and impact of market-distorting practices.

The committee will understand that we must recognise that these are long-term and highly complex issues. They require those various lateral actions and close co-operation with like-minded countries going forward. Our starting point is that we want to make the global trading system both free and fair. We will call out unfair trading practices wherever they arise, and I am sure that the whole committee, regardless of their views on various divisive issues, will recognise that, as an independent trading nation and an independent member of the WTO, we have a real

opportunity to influence the global system and thus bring benefit not only to UK businesses but to prosperity across the world.

Lord Teverson: That sounds great on aspiration. As you may be suggesting, it is a really tough nut to crack. We have done it in international tax systems. We might be able to do it on other distortions like this; I do not know.

To take one particular area of trade, over the last couple of decades we have been offshoring our carbon emissions to China. By getting out of manufacturing, we have subcontracted that to Asia. Surely we are undermining our own manufacturing industry. We are not standing up for it if we allow that to continue, so should we not have a carbon border tax? Is that something that we are talking about to stop those distortions?

Graham Stuart MP: As I said, we are developing a national UK toolkit to defend UK industry from market-distorting practices. As your question suggests, a lot of attention is focusing on the risks of displacing industry and giving a benefit to those who ignore their obligations under the Paris Agreement or more broadly. There is some evidence for that, but it is perhaps not as great as some might think.

We are, for instance, looking to ensure that green steel is not penalised. Of course, it will be in areas like steel, which are particularly internationally traded and have high carbon impacts, that this is most important. One of the dangers would be that we take that principle and apply it in areas where there is very little evidence for it being significant, and the risks of it being used as green protectionism have the exact opposite of our intent in the global trading system, which is to lower barriers and encourage people to allow competition, rather than find excuses, green or otherwise, to block that competition, which is good for all.

Looking at the risk of carbon leakage, reviewing our export control regime is another area where we can act to strike the right balance between exports, peace and prosperity and addressing national security risks and human rights abuses worldwide.

The Board of Trade, which is separate from but affiliated to the Department for International Trade, has one member, famously—the president of the Board of Trade and the Secretary of State for International Trade; the rest of us are just advisers. It will be producing a paper on green trade and setting out some of the analysis in this area. It is not something that we should ignore, but it is also something where obvious and simplistic answers do not always get you to the right conclusion. That is why we want to make sure that we have as grown-up and sophisticated an approach as possible.

We are looking at whether carbon border adjustments such as the EU has talked about are genuinely going to contribute to the ends that we want,

rather than forming some form of green distortion of the economy instead.

Q145 **Lord Boateng:** I declare my interest as chancellor of the University of Greenwich and a board member of the Syngenta Foundation.

Ministers, we have heard from witnesses that, in 2019, China was the UK's third most important export destination after the EU, while the UK was China's ninth, which, according to one of those witnesses, means that "the balance of our economic relations seems to have been almost immovably in China's favour". Is addressing this imbalance a priority for the Government? If so, what steps are the Government taking to address this imbalance?

Graham Stuart MP: In 2020, China was our seventh largest goods export market, with goods exports amounting to £14.6 billion. Meanwhile, the UK was China's eighth largest export partner for goods, with Chinese goods exports to the UK amounting to £56.6 billion. Of course, as members of this committee will know, trade imbalances can result from the difference in market size between the UK and China or from the way our economies are structured. I would gently urge the committee not to see an asymmetry in exports or imports or, indeed, an overall trade deficit as necessarily signalling either weakness or some form of dysfunction.

Exports support UK jobs and growth, and imports provide greater choice and lower prices for UK consumers, thereby contributing to improved living standards. To repeat myself, it is worth noting that the opening up of major economies like China and India to the world trading system over recent decades has led to the greatest transformation in human welfare in human history; it continues and should be celebrated.

It is about that global architecture and that openness, rather than finding the easy excuses, environmental or otherwise, or some other accusation of unfairness, which is always easy to manufacture. It is about lowering those barriers and working across the globe to make us open up and take the risk, counterintuitively, that we will all be better off if we let competition come in. Doing that has lifted more people out of poverty more quickly than ever before. I feel that sometimes gets lost in the complexity of the arguments. Politicians, especially Trade Ministers, talking about moral issues is dangerous ground, but that is at the heart of this. We have to recognise that and make sure that we are not tempted down easy steps.

China's rapidly growing middle class, as I have touched on already, creates potential opportunities for exports. We will keep on working to open up the market to British business. Engagement with UK firms, sectoral analysis and market access opening has flagged that the UK should focus on areas such as education, food and drink, creative, consumer and retail, and life sciences and healthcare, as I have already said. We are conducting a range of promotional activities. I am not sure that me making cocktails will necessarily have convinced that many of

the 10 million, but we hope that other activities will be more successful than that. Campaigns in these sectors will help boost exports.

A recent notable example that I would share with the committee of a market access win that opens up the Chinese market to UK exports is in relation to cosmetics. Until recently, only cosmetics tested on animals could be exported to China. "World-leading" is hubristic, but we certainly have a significant cosmetics sector, with leading global brands and significant market share globally. They could not sell into China. Some countries may have sought ways around that, but we did not. We stuck to our values and said that our companies would not test on animals, regardless of whether the fastest-growing market in the world was close to us.

Having been shut out, effectively, we engaged closely with the Chinese Government and worked with allies to do so. China has amended its regulations to allow imports of foreign cosmetics not tested on animals. This not only helps level the playing field for foreign companies in the sector but is also a clear victory for our values-based approach to trade. It will enable British manufacturers to take advantage of one of the world's fastest-growing markets, which is forecast to be worth approximately £50 billion in 2021. DIT has worked across Government and with like-minded partners to persuade China to take this step. We have designed a technical solution at the UK end in order to fulfil the changed regulatory requirements in China and thus facilitate UK exporters to get their products into market.

Lord Boateng: You made a comparison between India and China. India is, of course, a fully functioning, multiparty democracy. China is anything but that. You made reference to your work—we have all been there—in seeking to impress upon Chinese regulators the importance of change, but those regulators do not operate independently. They are, like every other state functionary in China, a mouthpiece of the Chinese Communist Party.

I wonder whether you can, in effect, separate the politics from the economics. If China feels challenged, for instance in Hong Kong, is it really going to be helpful on the regulatory front? Can you address that issue, Minister Adams? Minister Stuart, perhaps you can give us an example of where there is still a way to go with the regulators in getting access to Chinese markets.

Nigel Adams MP: Through our fantastic network in China, we engage at a very high level with China on regulatory issues. It is sometimes very challenging, as you can imagine, but this is work that is ongoing across our five posts there, as well as in Hong Kong. We recognise the challenges and continue to have dialogue. We want an open trading relationship with all countries but we have to be wide-eyed and understand that China is, as you referred to, a particularly different beast to the rest of the world. We continue that engagement. The way that we do it is through our diplomatic network, and we have success at that as well.

Minister Stuart's department is also on the front foot in trying to open up new markets for United Kingdom businesses and will continue to see China as a huge opportunity for British business. I am sure he will be able to expand on the opportunities and how we go about doing that for UK plc.

Graham Stuart MP: There is a whole raft of areas where we seek to engage with Chinese regulators, one of the most obvious of which would be IP protection and the requirements for compulsory IP transfer before you can be there—there has been movement at the Chinese end—and the rules on the share of enterprises that has to be held by Chinese entities. These are areas where we have seen progress.

In areas like financial services, we have an enormous amount to offer. I was at the Economic and Financial Dialogue with then Chancellor Hammond a couple of years ago at Mansion House, where we announced the Shanghai-London Stock Connect, allowing shares to be sold at both ends.

It is not an open economy, as your question suggests, and, therefore, when they come, the opportunities for dialogue and to get improvements are significant.

Q146 **Lord Mendelsohn:** Thank you, Ministers, for joining us this morning. I wanted to try to probe this difficult question about balance, just to see if we could elicit some further thoughts from you. You make the very good point that it the second largest economy. In just over five years' time, we expect it to be the world's largest economy. The Chinese consumer is driving demand. It is a very important place to engage and do business with, but how do we measure balancing concerns about, for example, human rights and labour protections with our ambitions to increase economic co-operation?

Graham Stuart MP: We do not see it as a choice between securing growth and investment for the UK and supporting human rights. We have always been clear that the trade relationship should not come at the expense of our values and that, where we have concerns, we will continue to speak out and take action. For instance, as we have touched on already, we have spoken out over Xinjiang. The UK Government led international efforts to hold China to account for its human rights violations in Xinjiang.

Importantly, we have also backed up our international action with robust domestic measures. In January, the Government announced a series of measures to help ensure that UK businesses and the public sector were not complicit in human rights violations or abuse in the province: as I have already touched on, strengthening the Government's overseas business risk guidance, export controls and financial penalties for organisations that fail to comply with the Modern Slavery Act, and working to gather the evidence to ensure that we can take further action if required.

Trade can be and is a force for good in the world. Trade underpins stable, open and prosperous global economies and promotes property rights and the rule of law. We want a positive and constructive relationship with China, but our approach will remain rooted in our values and interests.

A topic that has recently come up is solar panels. China is the world's largest producer of solar panels, so we are urgently investigating recent reports of forced labour in solar panel supply chains. Global supply chains are complex, and reviewing a single sector requires significant work and specialist expertise. I am pleased to say that there are no UK solar companies manufacturing in Xinjiang, and we currently have limited data on private UK businesses sourcing solar panels or related materials from Xinjiang or China more widely.

As your question suggests, it is complex and challenging, given the integration. None the less, we seek to engage with the Chinese. From the successes that we have had in opening their market on the one hand, to the fact that their sometimes crude use of economic levers to pursue their national interests has backfired on them, we believe that continued engagement is the right approach to take, rather than the isolation of China, were that even to be possible.

Lord Mendelsohn: One of the points that you emphasise is the notion of the importance of trade and the level of co-operation you have with the people you will be competing with. That tension is always there. In economic co-operation and development, we have to balance confronting perceived threats to our values, our security and our other interests. Here we see a succession of things where the issues become deeper and wider with China, from the violation of labour rights and privacy issues relating to technology to cyberthreats and forced technology transfer. The Government have tried to work with some allies and taken some action, but the changes that China has made have been very limited.

We will continue to advocate for these things, but are we really in a position where, in the next few years, we will have to accept certain things, just in the nature of engagement, and that our prospects for achieving significant outcomes are limited, or is there a better route that we will be able to uncover in the next few years and through which we will be able to make more advanced progress?

Graham Stuart MP: That is an excellent question. We are working with allies. We are not going to come up with all the solutions ourselves. That is why it is so important to share best practice, understanding and datasets and to come up with common approaches. Of course, it is a balance, especially when you are dealing with a deeply authoritarian regime. Their sources of conduct, as Professor Mitter laid out, do not include liberalism in any form. It is entirely absent from the Chinese make-up, at least from the Communist Party's point of view.

Being global is a foundation of China's DNA, and we do see that, in order to realise their ambitions, the increasingly successful and sophisticated global Chinese firms recognise that there is a price if they are involved in

supply chains using slave labour in Xinjiang, for instance. I and my colleagues raised this straightforwardly and clearly with Chinese interlocutors from business. There is a limited amount that they can say publicly, but they see a price for being involved in that, and I believe that they seek to remove themselves from that, because it will cost them.

This is morally murky stuff and it is challenging, but losing our leverage with major Chinese corporations by seeking purely to isolate China will not lead to an improvement in human rights in China. No one will shout it from the rooftops, but our engagement does have real-world, positive consequences for human rights within China. We hope that, going forward, as we become more effective and develop our domestic and multilateral toolkits, we will do better still.

Minister Adams is probably better to answer the wider questions.

Nigel Adams MP: Just to build on what Minister Stuart says, of course we want to pursue a positive economic relationship with China, but, as the committee will know, that does not prevent us from taking action in respect of serious violations. It might be helpful just to remind the committee of what we have done with regard to human rights in China. We led the first two statements on Xinjiang at the UN. We have used our diplomatic network to raise the issue up the international agenda.

As I said, we have worked with our international partners to build an increasing caucus of those willing to speak out against Chinese human rights violations. This increases the pressure on China to change its behaviour. You could point to the fact that, when the evidence was first demonstrated of the camps in Xinjiang, China's initial reaction was to deny that they existed. Because of the pressure that we and our international partners applied, we helped to fund a report that highlighted, with fairly clear evidence, what was going on there. China is now accepting that these camps exist, so they have shifted position quite a long way.

We backed up our international action with some robust domestic measures as well. Minister Stuart has referred to those measures, which make sure that UK businesses and, importantly, the public sector—because it is one of the biggest purchasers in the country—are not complicit in human rights violations in Xinjiang. We are strengthening the overseas business risk guidance and reviewing the export controls as they apply to the situation in Xinjiang.

There are financial penalties, which Minister Stuart referred to, for companies that fail to comply with the transparency obligations of the Modern Slavery Act. There is increasing support for the UK's public bodies to make sure that their procurement rules exclude suppliers from their supply chain where there is sufficient evidence of human rights violations. In March, alongside the US, Canada and the European Union, we also introduced sanctions.

To summarise, those actions send a clear message to the Chinese authorities that the international community, which the United Kingdom plays a leading role in, will not turn a blind eye to such serious and systematic violations of what are simply basic human rights.

Q147 **Baroness Fall:** I declare my interest as a senior adviser at Brunswick Group.

We have talked about a piecemeal approach to China and about being a systematic competitor. One area where we do not want to compete but to co-operate is climate change. I wonder about the extent to which we are co-ordinating with China on climate. As G7 leaders gather down in Cornwall this week, there will be some rolling of the pitch ahead of COP, with important new initiatives on net zero targets, financing for climate action and restrictions to fossil fuel financing. Of course, China is not part of that meeting. First, do we expect China to turn up at COP? Secondly, do you see it engaging at that meeting and with some of those initiatives?

Nigel Adams MP: That is a really crucial question. China is the world's largest greenhouse gas emitter, so it has to be part of the solution to one of the biggest global problems that we face. Action by China is critical in being able to deliver global climate goals and will play a huge part, as you refer to, in our COP 26 objectives. Reducing domestic greenhouse emissions is essential. Fortunately, China's financing overseas can be a multiplier if used to support low-carbon, sustainable projects. Ensuring that we engage with China on climate not only has a positive impact on China's own decarbonisation trajectory but will also help us with our 2050 net zero goal. We welcome President Xi's announcement that China will achieve carbon neutrality before 2060. That is a positive step and a clear signal that the world is moving towards net zero.

You referenced coal, and we have also noted President Xi's recent commitment to reduce China's use of coal. We hope that China will come forward with a scaled-up NDC—nationally determined contribution. It needs to provide more detail on how it will reduce its coal consumption in the 2020s to ensure that we keep 1.5 degrees within reach. In every meeting and conversation I have with my counterparts in the Asia region, we encourage all those countries to end support for coal overseas, and financing in particular. We are constantly encouraging, at ministerial and official level, our Asian friends and international partners to come forward with a more ambitious NDC.

As an example of how co-operating is benefiting both countries, we have supported specific scientific collaboration, in the United Kingdom and globally, to produce simulations of high-impact climate events in China through the Weather and Climate Science for Service Partnership. This is being used to inform United Kingdom flood resilience, for example. As a result of technical expertise, co-operation and engagement through UK PACT, we have seen China's proposed new green bond guidelines exclude fossil fuels for the first time. This will significantly reduce emissions from

future Chinese investments, particularly as China is the world's largest issuer of green bonds, for example.

Graham Stuart MP: Although, as Minister Adams has set out, China is now responsible for a third of all global emissions, it is also the largest investor in renewables; China is always full of contradictions. By the end of 2018, China's total installed renewable energy capacity accounted for more than 38% of the global total. It is also home to the world's largest market—around half the global market—for electric vehicles and is developing strengths in battery manufacturing, energy storage, carbon capture, utilisation and storage, hydrogen and more, so co-operation with China can play a key role in delivering a green global Britain.

As Minister Adams also said, we really should welcome Xi Jinping's announcement of carbon net zero by 2060. Given the way that its Five-Year Plans work, it will be busily rewriting its 14th in order to get itself on that trajectory. That pledge could lead to opportunities to export technology and services from across the UK that will help our levelling-up agenda, in areas such offshore wind, green infrastructure and electric vehicles.

That goes both ways, because Chinese investments also play an important role in our decarbonisation, investing in the automotive sector. There is Geely, the London taxi business. International, including Chinese, investment is playing a key part, for instance, in delivering windfarms, with Chinese investment of £1 billion in Scotland and the North Sea. It also has interests in onshore wind, solar, battery storage, and energy from waste. Developing all of these sectors is key to delivering the Prime Minister's 10-point plan for a green industrial revolution and to delivering the jobs, as well as the environmental outcomes, that spring from that. It is a real area for co-operation and opportunity.

Baroness Fall: Thank you both for your very detailed answers. I just wanted to turn back to the Government's approach to China overall. We have been speaking this morning and over the time we have had these hearings of a set of reactions. There are sovereignty and human rights issues, we encourage inward investment but we want to scrutinise it, and we want to co-operate on climate, so it is quite complicated. We call them systematic competitors and we know that they have a systematic approach to us, but do we have such an approach to them? Do we need a sub-committee of the National Security Council? Are we co-ordinated enough across government to take on this approach?

Nigel Adams MP: That is a good question. Our policy on China is co-ordinated across government. The FCDO is at the heart of that cross-Whitehall work and our strategic approach. Our policy towards China is agreed by the National Security Council, as you will know, and is reviewed regularly. It sets the strategic objectives on China, which cover the breadth and depth of UK-China engagement. Beneath that is the China National Strategy Implementation Group, which is a cross-

Whitehall group of senior officials who prepare NSC discussions and take forward the detailed approach to China.

You are right that, as China's impact on our international and domestic policy grows, we have to continue to build our capability within government. That is exactly what we are doing.

Q148 Lord Boateng: Reference has been made in the evidence today to higher education. How important is China for the UK's higher education sector? A recent report published by King's College London's Policy Institute concluded that reliance on tuition fee income from Chinese students to cross-subsidise research creates a "strategic dependency and potential vulnerability". Would you agree with that sentiment? Does Project Defend address that issue? If not, why not?

Graham Stuart MP: Thank you for that excellent question. We are proud that the UK is a world-leading destination for international students, and we have robust procedures in place to protect our national security interests. It is not just the Government; universities are well aware of the potential risks associated with dependence on any single source of funding, whether from a single organisation or, indeed, from a single nation. A diverse student recruitment base is key to avoiding this. The Government's international education strategy and the recent update to it made clear that the internationalisation of our higher education sector cannot come at any cost. Universities must ensure that they have appropriate processes in place to manage risks.

I continue to work closely with the education sector and colleagues across other government departments, not least the Education Sector Advisory Group, which I co-chair with the Minister for Universities. It has engagement and has had star turns from Minister Adams and others from across government to make sure that we have a truly joined-up, cross-Whitehall approach to this, to make sure that we get the right balance between supporting the UK economy and promoting the UK's excellence in education, while mitigating any potential security risks.

As part of our international engagement strategy, we have announced the graduate route, as the committee will be aware, among several other measures to attract new international students from a wide range of countries. As a DIT Minister, I am, with my officials, working hard to promote the UK as a welcoming place to study in a number of key markets across the world, including China. We celebrate the human bridge that it creates. We celebrate the contribution of Chinese students here to our universities and to society. I know the committee would agree that our differences with the Chinese Government should not translate into any sense of divide between us and the Chinese people. Having so many young Chinese people be educated here and creating those affiliations is something that can only be good for our future.

We are working on being the education partner of choice in India, for instance, and we are working with the British Council in India and the higher education sector in the UK to make sure that we develop that. As

part of the international education strategy, we appointed Sir Steve Smith. Anyone who has met him will know he is an extraordinary powerhouse of a man. He is the ex-vice-chancellor of Exeter and is leading our work in various markets around the world precisely in order to make sure that we diversify the source of our students and to help us reach the goals set out in that strategy, which are to have 600,000 students from around the world coming to the UK by 2030 and to generate a major increase across the whole education sector, which includes early years, tech and the rest of it.

Nigel Adams MP: To add to what Minister Stuart said, we at FCDO are clear that academic freedom and freedom of speech are fundamental UK values. They are cornerstones of the UK's world-class higher education system and are central to a student's experience. Universities have specific legal responsibilities to protect academic freedom and freedom of speech within the law. Academics, students and visiting speakers must be empowered to challenge ideas and to discuss controversial subjects. This has been raised many times in the House, and I have said that, if any academic institution or individual is put under pressure to compromise those academic freedoms or the ability to display freedom of speech, we encourage them to come forward and inform the Government.

Lord Boateng: Human bridges are great, and we certainly celebrate our Chinese students at the University of Greenwich, but a bridge is a two-way process. We want to see British students in China, do we not? Minister Stuart, you mentioned the British Council. The Generation UK: China Network is a British Council initiative giving British citizens with work, study or volunteering experience in China a platform to connect with one another across different industries, professions and career stages, so it is a hugely important resource for UK plc. Can you give us a categorical assurance that programmes such as that will not be cut by the British Council in the light of their current financial restraints? If there is any danger of it, will you help find the money to make sure that it does not happen?

Graham Stuart MP: I will take that, Lord Boateng, as Minister with responsibility for the British Council. What I can tell you is that the British Council has faced enormous financial pressure as a result of the pandemic. As you can imagine, it has taken a huge financial hit. Encouragingly, I can tell you that the Government have stepped up to support it. Since the pandemic hit, we have committed £609 million, cumulatively, to support the British Council. In terms of grant in aid, that is a 26% increase since last year. If you could point me to an arm's-length body or any government department that has seen a 26% increase in support in the last year, I will take you for a slap-up dinner in Vauxhall sometime. We have supported it. Of course, it has operational independence and it is a matter for the British Council to decide which programmes it keeps.

I also have great confidence in the future of the British Council under the chairmanship of Stevie Spring, who is a formidable individual with great

commercial, real-world experience. They have also appointed, and we have agreed to the appointment, of another formidable individual to take over as chief exec, Scott McDonald. I believe that the future is bright for the British Council. The UK Government have stepped up financially to put it on a sustainable footing going forward.

Q149 **The Chair:** Nearly two hours ago, Minister Adams referred to the fact that the Foreign Secretary appeared before our Committee at the end of April. During that time with us, when he was asked about his views on the Belt and Road Initiative, he said that “there is also a case for setting out a more compelling offer that is not necessarily in contest or competition with China but is more in the long-term interests of African and other countries”. Ministers, can you paint us a picture of what that more compelling offer might look like?

Nigel Adams MP: Clearly, the size, scale and reach of the Chinese economy, the size of its population, and its ambition to project its influence on the global stage through the BRI³ have profound implications worldwide. The reality, though, is that China is an important source of aid, trade and investment for many of these developing countries.

Oxford Economics estimates that there is a global infrastructure gap of \$94 trillion. Chinese investment under that badge of BRI can help fill that gap, alongside other infrastructure initiatives, but it must be done in a sustainable and inclusive way. The potential scale of investment under BRI means that, if projects are not done well, there could be significant negative implications for local communities, countries and global efforts such as climate action, so we do advocate that Chinese investment should align with international standards.

As the Foreign Secretary has pointed out, we also recognise the potential risks associated with the global economic and political influence that China has. It takes a nuanced approach that distinguishes between the threats and opportunities that BRI projects may pose to our interests. We engage only where there is a demonstrable and transparent benefit to the UK, and where it is consistent with our national interests and supports our security and prosperity objectives.

On ensuring that our offer supports African economies, for example, we aim to deliver on our mission to be a force for good. It is critical that we provide our African partners with credible pathways towards sustainable economic growth and recovery from Covid, while at the same time limiting their reliance on one source of finance and investment. This requires stronger institutions and regulatory environments to drive private sector development, encourage competitive markets and limit corruption. It also involves us supporting countries to tap into diversified sources of finance for investment.

In fact, the UK-Africa Investment Summit in January last year highlighted the benefits for both sides from revitalised partnerships with African

³ The Belt and Road Initiative

countries. We want to strengthen those links between our policy agenda, our financial instruments and technical assistance.

Graham Stuart MP: I will add on what our offer looks like. UK Export Finance is the world's oldest credit finance agency and frequently voted the best. We have seen significant support from the Treasury for our appetite in global markets, thus providing a draw for UK business into major projects in the developing world in particular. Last March, the Chancellor added £2 billion of direct lending. Typically, UKEF provides UK sovereign guarantees behind loans or other instruments, which then lower the cost for those who access a minimum of 20% of UK content into that project. Very often, UK content will be in the design, master-planning, architecture and engineering—the high-value areas where we have globally leading consultancies, et cetera—which contributes directly to higher-standard infrastructure being delivered. We are delighted to see continuing growth in the use of UKEF. We have just had a record year there, and it all plays in.

Separately, in terms of work to provide a UK offer, I co-chair Infrastructure Exports: UK, alongside an industry co-chair, and we have sub-groups that focus on key markets, again to make sure that we are making an offer to the world. We met recently with the Mayor of Istanbul, and I recently visited Belgrade with an offer there about the Belgrade metro. We are trying to make sure that we step up into the multitrillion-dollar infrastructure market and make sure that we are there.

This is done just by making sure that we are part of that, but we work with the Chinese as well, because they are the largest contractors in the world in the infrastructure space. At the Economic and Financial Dialogue, I signed a memorandum of understanding on co-operation in third-country markets between DIT and China's National Development and Reform Commission. We look to have practical co-operation on infrastructure, because we believe that UK engagement and the standards and qualities that we bring will raise the quality of the project overall.

To give you one example of where we co-operate with the Chinese, UKEF's largest-ever project financing was for the Cairo monorail, with £1.7 billion of backing. Some people often think that it is a cost to the taxpayer, but I should say that it runs at no cost and, in fact, returns money to the Treasury, so it fills a market gap without seeking to displace the private sector, and draws UK supply into it. Cairo will have two new monorails thanks to this deal, which will lead to significant investment in a manufacturing centre in Derby for the UK's only monorail car production, directly supporting at least 100 jobs and indirectly supporting many more. That shows some of the ways in which we seek to work with China and have a compelling offer.

Q150 Lord Campbell of Pittenweem: What assessment have the Government made of the lending policy of China towards countries such as Barbados and, more recently, Bangladesh? It is sometimes described as debt-trap diplomacy, but I will not use that expression because I know

it is somewhat contentious. Do you have a view about the political impact of that lending and its consequences?

Nigel Adams MP: China is the largest bilateral lender to developing countries and holds something like 60% of official bilateral debt of sub-Saharan Africa, for example. This may also be used to support its foreign policy objectives. Ultimately, sovereign countries have the right to make their own decisions on investment projects around their own development, and clearly China and Chinese businesses have a role to play. We want to help these countries make the decisions on the basis of the best information and according to debt practice.

In reference to debt-trap diplomacy, some studies have found some limited evidence of this, Chatham House being one. There is evidence that political considerations are being taken into account when China is considering requests from developing countries for debt relief, but it is important that any debt relief negotiations take place within established multilateral frameworks, and we continue to work with the G20 to support this.

Q151 **Lord Alton of Liverpool:** An earlier witness to our inquiry told us, as you have today, that the pandemic has underlined the importance of our interconnectedness. In answer to a follow-up to the earlier witness, I tabled a question about lateral flow tests and discovered that we have now bought one billion from China. I was also told that it was too sensitive to reveal which companies were involved or what it has cost taxpayers. Why are we not being more transparent? Do a billion lateral flow costs not underline the dangers of overreliance on the CCP and a lost opportunity for UK manufacturing?

How do you respond to the silencing and the incarceration of those brave Chinese citizens who have questioned the origins of the Wuhan virus and the punitive action that it has taken against countries like Australia for calling for an independent inquiry?

Nigel Adams MP: The speed with which we had to react when the pandemic broke may have necessitated us purchasing those tests. I am not as across the detail on those flow tests as some of my colleagues may be. I am more than happy to write to the committee to get you a more detailed response on that.

Of course, we abhor the arbitrary detention of any individuals who speak up. Freedom of speech is incredibly important to us. I know about the brilliant work that you do in this area and I understand we have regular correspondence between our respective offices. We abhor arbitrary detention and will call that out. We will stand by our partners and we stand by Australia.

Q152 **Lord Anderson of Swansea:** Can we improve the safeguards, on national security grounds, around collaborative projects with China in sensitive areas such as AI and cyber?

Graham Stuart MP: We have made significant moves to do that. We have the National Security and Investment Bill going through. We keep that under review and seek to improve our regime in response to threats.

Nigel Adams MP: In the last 12 months, the National Cyber Security Centre has helped 23,000 companies to defend themselves online. We are very alive to the threat of cyberattacks and very concerned by the widespread credible evidence that demonstrates that there is sustained malicious cyberactivity emanating from China, although this runs counter to international and bilateral commitments that China has made. Through our NCSC, we are doing a pretty good job of protecting UK interests. The new early warning system, for example, will help alert UK businesses and other organisations of potential cyber incidents.

The Chair: Can I thank Minister Adams and Minister Stuart for their two hours' generous time giving evidence today? I suspect there are some issues that we will want to follow up with more detail, and thank you, Minister Adams, for offering to write to Lord Alton. Perhaps more clarity on the more compelling offer that the UK is building will be something that we will wish to pursue in the future. That will not necessarily be throughout this inquiry, which concludes its taking evidence today, but I am sure that it is a matter that parliamentarians will feel requires greater examination, because it is important for the future of the United Kingdom's success worldwide that we are able to build that compelling offer. Thank you again.