

Written Evidence submitted by British Foreign Policy Group (IRR0020)

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About the British Foreign Policy Group

The British Foreign Policy Group (BFPG) is an independent, non-partisan think tank dedicated to advancing the UK's global influence, at a crucial time in the nation's modern history. Our core objective is to bridge the link between the domestic and international spheres – recognising that Britain's foreign policy choices are shaped by our social landscape at home, and the social, economic and political constraints of both our allies and strategic rivals. BFPG works as the connective tissue between the UK's policy-makers, businesses, institutions, and ordinary citizens, to promote the connectivity and understanding needed to underpin Britain's national resilience and global leadership in the 21st Century.

The BFPG produces pioneering social research, which provides a holistic picture of the social trends shaping public attitudes on foreign policy and the UK's role in the world. Our annual public opinion survey has become the leading UK quantitative research project on foreign affairs and the UK's role in the world. Our National Engagement Programme provides a crucial bridge between HMG and citizens and stakeholders, in their own communities. In addition, the BFPG produces dynamic events and facilitates networks amongst stakeholders with a vested interest in Britain's international engagement – including co-convening the UK Soft Power Group with the British Council, which highlights the strengths and potential influence of the assets harboured within the UK's towns, cities and nations towards projecting our national cultural and diplomatic power.

We believe that, harnessed with this knowledge, and with these assets, Britain will have the best chance to succeed in its ambitions to promote prosperity, peace, security and openness – both at home and abroad. Our mission supports Britain as a strong, engaged and influential global actor. We promote democratic values, liberal societies, and the power of multilateralism – and we recognise Britain's critical international responsibility to uphold and extend these throughout the world. The BFPG believes that a strong and united nation at home is the essential foundation of a confident and effective British foreign policy.

The British Foreign Policy Group has previously submitted evidence to the Committee.

FCDO's implementation of the Integrated Review of UK Security, Defence, Development and Foreign Policy

Summary

The Russian invasion of Ukraine and growing concern about China's ambitions have darkened the geopolitical picture since the Integrated Review was published. This submission covers the need for a clear-sighted but calibrated approach to China and a whole-of-Government as well as a broader national engagement, which recognises and integrates a sophisticated appreciation of trade dynamics. Broadening and deepening national capability in languages and regional understanding is essential. We propose further reflection on the second-order effects of sanctions and other drivers of decoupling with a view to ensuring that activist measures achieve the desired results. We also touch on international development assistance as a strategic part of a national effort to counter Chinese influence in the developing world.

The Integrated Review

"China's increasing power and international assertiveness is likely to be the most significant geopolitical factor of the 2020s" (IR p.26)

1. The Integrated Review's characterisation of Russia as the most acute threat to our security has unfortunately proven prescient, while the description of China as a China as a systemic competitor has been argued by some to be insufficiently strong.

The geopolitical context since then

2. Since the Integrated Review was published, the challenges to liberal democracy and the international rules-based order have become greater, more immediate and more visible. The Russian invasion of Ukraine has given rise to a humanitarian crisis, enhanced the threat to European security and precipitated global economic dislocation with major effects in the UK. At the same time, the Western response, undoubtedly far more robust than Russia expected, has set a high bar. The UK has played a leading role both by its own actions – in terms not only of military, humanitarian and economic support of Ukraine, but also broad-based sanctions against Russia – and through its active building of an international coalition. On the other hand, China's positioning over the invasion of Ukraine, unwelcome while unsurprising, conceals the significant strategic challenge it faces almost whatever the ultimate outcome if it is to protect its own interests against the reality of US power and China's economic dependence on the West.
3. In China, the Western – including British – response will have been closely observed. Since the Integrated Review was published, China has continued and now reinforced its the Zero COVID policy with serious economic implications, particularly in terms of

the contribution to global inflation¹ and (for China) dangerously low growth. With the recent increase of COVID cases and the growing evidence of serious unrest as a result of repeated harsh lockdowns, the Chinese authorities are faced with an increasingly acute dilemma, as a political desire to relax restrictions comes up against healthcare fundamentals (poor vaccination record, inadequate healthcare facilities) will remain. The dislocations in the real estate sector and elsewhere have been accompanied by growth rates significantly below trend.

4. At the political level, the unprecedented re-election of President Xi for a third term and the emergence of a more compliant leadership at the CPC Congress have been accompanied by a further exacerbation of Chinese threatening language against Taiwan and continuation of acute human rights violations, particularly against the Uighur population. Despite the welcome first meeting between President Biden and Xi, the US/China relationship remains unpredictable. While we cannot predict the course or timing of Chinese actions, it would be unwise to discount the risks that a third-term President Xi, focusing on his political credibility and legacy and faced with significant domestic and economic challenges, could decide to escalate posture with raising the risk of dangerous miscalculations.
5. In this context, China will be watching the UK's approach closely to see where it settles along a spectrum from the "Golden Age" in the early 2010s to a much more cautious and restrictive position. The new more assertive style of Chinese diplomacy has missed few opportunities to threaten the UK with a response to restrictions while continuing to call for a closer more collaborative relationship.

An integrated but calibrated response

6. We have previously analysed the challenges presented by China. The reality remains that, while the strategic challenge is real, efforts to deter Chinese aggression which would disturb international peace and security need to be balanced with a realisation that interdependence between the West and China on various levels – in both directions - cannot be wished away. Economically, China holds for example 13.7%² of US debt. China is, as the Integrated Review rightly points out, essential to the success of our priority objectives of addressing climate change, not least because its dominance of the critical minerals supply chain, and the global threats to biodiversity.
7. We are therefore concerned by the potential consequences of an abrupt rhetorical change to the assessment of the risks from China. There seems to be little positive benefit in changing the characterisation of China from a "challenge" to a "threat" and potentially a significant downside if it provokes an aggressive response which cuts off opportunities for collaboration which we would wish to pursue. Indeed, as it is likely to be necessary to reduce interaction with China in other areas, it will be all the more important to continue and enhance cultural and other people-to-people

¹ <https://flow.db.com/trade-finance/trade-and-inflation-the-five-basic-issues>

² <https://www.investopedia.com/articles/markets-economy/090616/5-countries-own-most-us-debt.asp>

contacts (with appropriate security caveats, see below). This would, on the one hand help to reflect the reality that a complete decoupling with China is neither desirable nor realistic, while ensuring that British thinking remains as much in touch with China as possible.

8. At the same time, the approach to China needs to be strategic, its implementation across a range of sectors needs to be carefully calibrated and driven case-by-case with measures which are justifiable and reflecting a clear-sighted appreciation of the threats and opportunities. A dialogue with business and others who are actively involved in the dynamics of the relationship would be valuable to ensure broad national understanding.

Trade

9. Trade is at the core of our interdependence with China. The UK is reliant on Chinese imports to produce its exports, particularly in its two largest export sectors: machinery and components and automobiles. China is the second largest export destination for exports of automobiles, and the third largest export destination for machinery and components, suggesting that there are China-specific supply chains within these structures.
10. As the UK looks to decarbonise energy supply, the reliance on China for photovoltaic equipment and semi-conductors will grow. China was the largest export destination for electric cars in 2021, but China dominates the critical minerals within electronic supply chains globally.
11. There is no sign that China's zero-Covid approach is affecting UK imports from China and indeed, in critical sectors, the rate of growth over the period since Brexit has been substantial.
12. The growth of ESG-driven regulation will impact significantly on trade with China. The US Critical Supply Chain Review,³ the German Supply Chain Act EU Supply Chain Act⁴ will attempt to exclude trade with countries and companies where human rights abuses are evident. This will target China and Xinjiang province in particular with potentially significant implications for UK-China relations. Recently top-level engagement by Germany and the EU⁵ with China have highlighted the importance of sustained economic relations. The UK's position, seen against those of the US and European allies, requires careful consideration, based on a clear-sighted analysis of the economic as well as national security realities (see annex).

National Security

³ <https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf>

⁴ <https://www.eqs.com/en-gb/compliance-knowledge/blog/eu-supply-chain-law/#:~:text=What%20is%20the%20EU%20Supply,direct%20and%20indirect%20business%20relationships.>

⁵ <https://www.taylorwessing.com/en/insights-and-events/insights/2021/07/overview-of-the-german-supply-chain-due-diligence-act>

13. Efforts to enhance security critical national infrastructure capabilities which include material Chinese components have risen up the agenda and additional measures may need to be considered. These involve a wide range of stakeholders, including eg businesses, universities and cultural organisations and financial services, who may not generally regard themselves as part of a security discussion. It would be helpful for Government to enhance dialogue with such organisations, explaining the context and seeking broad national support for the necessary steps, so that action where required can be taken more quickly and be effectively targeted for example at technologies of concern. More specifically, the mechanisms which have long existed to respond to potential hostile attempts to access sensitive technologies should be reviewed to ensure that they are able to respond in an agile manner to specific real-time threats. At the same time, the Committee may wish to consider the importance of broadening the debate which should not be left just to policy experts or seurocrats.

Defence

14. The AUKUS is a milestone in the Western approach to the Indo-Pacific reflects a significant step for the UK's Global Britain ambitions. Given the war in Ukraine and economic constraints, it is realistic to assume that the UK's direct military contribution will remain proportionately limited and carefully targeted. But the UK's active engagement across the piece sends an important signal of Western solidarity and the benefits of collaboration between democracies. Therefore, seen more broadly to include both defence industrial and wider economic engagement, we hope the Committee will agree that a long-term strategic plan for UK engagement in the Indo-Pacific remains as important as when the Indo-Pacific tilt was announced.

Building system-wide strategic capability

“we will do more to adapt to China’s growing impact on many aspects of our lives as it becomes more powerful in the world. We will invest in enhanced China- facing capabilities, through which we will develop a better understanding of China and its people, while improving our ability to respond to the systemic challenge that it poses to our security, prosperity and values – and those of our allies and partners” (IR, p.22)

15. If China is going to be a major component of our international strategy – as a strategic competitor but also as an essential partner – into the distant future, we need to be doing far more to build system-wide strategic capability so that the UK can defend essential national interests and continue to play a strategic role among our Allies.

16. Over recent years, the Government (and in fact UK PLC more widely) has underestimated the importance of linguistic and regional skills as a core element of our strategic capability. If we don't understand competitors as well as they understand us, we are at a strategic disadvantage. China's Zero COVID policy, with its ongoing restrictions, means that China is unlikely to be as an attractive or possible location for many Western expats in the coming period, threatening a further reduction of contact and expertise on the UK side. While it will remain important to monitor and control Chinese influence in universities and other intellectual institutions, it is also important to maintain and strengthen contacts and build capability and understanding including of Chinese language(s) and strategic culture including the central role of trade in strategy. It is worth exploring how existing expertise, in Government and beyond, and among those who have previously lived in or worked on China, can be better used. For what will remain a long-term strategic concern, this should be a high priority. We hope that the Committee will reflect on the need for the Integrated Review to speak to the wider role of the education sector and business in nurturing this capability.

Integrating the economic and trade response

“To diversify the UKs supply in critical goods, such as medical equipment and rare earth elements, through trade partnerships and international collaboration” (IR, p. 53)

“We will use our sanctions regimes as part of an integrated approach to promote our values and interests and to combat state threats, terrorism, cyber-attacks, and the use and proliferation of chemical weapons.” (IR, p. 16)

17. Decoupling between China and the West is real but will nevertheless remain a relative concept. There is a case for accelerating the development of new alternative supply chains, for example in semiconductors and lithium, which could make a material difference but would still not enable anything like a complete decoupling from China.
18. The West, including the UK, depend on supply chains involving China across practically every sector except largely defence, as the recent shortages as a result of China's zero COVID policy have shown. We should not forget that, despite domestic growth, China depends economically on the West too. Significant British infrastructure projects depend on Chinese investment. China's size and the scale of its industrialisation means that climate change objectives cannot be met without fundamental engagement with China.
19. In addition, it is necessary to look more creatively at how economic decoupling works in practice. The UK's independent sanctions regimes have been a significant feature of post-Brexit foreign policy and are based on the now well-established evolution of “smart sanctions” in which the UK has played a leading role. It is also worth observing that, in the case of the Russian invasion of Ukraine, British and other Western companies have in many notable cases acted to disengage from Russia ahead of the formal imposition of sanctions. Nevertheless, it should be

acknowledged that in the short- to medium- term at least, sanctions imposed on Russia have had unforeseen second-order effects, from inflation to the implications of excluding Russia from SWIFT, and have often been counterproductive. In anything but the longer term, sanctions often make it easier for the target regime to strengthen its control of the economy and its domestic position. We hope that the Committee will in slower time consider the value of a further investigation of the benefits and costs of reaching for the sanctions lever in future conflict situations, while not seeking to undermine the coherence of the UK's current robust sanctions regime against Russia.

20. We would suggest that the response to China confirms a general sense that the section on trade in the Integrated Review needs to be strengthened and connected more deeply with the security sections: while prosperity is an important part of security, the implications for both sides of the weaponization of trade needs to be brought out more explicitly.

Belt and Road, Development aid and Africa

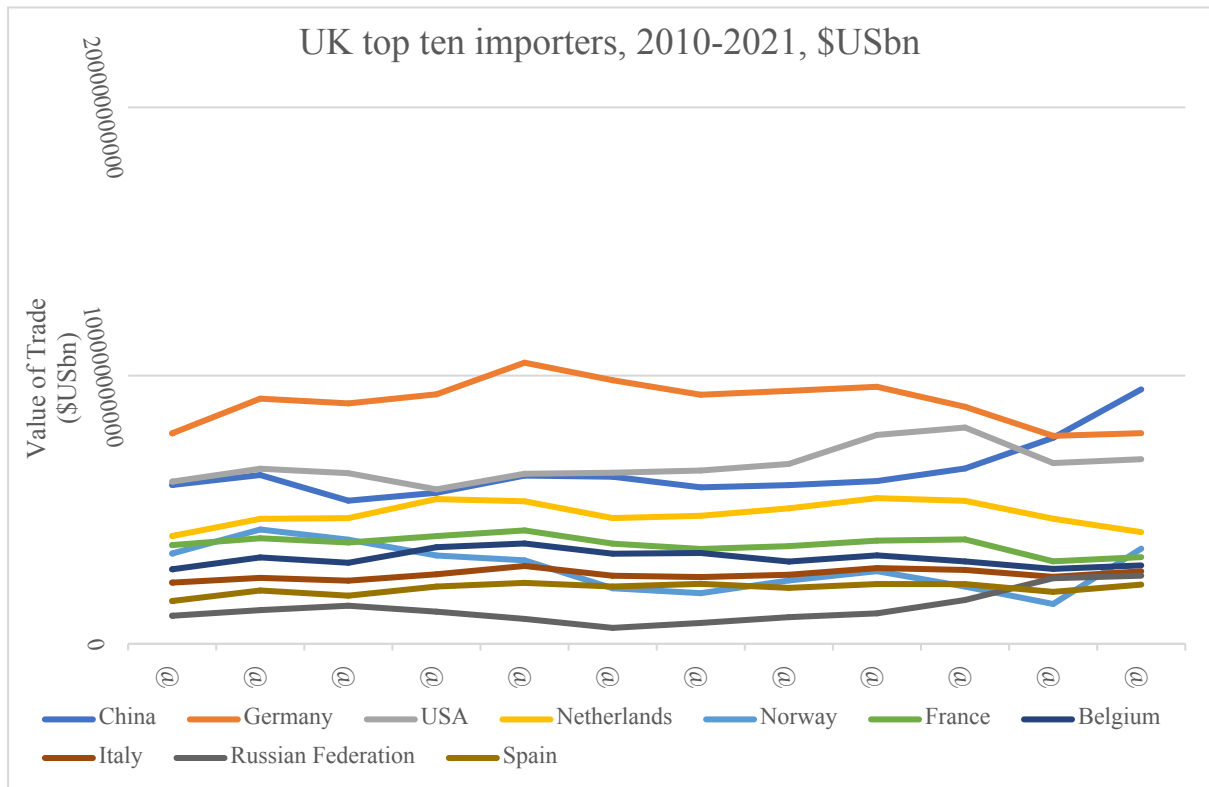
21. China continues to pursue its influence overseas, particularly in the developing world but not only through Belt and Road. Western trade interests in Africa have been declining since 2016 but China's role has grown. Though there has been some resistance to the resulting build up of debt, Chinese investments remain powerful. We believe that overseas development can therefore be an important part of the overall national security strategy, while simultaneously fulfilling its core humanitarian and poverty reduction objectives. At the same time, the transparent involvement of public, private and third sector actors in development projects sends a powerful message about the effectiveness of a liberal political and economic regime.

Broadening national support for our China policy

22. Public support for strong action against Russia in the light of its invasion of Ukraine has so far held up well, though it will be important to continue to review this as the economic effects in terms of inflation and energy shortages persist and where much public messaging seeks to lay domestic economic challenges largely at the door of Russia and our response to the invasion. Public support is based on several considerations, eg the proximity of Ukraine and cultural connections, which could not be expected to operate in the same way in the case of Chinese aggression directed against Taiwan, so again nuanced quantitative and qualitative opinion monitoring will continue to be of importance. This will allow us to test the effectiveness of communicating an integrated foreign policy approach including national security, diplomacy, trade, development assistance and soft power. We will be publishing updated survey work in this area in the coming period.

Annexe: Trade Dynamics

China overtook Germany as the largest importer into the UK by value in 2021

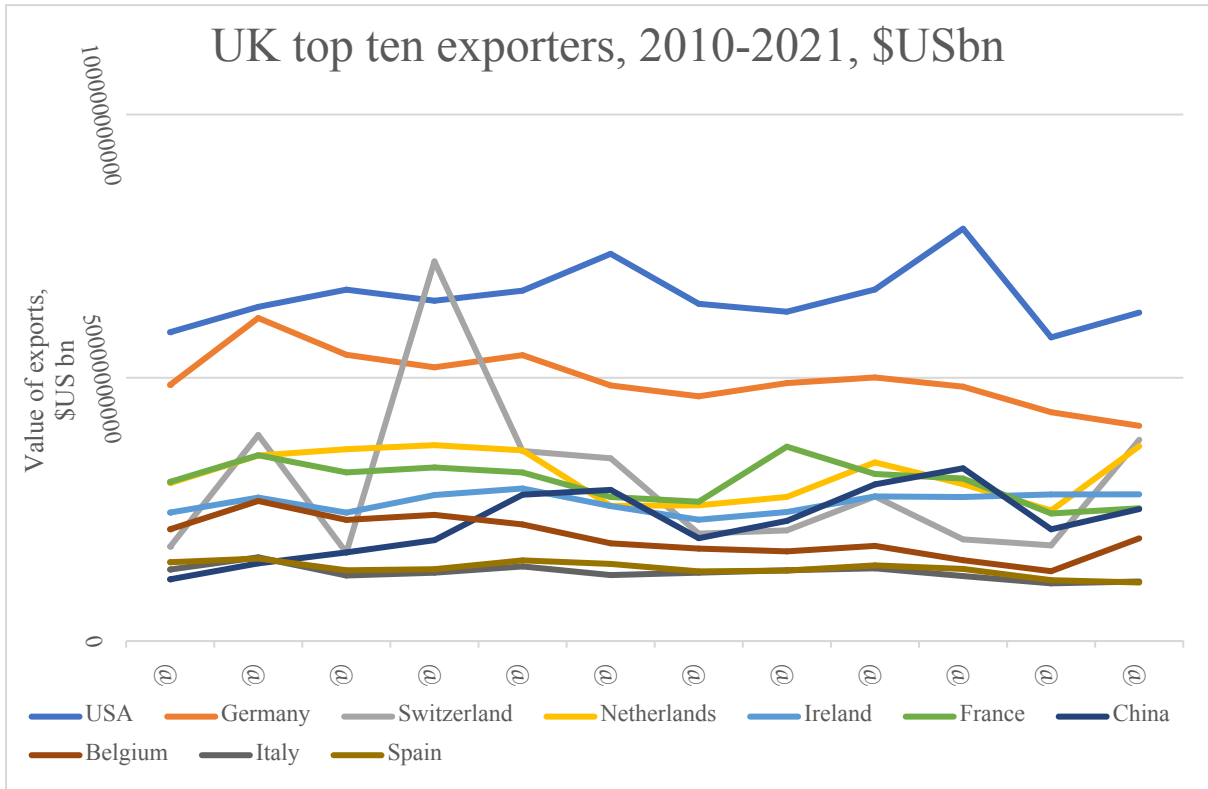


Source: Coriolis Technologies, UN Comtrade

- Imports by value from China have grown at an annualised rate of 10.2% since 2016. Value of Chinese imports in 2021 was \$US 94.9bn.
- Imports by value on average have grown at an annualised rate of 1.4% since 2016
- Germany, the Netherlands and France are the UK's largest importers from the EU. The value of imports has fallen at an annualised rate of 3.29% (Germany), 2.7% (Netherlands) and 1.8% (France) since 2016.

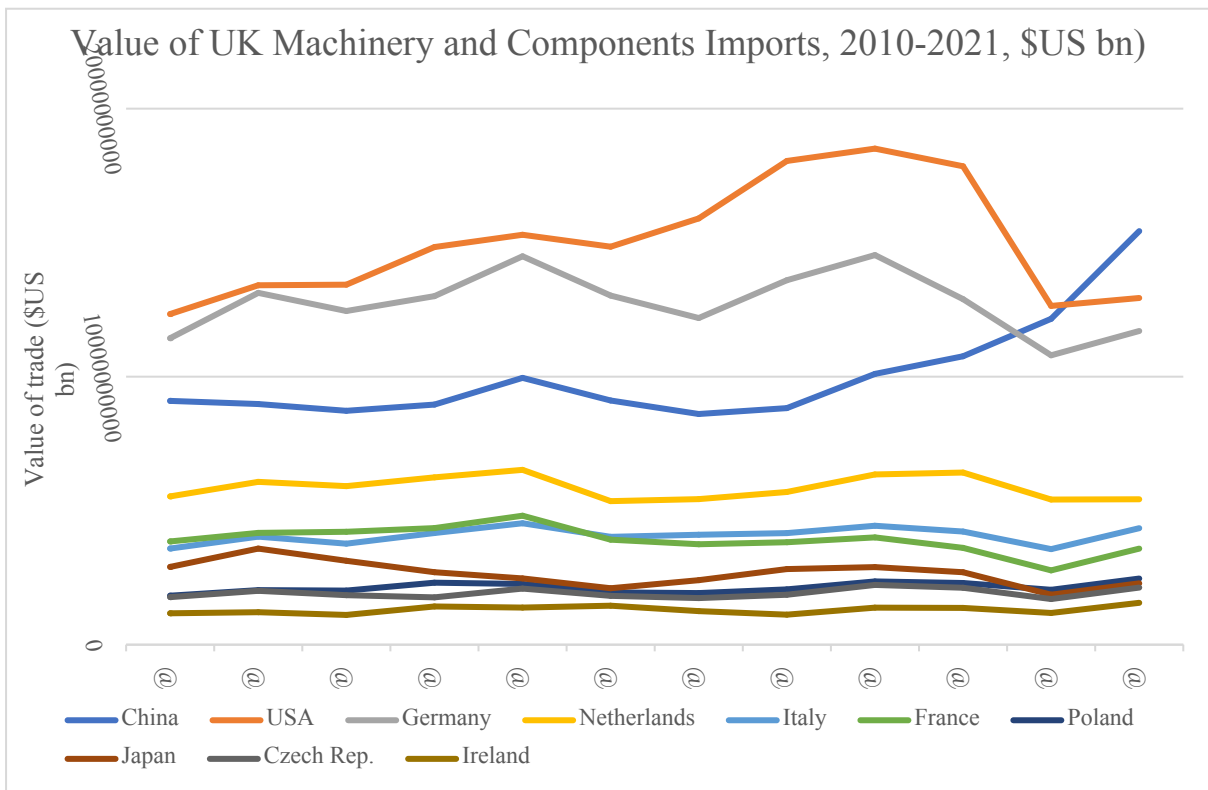
China is not a top export destination for the UK

- China was the UK's 7th largest export destination in \$US value terms by 2021 (£25.1bn)
- Export values to China have fallen at an annualised rate of 0.5% since 2016
- Export values to Germany have fallen at an annualised rate of 2.53% and to France by 1.0% but have increased by nearly 7.5% to the Netherlands, 3.9% to Ireland



Source: Coriolis Technologies, UN Comtrade

The UK's largest import sector is machinery and components – China is the largest importer but this conceals a lot of detail



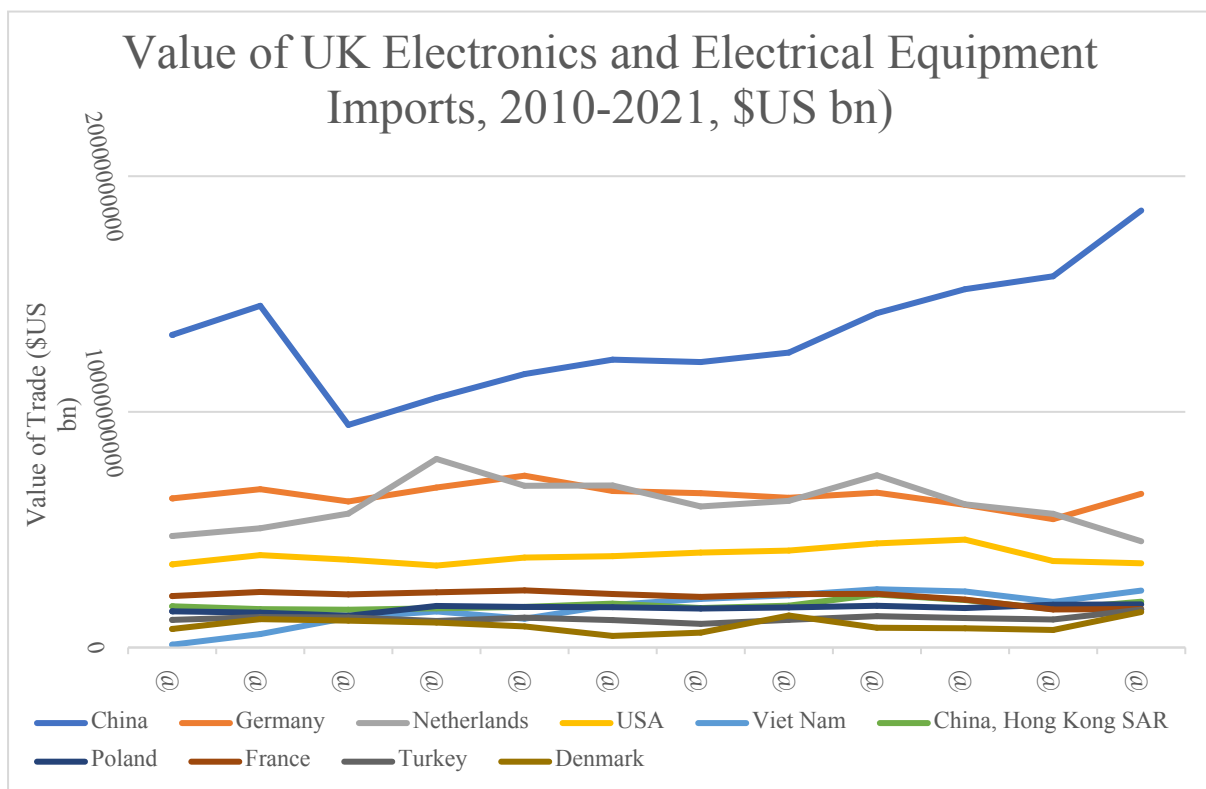
Source: Coriolis Technologies, UN Comtrade

- Machinery and components include computing and digital
- Imports from China have increased since 2016 at an annualised rate in value terms of over 12% per year.
- Imports from the US, Germany and the Netherlands have all declined over the same period by 4%, 0.8% and 0.01% respectively.

Crucial is dependency on China for imported supplies of computing and digital equipment

- The UK has a trade deficit of \$US 12.45bn in data and digital processing equipment
- Our trade deficit with China in data and digital processing equipment is over 2/3rds of this at \$US 8.4bn
- In other words, our IT infrastructure has a high dependency on Chinese hardware imports

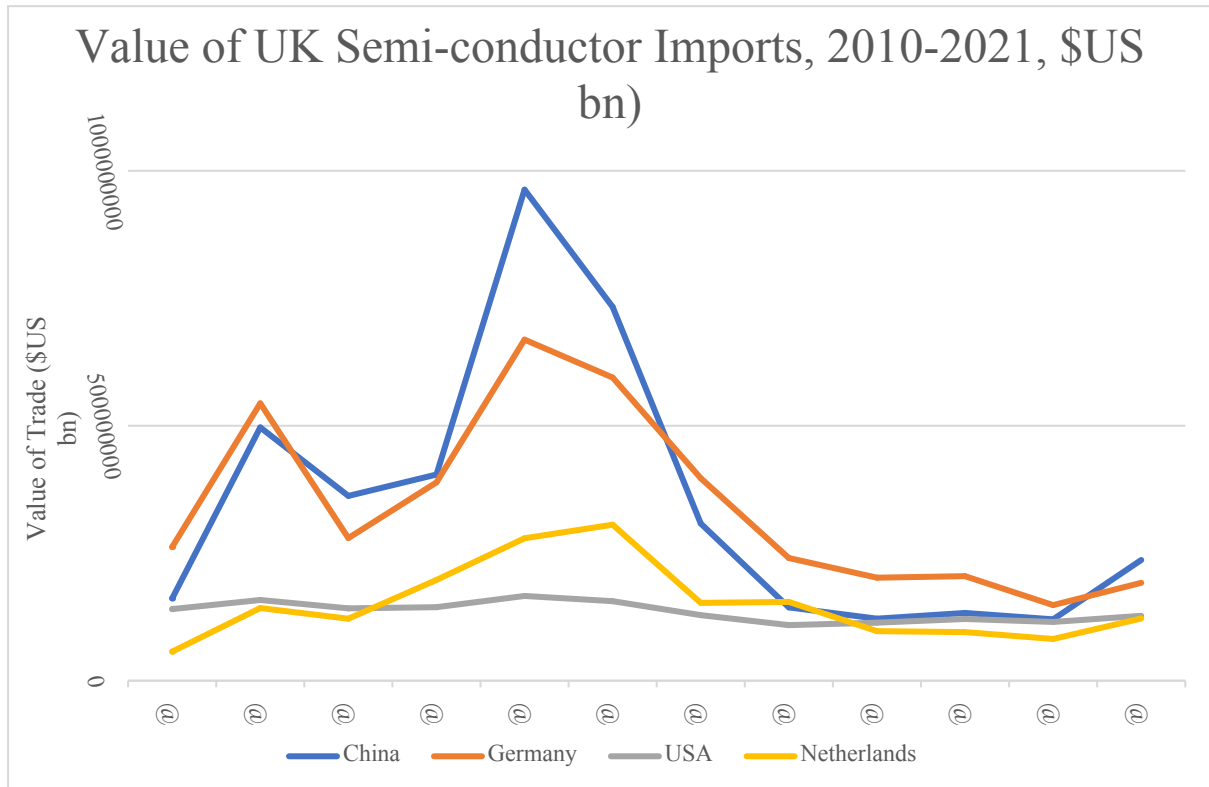
China is our major supplier of Information and Communications equipment



Source: Coriolis Technologies, UN Comtrade

- Imports from China of electronics were worth \$18.5bn in 2021 compared to a value of \$14.6bn for Germany, the Netherlands and the USA combined.
- Imports from China have grown at an annualised rate of 8.9% since 2016 but have fallen for Germany by -0.08%, the Netherlands by 5.5% and the USA 2.4%.
- This means that our communications and media infrastructure is dominated and dependent on imports from China.

In particular, semiconductor trade shows the influence of China on supply chain shortages in this sector



Source: Coriolis Technologies, UN Comtrade

- Over the period since 2016, imports of semi-conductors generally have fallen in value terms.
- Imports from China have slowed by 5.1% on an annualised basis over that period while imports from Germany have fallen by 13.5%.
- It is clear from the graph above that the drop in semi-conductor imports from China started in 2014. As China and Taiwan are not distinguished in UN trade figures, it is difficult to discern a Taiwan effect.
- China is the largest importer of photovoltaic cells/semi-conductors into the UK