

Foreign Affairs Committee

Oral evidence: [China and the international rules-based system, HC 612](#)

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Members present: Tom Tugendhat (Chair); Ian Austin; Chris Bryant; Ann Clwyd; Mike Gapes; Stephen Gethins; Ian Murray; Priti Patel; Andrew Rosindell; Mr Bob Seely; Royston Smith.

Questions 1-21

Witnesses

[I](#): George Magnus, Associate, University of Oxford China Centre, and Research Associate, School of Oriental and African Studies, University of London; Dr Yuka Kobayashi, Lecturer (Assistant Professor) in China and International Politics, School of Oriental and African Studies, University of London; and Dr Jan Knoerich, Lecturer in the Economy of China, Lau China Institute and Department of International Development, King's School of Global Affairs, King's College London.

Examination of witnesses

Witnesses: George Magnus, Dr Yuka Kobayashi, and Dr Jan Knoerich.

Q1 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee—our first in the China inquiry that we will be conducting. This is very much the initial outing. May I welcome George Magnus, Dr Yuka Kobayashi and Dr Jan Knoerich? Thank you all for coming. We will start straight off, and we will try to be quick and to finish at 4 o'clock. So forgive us if we are brief and if I am a little more aggressive than I might otherwise be.

How well adapted to Chinese needs are the current international economic institutions? What are the principles underpinning them, and why were they fixed like that? Dr Kobayashi, would you be kind enough to start?

Dr Kobayashi: When we speak about the international economic order, it is very difficult to define what exactly it is. We had principles such as the free market economy and national treatment. However, as you may know, a lot of these principles were devised by the WTO, and the WTO is an evolving regime. We had the Uruguay round, which set up the WTO; however, the Doha round is a continuation of those negotiations, and issues such as competition and services are still to be well defined. So, in a sense, it is very difficult to pin down what exactly the international economic order is.

How well adapted is it? The discussion then becomes, what exactly is it and how is China influencing it? Things have really changed from when China joined the WTO in 2001, when it was a really struggling economy based mainly on manufacturing goods. Now it is very much a balanced economy—if you look at the belt and road, they are No. 1 investors—so things are rapidly changing, both in China and in the international economic order.

Chair: Dr Knoerich?

Dr Knoerich: I agree. There is a set of principles that defined what the international order should look like, such as free trade and the proverbial international flow of capital, and so on. In terms of China's role in it, it has slowly begun to endorse these principles overall.

George Magnus: I have to say, by way of a short preamble, that when we think about Xi Jinping's China, the answers you are going to get to this and maybe to some other questions will be quite different to the ones that we might have discussed under previous Administrations. What is different now is that when you ask how well multilateral institutions are adapted to China, or what it wants and needs, although WTO is the epitome of the alignment of global interests and Chinese interests, we now have to understand a little that the Chinese view about multilateral institutions is that you don't start with a multilateral institution and say, "This is the way



that it shapes the world. Can we adapt to it?" Actually, these multilateral institutions reflect a certain order—a certain political agenda—which they do not really find all that agreeable or acceptable any more. So my first line of response to how well adapted it is that, whatever we thought the answer was a year or five years ago, it is different now because China's agenda is changing and its domestic needs are changing.

Q2 Mike Gapes: To what extent can those domestic needs or interests be aligned with what the rest of the world wants? Last year, the IMF warned about the growing size of debt and said it could be dangerous. Is there a problem that China's rise and its relationships with the international institutions—the IMF, World Trade Organisation and so on—could come into conflict because the domestic agenda of the Chinese Government and the international needs of other countries may be in conflict?

George Magnus: Personally, I think China's relationships and behaviour within the IMF and the World Bank are pretty low profile—I do not mean that in a pejorative way. I think China was much more vocal about the Bretton Woods institutions in the immediate aftermath of the financial crisis. Since then, as you all know, two very important innovations have happened in terms of China's international architecture. One is its creation of the AIIB, the Asian Infrastructure Investment Bank, whose original blueprint was totally different from the way it turned out. It was going to be very much a Chinese institution, and there were not going to be any standards applied to loans, for example, or environmental standards or social standards. As you know, the AIIB's whole governance structure changed, and China accepted a much lower shareholding in the institution and so on.

On the one hand, we have had China trying to show that it is very happy to play by the rules of the international community and participate in an institution which, in many ways, is a clone of Bretton Woods institutions. On the other hand, Xi Jinping's signature foreign policy initiative is the belt and road, for which there is no architecture, no commitments, no secretariat and no rules—it is the complete antithesis of the AIIB. We can guess and speculate about how all this works out in the end, but clearly there are two very different agendas going on.

Dr Knoerich: Of course, China faces enormous domestic challenges. One of them is debt; the environment is another one you would want to mention. For a while, on the environment, it was clear that China thought this was a responsibility of international governance and of advanced economies. But, now, this is a particularly pre-eminent problem in China, and China has started to endorse and engage with the issue in the international arena. China is more interested in engaging in finance in the international arena; it has a big problem in reforming its domestic financial system, and it has an increasing interest in participating in international governance, which it has been doing over the years.

What China probably wants to do, as it becomes more influential over the years, is not necessarily to challenge the Bretton Woods institutions, but it sees them as not ideally catering to China's needs—domestic or, in fact, in

terms of the influence it wants to have in international governance. That is roughly what it is about. China will try to bend the system and change institutions so that they fit what China needs to have from them as an emerging power.

If you take the IMF and the World Bank as an example, there was a lot about voting rights. At some point in 2010, when the World Bank launched what was called voice reforms to change voting rights, and the IMF did the same thing, China was not happy with the outcome, and this was one reason why the AIIB was launched—they were trying some other avenue to get more influence. I think that is a bit what it is about: they are bending it in a way to get to where they want to be, as they come into more power and want a different sort of status and a different sort of recognition in the system. That is how I would say it.

Dr Kobayashi: On the question of how overlapping China's domestic needs are to international ones, when we are talking about the international, we have to be specific. Are we talking about the UK, or are we talking about other emerging powers—other developing countries? If we are talking about other developing countries, it overlaps quite a lot. If you look at this \$8 trillion gap in infrastructural funding that the AIIB tries to cover up, you see all these developing countries going to China. Duterte is going back to China after this South China sea position; after the Rohingya issue, Myanmar's Aung San Suu Kyi is now looking towards China. So facing back to China is now becoming quite popular.

If we are talking about China's interest in infrastructure and investment in building things, that echoes quite a lot with emerging powers and developing countries. However, if you see the other side, how does that impact on the UK? How does that impact on the EU? This kind of financing is not AIIB; AIIB is set up in the belt and road, but what we are seeing in the belt and road is actually a product of the policy banks—the China Development Bank and the Exim Bank. These are very differently funded. They are not going to the standards of the AIIB, and oftentimes they are pushing Western donors out. For example, if you look at central Asia, China is now expanding its influence in comparison to what western donors are doing. It is not surprising when you look at how much conditionality is placed on western donors' projects—if you look at China's, it is not so much so. So if you look at the needs, with Russia retracting on infrastructural development in central Asia, China has these kinds of needs, having to find an outlet for its construction industry somewhere. That is quite overlapping with central Asian states. In a sense, we have to define which countries we are talking about.

Q3 Mike Gapes: Would you say that the result of that will be that there will be less conditionality and therefore lower standards than there would have been if the financing was coming through other means?

Dr Kobayashi: This is talking about the existing projects. The belt and road has AIIB, which is basically a complete template of the World Bank—even structure measures. In a sense, what is happening from now on underneath AIIB would be very much this kind of international standard.



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However, if you look at the existing projects, a lot of the projects made out to be belt and road have existed since the mid-2000s—look at the Gwadar port, part of CPEC, which has existed since the mid-2000s. Look at the projects that are happening in Kyauk Pyu, the port in Myanmar. That has been negotiated from 2007-8, predating belt and road again—2013. AIIB was not around. So a lot of the actors are not AIIB, but rather these kinds of policy tanks, which have very different ways of managing. That is why a lot of the authors have said—the debt trap is also a problem, the standards are a problem. It is not looking at AIIB; it is looking at the pre-existing projects.

- Q4 **Mr Seely:** So far, the EU and the US have not granted China market economy status. What further should China do to be considered a market economy in accordance with WTO accession protocol?

Dr Kobayashi: This is a very difficult question. When China joined the WTO in 2001, it had an accession protocol that was the longest ever protocol. It laid out the template that China was supposed to do. It had transparency commitments going beyond what exactly WTO ensures. Where China's start line was is very far from the principles of the WTO. It was understood that, by 2011, under this transition period, China was supposed to reach that standard. However, what exactly is it? For example, if we are talking in terms of free market economy and market principles, if we look at what the United States is doing with steel, can we say that China is not a market economy but the United States is? This is very difficult to define, and in terms of negotiations, the defining principles are very vague. At the moment, it is going outside the WTO unilateral measures, as with Super 301. In that sense, I think trying to gauge "market economy" is very difficult. China says in its constitution it is a socialist market economy, which is a kind of economy, in the Chinese sense.

- Q5 **Mr Seely:** Is that as much of a contradiction in terms as it sounds?

Dr Kobayashi: Whenever I teach it in class, I say, "socialist market economy". I know that sounds like an oxymoron, but they have reconciled this in their system. They have made significant measures, if you look at basic regulatory standards. They did not have competition law; now they have an anti-monopoly law, which is a huge step. If you consider what they were before and how they have become, I think you have to see this as a kind of progression.

- Q6 **Mr Seely:** Is it an unplanned planned economy, or a planned unplanned economy? What is more—the socialist bit or the capitalist bit?

Dr Kobayashi: That's a tough question. In that sense, the economy matters. Why do we have the NDRC and the State Council? Structurally speaking, China is a very different country. However, the WTO is actually welcoming these kinds of different backgrounds. It is not just for these kinds of originally market economies. It is expanding into bringing in other countries—for example, Russia had a very long accession process as well. Can we actually talk about China without talking about, say, the new central Asian states and also Russia? In a sense, what matters now is that



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China's economy matters. China's economy has an impact on the United States economy, the UK economy and the EU economy. It does matter, but because it matters it does not mean that we have different standards. It has to be on a fair, principled negotiation, which is very difficult, because if you look at what is happening in the Doha round, it is still not included. When you have international negotiations, I am also aware myself, things are watered down—so you do not have specifics. Domestic law is very specific, so it is easy to apply, but international laws are very vague, for the reason that you need consensus. I think it is very difficult, and there is no way of having one solution for China; coming up with these kinds of extended negotiations and coming to understanding is really what is needed.

George Magnus: My response to your question is that whether it is the socialist bit or the market bit, what matters now really is the party, more than anything else. In a way, and it is not very popular to say so nowadays, for all the other stuff that we have to integrate, the White House is actually not wrong. It may be clumsy in the way that it is going about dealing with China at the moment, but it is fundamentally not wrong, in my opinion, to call China out on a number of practices that actually do favour domestic companies in a very discriminatory way.

You asked the question, "What does China have to do to get MES?" Obviously we have to wait and see what the WTO ruling is, and so on, but what it is very unlikely to do, in my view, is to fundamentally alter the tenets of industrial policy, which as you know have been spelled out for many years now, but particularly in the last couple of years as regards robotics, quantum and so on.

Q7 **Mr Seely:** Why do you say the party is all important? Is it because these are political decisions that are being made?

George Magnus: These are political decisions, but in terms of what we have seen, the writing was certainly on the wall between 2012 and 2017. Certainly with the 19th party congress last October and now the great focus that there has been on the National People's Congress that has just concluded, what remnants there were of collective decision-making and state institutions ruling the roost are being devoured by party institutions and party agencies. I think that will make for a much tougher China, and a bigger brick wall, basically, to get through in terms of trying to get concessions on key elements of its economic and industrial policies.

Q8 **Chair:** Does China want to work within or change the international economic order?

Dr Knoerich: I think I partially mentioned this already. From my point of view, and obviously there could be very different points of view, I think it does want to work within the international order. We have a set of principles that are established, and I think that China is quite keen on showing that it wants to be an important and influential part of the system. That probably also sells itself well to domestic constituencies. But it wants to do it in a certain way. On Bretton Woods, it wants certain



amounts of voting rights. It may push some of its own initiatives. If it cannot do that through the existing institutions, it will try to establish some of its own institutions.

I think in the WTO it is sort of similar, as my colleague just alluded to. Yes, they are a happy member of the WTO. China has benefited enormously. The trade figures exploded after China's WTO entry. They have been an enormous beneficiary of the global, rules-based system in that sense, but again, they have used it a bit to their advantage. They have selected aspects that work well, and waited and kept back on other aspects, even when China might have committed to them—for example, allowing market access in certain sectors, such as finance and telecommunications, which they had to some degree agreed to.

In many areas, China did implement what they committed to when they entered, but there are lingering areas where they have not. Here there is, again, a sort of tweaking—not exactly being within the system, but trying to use it, or work with it in a way that is in China's interest as well.

Q9 Priti Patel: How do you think the AIIB compares with existing regional development banks and international financial institutions? I put it in the context of whether you think it is a case of competing against or complementing the systems that exist.

Dr Kobayashi: The rhetoric you get from China is that it is to complement. There has been this identified gap in funding for infrastructure. It is not just the AIIB—ADB has also had that study saying that there is this \$8 trillion gap in infrastructure funding, so bridges need to be built and railways need to be built. China has found this niche, and it comes from the background of China going into Africa, building infrastructure projects and doing quite well at it. Because of that, and the decades of experience there, they said, "Okay, this is something that is quite useful; let's make something of it." That is what you hear from the rhetoric.

AIIB is very much looking at co-operating with existing institutions, if you look at the projects they have actually funded. Together with the EBRD, there is a Tajikistan road safety project. In a sense, if it was competing, they wouldn't be moving together. It is fair to say it is complementary.

Also, if you look at the staffing inside AIIB, a lot of these people have experience in the World Bank, so it is very much benefiting from those kinds of practices. One of the critiques is that it is so stringent now that basically the standards are even better than the World Bank. So in a sense it is something new.

However, going back to the previous question about whether China is working within the international economic order, one really needs to question where we have the international economic order from. They are basically remnants of world war two. They were set up after the end of world war two and reflected the power balances after world war two. Where are we today? China was not even part of the UN when this was

being negotiated, so things have to change. It was the ROC, not the PRC, in the UN then. In that sense, things have to change. It is not just China saying that the international economic order has to change. The IMF reform has been going on, not just because of China, but to reflect the differences in the world. So I think you need to bear that in mind.

When you look at China, if you look at the position divided into silent watcher—knowing the ways and the means—in the first phase, moving on to participating, and finally, to revising and reforming it. The international economic system definitely needs reforming, but how we reform it is through negotiation, not by dictating from one side to the other.

- Q10 **Priti Patel:** On that, I have two questions. One is about America and its attitude to the AIIB, because it is not part of it. Secondly, the UK has been there from the outset and has obviously made significant contributions financially. Do you think the UK's presence and contribution has had an impact and influence in terms of UK-China relations?

Dr Kobayashi: Humungous, but you have to go beyond AIIB. One of the things is that you have a significant impact after the UK has joined for the other non-China club to join AIIB. That is not true, but if you also look at the competing institutions, what we are also seeing in the international economic order is the shift from the WTO into mega-regionals, for example TPP and TTIP and RCEP. One is led by the United States—TPP. One is led by China—RCEP. In that sense, it was really divided into the China and the US camps. However, with the UK joining AIIB, things have shifted and have moved around so that even in the mega-regionals, you are having the different kinds of sides join. It is quite interesting because in terms of rule-making, TPP reflects the very much rule-based system, and RCEP reflects the very much Chinese-favoured “vaguely, as we go on, and negotiate” system. In a sense, the UK has had a significant shift in terms of dialogue and discussion about if we are going to join or resist the Chinese institutions.

- Q11 **Priti Patel:** What about the States?

Dr Kobayashi: With the United States, it is very difficult to say. If you look at the shift from Obama to Trump, the one thing that Obama really wanted to leave was TPP. He was pushing it forward saying that it was a non-China camp and putting that to the fore. What has happened since? Trump has said, “We’re not going to join that any more.” So in a sense, everything that was true in the Obama Administration has been reversed in the Trump Administration, so talking about continuity here is difficult on US policy.

George Magnus: If I could make a comment about the AIIB. There are two things for you to understand and to bear in mind. The funding currency and the lending currency of the AIIB is the US dollar. I said before that I thought that the AIIB was a Bretton Woods clone and I really believe that is the case, not just because of its operational guidelines or its operational characteristics but also because its governance structure looks identical. You have a tripartite organisational structure that is managers,



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directors and governors, which was not in the original blueprint. You have other phenomena, which I have scribbled down here, such as commercial behaviour and commercial standards in loans, which was not in the original blueprint, and also best practice, voting structures and so on and so forth. You probably know better than we do the extent to which the British Government was instrumental in getting that active, but certainly the incorporation of a number of European countries—most Western countries, bar the United States, obviously, and Japan—I think was very, very helpful. It signifies to some degree how China is very keen to play by—it hates chaos. It wants stability, and it wants a kind of consensus but consensus that it shapes, and that will mark the difference in international governance—

Chair: We are very, very tight on time. I apologise.

- Q12 **Chris Bryant:** Kind of on the back of that, if they want to change the consensus, notwithstanding the thing you said earlier about how difficult it is to know exactly what the international economics system is, what are they trying to change it to, and for what purpose?

George Magnus: They obviously do not like things that we like, like—

- Q13 **Chris Bryant:** But not just because we like them.

George Magnus: No, but we might insist on conditions that are respectful of human rights and human protection and the environment. Actually, the environment is probably something that China would be very keen to promote nowadays.

- Q14 **Chris Bryant:** Intellectual property.

George Magnus: Intellectual property, procurement—there is a whole slew of things where we will differ nowadays on what we think is really important. These things will mark out different turfs I think, as we go forward.

- Q15 **Chris Bryant:** And in a world where so many countries seem to be moving towards protectionism and running away from free trade, does that play into this agenda or play away from it?

George Magnus: It does worry me. Sorry, I do not want to mean this in any kind of pejorative way, but it seems to me that if you take a step back and look at what has happened since 2008, the world has become more autocratic. There is an organisation called Freedom International and lots of data about how the role of autocracy and strong-arm leaders has emerged and increased. It aligns better in a way with the world that China sees from its perspective; obviously it does not align well with our perspective but that is just the reality of 2018. I think that in that sense the American position of withdrawal from TPP, America First and the way in which America is handling its trade issues is very unhelpful, because it creates space for a different kind of trade regime, which is not great.

Dr Knoerich: I think there is a difference between where China is at now, where it is heading and where it was before. If we look at China now, we

have all these questions. How open is China? Does it adhere to the sort of standards we would like—human rights, the environment, social,

whichever standards you would like to bring up? And questions about the engagement it has in the international economy. When we look back, however, let's say to 10 or 20 years ago, China was not where it is now; particularly after WTO entry, it was significantly liberalised.

This session is about how to bring China in. It assumes that China is not fully in and the question is about how to bring China in. I doubt that in the future China would have no interest in, for example, maintaining intellectual property. China will in many ways be a leading producer of intellectual property. When it gets there, it will have the same interests, and I think that applies to the environment and many other aspects as well. So China is not quite there yet. It has all these projects—infrastructure in Africa, let's say—where we have concern about environmental standards and so on. Is it good for the reputation of China's infrastructure projects if afterwards they have lots of environmental problems or the infrastructure does not work well and there is a problem after three years because of quality issues? No, that is not good for their future projects.

So ultimately, where do the interests lie? They will want to have similar sorts of standards, because ultimately when China merges more and more with more advanced economies, those interests will also converge. It is important to realise that from where we are now. I could comment on AIIB, but I think we have to move on.

Chair: Forgive me, but we do.

- Q16 **Ann Clwyd:** You mentioned the two regional bodies, the RCEP and the FTAAP. How do you assess the consequences of setting up such regional bodies for the international economic order?

Dr Kobayashi: In a sense, you are actually seeing that it is not just China moving into these regions but there is this discontentment in general about the Doha round. It has been dragging for too long, and it is very far from being concluded because of those various issues dividing the global north and the south.

You basically have very different approaches in the two regimes. The US-led one very much tries to spell everything out and the China-led one tries to keep things vague. You have these very different approaches. However, that does not replace WTO rules. So in a sense it is not going to be a replacement of the WTO; it is trying to come up with things like competition rules and services rules, which are still so stagnant in things in the WTO that we need to approach them otherwise.

If I can go back to the idea of what China is bringing to these kinds of things, I will answer with one case study. Look at the Belgrade-Budapest railway and why China is being pursued by the EU there. The Belgrade-Budapest railway connects Hungary and Serbia, an EU country and a non-EU country, so obviously the procurement standards and environmental

standards are all very different. Serbia is actually out of this, but Hungary is being pursued for breach of these rules because they had very vague circumstances in terms of the way it was breached.

We have very different business practices. The Chinese bring their own workers and their own means, and then the Chinese try to push their own construction companies. So in that sense that is very different to the global system.

Chair: Forgive me; we are incredibly pressed for time. Royston, you wanted to come in.

Q17 **Royston Smith:** On the belt and road initiative, from a European and specifically UK perspective, what do you see as the benefits and challenges?

George Magnus: We need at least a day to answer that. It is very interesting—I think we will probably all have different perspectives on this.

The first thing is, we do not really know yet whether this is a Eurasian development project or a China-centric strategy to benefit China. For the sake of brevity, if you would twist my arm, if it was a Eurasian development project, I think we would see different manifestations, different governance characteristics and a different modus operandi in terms of the way in which financing was taking place and the role that China would play in many of the countries in which it is active.

I do not think that belt and road is actually geographically coherent anymore. It started off with central Asia and building the road to Europe, but now it is the encirclement of India, it is Africa, it is Latin America, it is the polar route and so on. The issue with belt and road that we will all have to grapple with in our own ways is how far it goes. It has great economic coherence for China, because it is a big trading nation—the biggest—with extensive overseas interests in shipping lanes, in energy supply and in building stuff overseas where it can apply Chinese technological and product standards, which will enhance the brands of Chinese companies. So there is a lot of logic, from China's point of view, in proceeding with this in its different shapes and forms. But—I alluded to this before—there is no infrastructure. There are no institutions. There is no secretariat. There is no forum. There is no dialogue structure between China and other major countries. India, Japan, Australia and America are now beginning to talk in a four-way forum about how to counter belt and road. I heard a very interesting interview where Henry Kissinger talked about this basically being the biggie for the 21st century. In terms of where there are not any rules or controls, how are we going to manage that successfully? I do not think we know the answers to those questions at all.

Dr Knoerich: Again, there is probably potential to still create a more institutionalised version of belt and road. The question is whether Britain can help make that possible. That was the story of AIIB, in a sense. It was clear it would be a bank, but it was not clear what kind of bank it would



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be. It could have turned out differently. When the UK and other advanced economies joined, they played a very important role in institutionalising it in a certain way. The question is whether that can be done with belt and road, or whether it is really just a Chinese-centred and Chinese-directed initiative. The former would probably be preferable and a policy goal, if at all possible.

In terms of benefits and costs, many of the host economies—Pakistan, for example, initially endorsed and still very much endorses this infrastructure investment. It is very clear that these infrastructure investments can have a huge positive impact on development. It is certainly something that has not been paid enough attention in the past. One reason why China is so successful economically is because it invested in infrastructure at particular moments. That was its development strategy. It is trying to replicate that abroad to a certain extent. There are many potential benefits, if these projects are done in the right way. We can have a long discussion about that and the potential viability of all the projects. You mentioned Government debt and the potential indebtedness of the Governments in those host countries.

China has new contracts for their state-run enterprises. Western regions of China will benefit economically from belt and road. They have over-capacities that they need to export. There are many reasons why China benefits from belt and road. If it is done the right way—the UK should look into this—it can have positive outcomes, but there are certain risks.

Dr Kobayashi: I echo everything that has been said, but I will make two quick points about benefits and challenges. Basically, I think there is a huge opportunity for the UK that has not been picked up on. It is basically a regional, bilateral and multilateral initiative. All these projects have to have joint venture contracts. A lot of those contracts are structured to have arbitration in a third-party country, and a lot of the contracts rely on the UK. One of the biggest UK exports is legal services. That has not really been picked up. The questions I get asked are, “How can the UK be involved? Can the industries be involved?”, but the biggest export that the UK has is the legal system and helping with these contracts.

The legal side is the problem in the challenges with belt and road. Once the UK leaves EU standards, we are not going to be under that protection—well, it is dubious whether we will be under the protection standards of the EU, so in a sense we will be going back to the Serbia case, not the Hungary case. Can we actually really be like the case of Serbia and the Balkans, where they do not have EU standards protecting them from the fallout of joint ventures?

Q18 Royston Smith: Can I ask something about the EU and Brexit? May I ask something about the EU and Brexit? Do you know what China’s view is on the UK leaving the EU? How will that potentially affect our future relationship?

George Magnus: How long is a piece of string?

Chair: A very short one.

George Magnus: A short piece of string, okay. My sense is that the Chinese find our decision surprising—I am being charitable.

Royston Smith: You don't need to be charitable.

George Magnus: From a trading point of view, we all know that we do not do very much trade with China—it is about 3.5% of our exports, and we are not a particularly significant export market for it. Our investment relationship with China is much more important. A quarter of China's investment in the EU during the last 10 years has come to the UK. They are certainly very interested in what will happen to the investment environment as a consequence of what happens when we leave the EU, for obvious reasons; I think they are watching that very carefully. They are also very interested in our technology. We have a small SME tech sector, which actually punches substantially above its weight in the world. They are very interested in that, along with tech companies in other countries, too.

Chair: Ian, you wanted to come in?

- Q19 **Ian Murray:** Just to pick up on what Dr Kobayashi said about the consequence of not being bound the EU structures. Can I just get you to clarify? Were you hinting that, if the UK is no longer bound by these EU protections, it will be much easier to compete for contracts that may come up with the belt and road initiative? Would that be because the protections would be of a much lesser standard? Or were you just saying that it takes us out of that much more complex tendering process?

Dr Kobayashi: A lot of those standards were all superseded by the EU once the UK became part of it. Once it leaves, we are not part of that anymore. For example, what is happening with the dispute with the railway is basically that Hungary is now being investigated for a breach of these standards. However, if they become like Serbia, there won't be investigations. Basically, if there is an incident where a joint venture poses environmental challenges or any kind of breach of competitive law practices, we won't have that anymore to fall back on.

Basically, it will be the UK trying to deal with that, without this kind of superseding structure. With Serbia, they are not investigated at all. In a sense, the business is dictating the way forward. In a sense, we will not have any kind of legal things to back us up, if you know what I mean? We will have to create them one by one, which will involve a lot of manpower to reconstruct these kind of structures to protect our domestic industries.

- Q20 **Ian Murray:** That doesn't sound particularly positive.

Dr Kobayashi: I think, in a sense, Brexit is discussed in a different context from these things, but they are all linked; we are talking about the international economic order. One needs to understand that the issue is that, basically, a lot of the foreign policy decisions are made by regionalists or trade people and they are not very much linked, whereas if

you are an academic you have to look at all the bigger picture. In that sense, one needs to take these connections into consideration when even just talking about the belt and road initiative.

Chair: Mike, you wanted to come in very quickly?

Q21 **Mike Gapes:** It is only two and a half years since George Osborne was praising the fantastic relationship between the UK and China. Because of the Brexit vote, is that now off the agenda? Or is there now another agenda? There was talk of joining the Trans-Pacific Partnership, and the *Telegraph* ran a headline that the UK could become China's new best friend. Is there anything in any of that?

George Magnus: Is the golden era still golden? My personal view is that I thought it was always rather colourful of the previous Chancellor to have expressed his views in that way. It is important for all countries to have flourishing relationships with a very large economy, which is what China is.

It is quite difficult to get access to the market in China for products that we want to excel in. Most of what we do is services. It is quite difficult to sell services into China, as the Americans are finding out at the moment, although who knows. We will have to stay tuned and see what happens for financial services in the next week or two, in terms of China's response to Trump's trade threats. There may be some changes.

It is quite difficult to get access to their market, and we need to work with collectively with allies to try to negotiate better terms with China. Would it be a golden era? For a lot of the deals that were trumpeted when the Chancellor went to China, and even recently when the Prime Minister went there, you have to sort the wheat from the chaff when you look at the numbers; they are not nearly as big as they claim to be.

We have to be very careful that, when we do deals with China, it is not just Rolls-Royce and Land Rover and so on. We need to try to see if we can open markets to the products that we are very good at selling. It is not golden. We sell a lot of gold to China; that's the only bit that is golden.

Chair: Can I stop there? Forgive me. It is now four o'clock and a few of us must run. Thank you very much indeed for your contributions and your time. If it is all right with you, we may follow up in writing on some areas. I will be hugely grateful if you are kind enough to respond. I realise that that is an extra imposition, so I apologise for asking. I am very grateful for your contributions for this afternoon.