CALL FOR EVIDENCE: CHINA AND THE UK ECONOMY

A Submission by Sam Olsen (Chief Analyst) and Stewart Paterson (Senior Geoeconomics Advisor), of Sibylline

Key Judgements

- The UK–China economic relationship is widely overstated as an opportunity; in practice, the economic "prize" is limited, concentrated, and structurally constrained.
- UK exposure to China is driven less by trade or investment volumes than by dependence on supply chains increasingly shaped by Chinese industrial policy.
- China's economic model – which is state-directed, supply-side, and scale-driven - operates on fundamentally different principles from the UK's market-based system, creating a persistent structural asymmetry.
- Chinese industrial dominance is not confined to manufacturing output, but extends to upstream control of critical supply chains, particularly in refining, processing, and key industrial inputs.
- This control creates a form of economic leverage that can be exercised indirectly - through availability, pricing, and regulatory constraint - rather than overt trade measures.
- Dependencies in critical minerals, advanced manufacturing inputs, and defence-relevant supply chains create real and growing vulnerabilities for the UK's economic security.
- The UK's strategic priority should therefore shift from expanding engagement with China to reducing exposure and building resilience through closer alignment with trusted allies and industrial partners.

Introduction

This submission argues that the UK–China economic relationship is widely misunderstood. While often framed in terms of opportunity, it is defined less by mutual gain than by asymmetry, concentration, and systemic dependence. The UK's exposure to China is shaped not primarily by trade or investment, but by its position within global supply chains increasingly influenced by Chinese industrial policy (IEA, 2023; OECD, 2023).

The economic "prize" is therefore more limited than assumed, while the risks - particularly those linked to supply-chain control - are more significant and harder to manage. This submission focuses on three issues: the limits of economic opportunity, the structural nature of Chinese industrial dominance, and the implications for UK economic security.

1. The Limits of the Economic "Prize"

The UK–China economic relationship is often framed in terms of opportunity. China is the world's second-largest economy, and it is widely assumed that deeper engagement offers substantial commercial upside for British firms. This assumption is overstated. The scale of China's economy does not, in itself, translate into accessible demand for UK goods and services.

The relationship is better understood across three dimensions: trade, investment, and supply chains. Trade is the most visible, but not the most strategically significant. Investment is often presented as beneficial, but its scale and structure are frequently misunderstood. The decisive factor lies in supply chains, where control over upstream inputs creates systemic leverage. Much of the debate on "engagement" focuses on trade and investment while underestimating supply chains, which increasingly shape both economic outcomes and national security risks.

This is not a new analytical error. In the nineteenth century, it was often suggested that if "every Chinaman added an inch to his shirt," the mills of Lancashire would prosper indefinitely. The premise that a vast population guarantees vast demand proved false. Market size did not translate into meaningful demand for British exports then, and there is little reason to assume it does now. What matters is not size, but structure: what China produces, what it imports, and how it allocates demand.

1.1 Trade: structurally limited

In the four quarters to Q3 2025, UK exports to China totalled approximately £29.4 billion, compared with £72.9 billion in imports (ONS, 2025a). Exports are concentrated in a narrow set of high-value goods, including cars and pharmaceuticals, reflecting niche strengths rather than broad competitiveness.

This reflects a structural constraint. China's import profile is selective and strategically shaped. It imports energy, raw materials, and certain high-value goods, but its industrial strategy is designed to minimise reliance on foreign manufactured imports. The scope for expanding UK goods exports is therefore inherently limited.

1.2 Services: concentrated exposure, not broad opportunity

The strongest case for engagement lies in services, where the UK has a comparative advantage. However, the opportunity is narrower and more uneven than often assumed.

China accounts for around £1.3 billion of UK financial services exports (approximately 1.3% of the total) and roughly £1.7 billion in other business services (less than 1% of the UK total), indicating limited exposure in core UK strengths (ONS, 2025b).

Where exposure does exist, it is highly concentrated. The UK hosts approximately 143,000 Chinese students out of around 685,000 international students (around 21%), accounting for close to one-quarter of new study visas (HESA, 2024; HM Government, 2025). In tourism, Chinese visitors numbered approximately 270,000 out of around 38 million total inbound visits (less than 1% of arrivals), yet generated around £6–7 billion in travel exports, equivalent to roughly 10% of travel export revenue (ONS, 2025b; ONS, 2025c).

This produces a relationship in which economic value is concentrated in sectors directly influenced by Chinese state policy, turning commercial engagement into a potential channel for coercion.

1.3 Investment: limited upside, asymmetric risk

Chinese investment in the UK is economically marginal. It accounts for well under 1% of total UK inward FDI stock, compared with roughly 25–30% from the United States, 10–15% from the Netherlands, and 3–8% from major European and Japanese partners. Chinese-owned firms employ approximately 57,000 people in the UK - a small fraction relative to allied investment (ONS, 2024).

More importantly, investment flows are asymmetric. UK firms face structural barriers in China, while Chinese investment in the UK can provide access to sensitive sectors, technologies, and data-rich systems. There is also an opportunity cost: capital directed toward Chinese firms can displace investment in domestic or allied capabilities, slowing the development of more resilient industrial ecosystems.

1.4 The Reality of the UK–China Economic Relationship

The UK–China economic relationship is not defined by broad mutual benefit, but by a narrow set of opportunities alongside concentrated vulnerabilities. Trade is structurally constrained, services exposure is uneven and politically sensitive, and investment flows are limited in scale but asymmetric in risk.

The assumption that China's scale represents a major economic opportunity is therefore misleading. The relevant question is not how large China's economy is, but how its structure shapes the distribution of benefits and risks. On that basis, the economic "prize" is both smaller and more fragile than commonly assumed - and must be understood within a system in which supply chains, rather than trade alone, determine economic power.

2. China's Industrial and Supply Chain Dominance

The limited economic upside identified in Section 1 is not accidental. It reflects a structural reality: the UK and China operate under fundamentally different economic systems. Britain's consumer-oriented, market-driven economy competes with a state-directed Chinese system designed to maximise industrial capacity, technological scale, and supply-chain control (OECD, 2023; IEA, 2023). This asymmetry shapes both trade patterns and competitive outcomes.

2.1 Industrial scale and systemic advantage

China's industrial scale is without precedent. It accounts for roughly **30% of global manufacturing output**, compared with approximately **2% for the UK**, and is the world's largest manufacturing economy by a substantial margin (World Bank, 2024; UNIDO, 2022). This reflects sustained policy choices that prioritise production, capacity expansion, and industrial self-sufficiency.

Large industrial clusters generate dense supplier ecosystems, lowering costs, accelerating innovation, and enabling rapid movement down learning curves. These dynamics reinforce themselves: scale drives competitiveness, which in turn supports further scale. The result is a system capable of competing across multiple sectors simultaneously.

2.2 A non-level playing field

These outcomes do not arise from neutral market competition. China's model integrates state policy, finance, and industrial strategy in ways that differ fundamentally from WTO-based economies.

Firms benefit from policy-enabled access to capital, including state-backed investment funds and a financial system that directs resources into strategic sectors. OECD analysis indicates that Chinese firms receive significantly higher subsidies relative to revenue than firms in most OECD economies (OECD, 2023). Energy pricing, regulatory standards, and industrial policy are similarly aligned to support production, often at the expense of profitability or consumer welfare.

The role of state-owned enterprises and the absence of consistent competitive neutrality further distort outcomes. These features allow firms to sustain capacity and pricing strategies that would be difficult under market constraints.

This reflects a deeper divergence. The UK economy is organised around market allocation and capital efficiency, while China's is organised around production capacity and strategic direction. In direct competition, a system willing to sustain excess capacity and deploy subsidised capital will tend to outcompete one constrained by market returns. The result is not simply competition, but structural displacement over time.

2.3 Overcapacity and global competition

A central feature of this system is persistent industrial overcapacity. Chinese firms can expand production beyond domestic demand, exporting surplus output into global markets. This is evident in sectors such as:

- **Steel**, where China accounts for over **50% of global production** (World Steel Association, 2024)
- **Solar panels**, where China holds around **80% of global manufacturing capacity** (IEA, 2022)
- **Electric vehicle batteries**, where China accounts for over **70% of global capacity** (IEA, 2024)

The effects extend beyond the UK. Overcapacity depresses global prices, undercutting producers in third markets and intensifying competition across multiple jurisdictions. In an open economy such as the UK, this creates sustained exposure to price-based competition that domestic firms struggle to match.

Recent trade defence measures - including countervailing duties on Chinese electric vehicles - reflect growing recognition that competition is shaped by structural distortions rather than comparative advantage alone.

2.4 From industrial dominance to supply-chain control

Industrial scale alone does not fully explain China's position. Its advantage is reinforced by control over upstream supply chains, particularly in the processing and refining of key industrial inputs.

China is the leading refiner for **19 of the 20 strategic minerals** tracked by the International Energy Agency, with an average global refining share of around **70%**. In key areas, this dominance is even greater: approximately **85–90% of rare earth processing**, **around 60% of lithium refining**, **around 70% of cobalt refining**, and close to **90% of battery-grade graphite production** (IEA, 2023; USGS, 2024).

This integration allows China not only to manufacture at scale, but to shape the availability, cost, and timing of critical components globally.

The result is a form of economic power that extends beyond trade or investment. Supply-chain control creates leverage exercised indirectly - through pricing, availability, and regulatory constraint - rather than overt restrictions. As a result, it is harder to detect, attribute, and counter.

This position is deliberate. Chinese industrial policy has systematically targeted upstream nodes of global supply chains - particularly refining, processing, and chemical precursors - where relatively small interventions generate disproportionate downstream effects (OECD, 2023; IEA, 2023). Rather than focusing on final goods,

China has prioritised the stages between raw material extraction and end-use manufacturing.

These include the refining of critical minerals, the processing of rare earths into usable components, and the production of chemical precursors essential to pharmaceuticals, batteries, and advanced materials (IEA, 2023). Control at these points allows China not merely to compete within supply chains, but to shape them - determining not only what is produced, but whether production can occur at all.

2.5 The Strategic Consequences of System Competition

The UK is therefore not competing with China on a level playing field, but with a system that integrates state power, industrial policy, and supply-chain control to achieve strategic outcomes.

This has two implications. First, the limited trade and investment opportunities identified in Section 1 are structural features of China's economic model. Second, the risks faced by the UK are best understood not through trade balances alone, but through exposure to a system designed to dominate production and control key supply chains.

These dynamics are most visible in upstream industries and critical inputs, where China's position creates dependencies with direct implications for economic security. It is to these vulnerabilities that the analysis now turns.

3. Supply Chain Dominance, Coercion Risk, and Policy Response

The central vulnerability in the UK–China economic relationship lies not in trade balances or investment flows, but in supply chains. As Section 2 shows, China's industrial strategy is designed not only to maximise production, but to control the upstream inputs on which that production depends (IEA, 2023; OECD, 2023). This creates a form of economic leverage that is less visible than trade dependency, but more consequential.

3.1 Supply chains as the primary channel of vulnerability

A narrow focus on trade statistics understates UK exposure. Even where imports appear diversified, supply chains are often embedded within Chinese production

systems (IEA, 2023). Components, intermediate goods, and materials frequently pass through Chinese industrial networks before reaching final markets. Disruption at upstream stages can therefore cascade across multiple sectors simultaneously.

UK economic resilience is thus shaped less by direct trading partners than by control over underlying supply chains. On this measure, dependence on China is both significant and systemic.

These dependencies are concentrated not in final goods, but in upstream processing - particularly refining, materials processing, and chemical precursors - where China has built dominant positions.

3.2 Critical minerals and upstream control

The UK's vulnerability arises not from trade volumes alone, but from its position within supply chains shaped by Chinese control of upstream inputs. Even where imports appear diversified, many critical components and materials pass through Chinese processing systems before reaching final markets. China dominates the processing stages of many critical minerals used in these supply chains, reinforcing its influence over their availability and cost (IEA, 2023).This creates indirect dependence. Disruption does not require the interruption of final goods trade; constraints at earlier stages of production can propagate across multiple sectors simultaneously.

This is particularly significant in areas such as advanced manufacturing, energy systems, and defence, where production depends on inputs that are difficult to substitute in the short term. In these sectors, the issue is not simply reliance on Chinese suppliers, but reliance on supply chains in which China occupies critical processing and refining stages.

As a result, the UK is exposed to supply-chain disruption in ways that are not immediately visible in trade statistics. Dependence is embedded upstream, making it more systemic and more difficult to mitigate (IEA, 2023).

3.3 Defence supply chains and rare-earth dependence

The implications are particularly acute in defence. Rare earth elements-and the permanent magnets derived from them-are essential to modern weapons systems, including fighter aircraft, missile guidance, radar, drones, and naval propulsion.

Rare earths are used in over **1,000 military systems**, and a single **F-35 fighter aircraft contains approximately 400 kilograms** of such materials (US Department of Defense, 2022). While China produces roughly two-thirds of global rare-earth supply (USGS, 2024), it dominates downstream processing and magnet manufacturing - the key industrial bottlenecks.

Recent export controls on materials such as **gallium, germanium, graphite, and antimony** - used in semiconductors, defence electronics, and battery technologies -

demonstrate how this position can be operationalised (USGS, 2024; IEA, 2023). These measures typically operate through licensing regimes rather than outright bans, enabling targeted and calibrated restriction of supply.

Industry reporting suggests these constraints have already tightened availability in Western supply chains, including those linked to defence production. Supply-chain control can therefore translate directly into limits on industrial capacity and military capability, even without formal trade disruption.

3.4 Coercion in practice

China has demonstrated a willingness to use supply chains as a tool of statecraft. The restriction of rare-earth exports to Japan in 2010 during a diplomatic dispute provided a clear example of how control over critical inputs can exert pressure (USGS, 2024).

More recent export controls reinforce this pattern. By targeting specific materials and processing stages, China can generate downstream disruption without broad trade measures. This form of leverage is both scalable and deniable: relatively small interventions can produce outsized effects across complex supply chains.

3.5 Implications for UK economic security

These dynamics indicate that China's position in global supply chains provides a practical mechanism for economic coercion (IEA, 2023; OECD, 2023). The risk is not hypothetical - it is embedded in the structure of the global economy and increasingly visible in tightening supply conditions.

This has direct implications for UK strategy. Both rearmament and the energy transition depend on reliable access to precisely those materials and components in which China holds dominant positions. Without diversification, these dependencies will persist and likely deepen.

3.6 Policy response: resilience, diversification, and strategic alignment

Addressing these vulnerabilities requires a shift from trade flows to supply-chain resilience - and from passive diversification to active strategic alignment.

In the short term, the UK should prioritise mapping critical dependencies across defence, energy, electronics, and telecommunications, including upstream supply chains. Targeted stockpiling of high-risk materials should also be considered.

In the medium term, the UK should deepen economic integration with a core group of trusted industrial partners, particularly **Japan, South Korea, Canada, and Australia**, alongside key European economies such as **Germany, the Netherlands, Norway, and**

Sweden. These countries combine industrial capability with political alignment and established regulatory frameworks. Japan and South Korea offer strengths in advanced manufacturing and materials processing; Canada, Australia, and Norway provide critical raw materials and energy inputs; while Germany, the Netherlands, and Sweden contribute scale in advanced manufacturing, semiconductors, and emerging industrial ecosystems. Collectively, these partnerships offer a more balanced and resilient foundation for UK economic security than deeper integration with a system designed to generate dependency.

In the longer term, the UK should build resilience through domestic capability, allied coordination, and selective industrial policy. This includes expanding recycling capacity, investing in critical processing, and developing areas of technological specialisation where the UK can become indispensable within allied supply chains.

Full self-sufficiency is neither feasible nor necessary. However, reducing dependence on single points of failure - particularly those located within geopolitical competitors - is essential to maintaining economic security and strategic autonomy.

3.7 Economic Security Implications

The central economic-security challenge facing the UK is not how to expand engagement with China, but how to manage exposure to a system in which industrial policy, supply chains, and state power are tightly integrated.

Supply-chain dependence transforms economic interdependence into a channel for coercion (IEA, 2023). Managing this risk requires a coordinated approach that combines domestic capability, allied cooperation, and a stronger focus on resilience. Without such measures, the UK will remain exposed to economic leverage operating not at the level of trade flows, but at the level of the systems on which its economy depends.

Conclusion: China as Economic Exposure, Not Opportunity

The UK–China economic relationship should be understood not as a conventional trading partnership, but as an interaction between fundamentally different economic systems. The central challenge is not how to expand engagement, but how to manage exposure to a model that combines industrial scale with supply-chain control.

This requires a shift in policy, from maximising access to prioritising resilience, and from passive integration to active alignment with trusted partners. Without such a shift, the UK risks embedding dependencies that will constrain both its economic and strategic autonomy over time.

About The Authors

Sibylline is the world's leading private consultancy for geopolitical risk, intelligence, and strategic insight, dedicated to helping leaders and organisations anticipate change, manage risk, and build resilience.

Sam Olsen is Chief Analyst at Sibylline and a specialist in China–Western relations, geoeconomics, and global risk. With over 25 years' experience across government, think tanks, and the private sector, he focuses on the intersection of geopolitical strategy and economic systems, including supply chains and strategic competition.

He previously led the Adarga Research Institute and founded the Evenstar Institute. Earlier roles include Managing Director at Kroll and co-founder of Lamplight Analytics.

He has advised governments, national security agencies, and financial institutions, and has lectured at Cambridge, LSE, and Sandhurst. He is a graduate of Oxford and a former British Army intelligence officer.

Stewart Paterson is Senior Geoeconomics Advisor to Sibylline and Senior Research Fellow at the Hinrich Foundation. He is the author of *China, Trade and Power: Why the West's Economic Engagement Has Failed*.

With over 30 years' experience analysing the Chinese economy, including 18 years living in Asia, he has held senior roles in fund management and investment banking. His work focuses on trade, industrial policy, and strategic competition, with particular expertise in China's economic model and its implications for Western economies.

References

Department for Business and Trade (DBT) (2024) *Foreign direct investment: inward stock by country*. London: UK Government. Available at: https://www.gov.uk/government/statistics/foreign-direct-investment-involving-uk-companies (Accessed: 27 March 2026).

Higher Education Statistics Agency (HESA) (2024) *Higher education student statistics: UK, 2022/23*. Cheltenham: HESA. Available at: https://www.hesa.ac.uk/data-and-analysis/students (Accessed: 27 March 2026).

HM Government (2025) *Immigration system statistics: student visas*. London: Home Office. Available at: https://www.gov.uk/government/collections/immigration-statistics-quarterly-release (Accessed: 27 March 2026).

International Energy Agency (IEA) (2023) *Global Critical Minerals Outlook 2023*. Paris: IEA. Available at: https://www.iea.org/reports/global-critical-minerals-outlook-2023 (Accessed: 27 March 2026).

International Energy Agency (IEA) (2022) *Solar PV Global Supply Chains*. Paris: IEA. Available at: https://www.iea.org/reports/solar-pv-global-supply-chains (Accessed: 27 March 2026).

International Energy Agency (IEA) (2024) *Global EV Outlook 2024*. Paris: IEA. Available at: https://www.iea.org/reports/global-ev-outlook-2024 (Accessed: 27 March 2026).

Office for National Statistics (ONS) (2025a) *UK trade in goods and services by country: Quarter 3 2025*. London: ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports (Accessed: 27 March 2026).

Office for National Statistics (ONS) (2025b) *UK trade in services by partner country*. London: ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/tradeinservicescountrybytypeofservice (Accessed: 27 March 2026).

Office for National Statistics (ONS) (2025c) *Overseas travel and tourism*. London: ONS. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism (Accessed: 27 March 2026).

Office for National Statistics (ONS) (2024) *Foreign direct investment involving UK companies*. London: ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/foreigndirectinvestmentinvolvingukcompanies (Accessed: 27 March 2026).

Organisation for Economic Co-operation and Development (OECD) (2023) *Measuring distortions in international markets: the role of subsidies*. Paris: OECD. Available at: https://www.oecd.org/trade/topics/trade-distortions/ (Accessed: 27 March 2026).

United Nations Industrial Development Organization (UNIDO) (2022) *Industrial Development Report 2022*. Vienna: UNIDO. Available at: https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series (Accessed: 27 March 2026).

United States Geological Survey (USGS) (2024) *Mineral commodity summaries 2024*. Reston, VA: USGS. Available at: https://www.usgs.gov/centers/national-minerals-information-center/mineral-commodity-summaries (Accessed: 27 March 2026).

US Department of Defense (2022) *Strategic and critical materials report to Congress*. Washington, DC: DoD. Available at: https://www.defense.gov/News/Reports/ (Accessed: 27 March 2026).

World Bank (2024) *World Development Indicators*. Washington, DC: World Bank. Available at: https://data.worldbank.org (Accessed: 27 March 2026).

World Steel Association (2024) *World Steel in Figures 2024*. Brussels: World Steel Association. Available at: https://worldsteel.org/publications/bookshop/world-steel-in-figures/ (Accessed: 27 March 2026).

March 2026