

Written evidence submitted by Martin E. Thorley (BFA0029)

Martin E. Thorley currently holds the position of Postdoctoral Research Fellow at the College of Social Sciences and International Studies, University of Exeter. His PhD thesis explored elite-level relations between the United Kingdom (UK) and the People's Republic of China (PRC) 2010-2019. The PhD viva voce will take place in early 2021. Previously he lived and worked in the PRC for just under eight years and has, since his return to the UK, assisted various departments of government and private organisations in matters relating to Sino-British relations.

SUMMARY:

The FCDO assessment procedure that considers whether a potentially hostile party is seeking to secure significant influence or control over a UK company must avoid two significant pitfalls to remain effective.

- My own research demonstrates the myriad ways that commercial entities exert influence over UK government policy (including policy relating to critical national infrastructure). This includes channels such as political donations, funding of All Party Parliamentary Groups (APPGs), "revolving door" positions (movement of politicians and civil servants between public and private sector), and various channels where advice is offered by commercially focused entities (for example ministerial meetings, secondments, and evidence to Committee inquiries). Commercial considerations are, of course, of significant importance but my own research highlights various instances in the 2010s where they crowded out more traditional concerns of the state, such as security and sovereignty. Awareness of this failing must be present when considering the FCDO assessment process that this inquiry will examine.
- A further danger that the Committee should consider is that of over-projection of liberal democratic norms onto the assessment process where entities from overseas are considered. In my own research, for example, I argue that given the Chinese Communist Party's (CCP) "rule *by* law" (rather than "rule *of* law") governance within the PRC, PRC organisations (including companies) form part of a "latent network". Though many have a degree of autonomy in day-to-day affairs, they remain within the gravity of the CCP's influence and on matters the CCP considers important, they are subject to its will, either by legal means or otherwise. Obviously, this set of circumstances changes the calculus when considering factors relevant to the inquiry, such as "material ownership", for example.

DETAIL:

1. I have received an invitation from the Committee Specialist to contribute written evidence to this inquiry. Thank you for this opportunity. I will attempt to keep my submission as brief as possible, discussing only areas I deem my research and experience relevant. I believe this submission is of most relevance to points two and three in the original call for evidence. My own background is in international engagement with the Chinese party-state and this experience informs the evidence I submit.
2. My research demonstrates the extent to which government policymaking with regard to China in the 2010s was compromised by commercial and financial interests over other more

traditional duties of the state. With this in mind, the first of my two concerns is the objectivity and independence of the FCDO process in question. This may appear to be a minor problem but the phenomenon of financialisation and capitalisation influencing government policy in related areas is considerable. I refer here to my own research on PRC involvement in the UK's civil nuclear energy sector. Although this is not directly a case of a foreign group taking over a British company, it evidences the same metrics that will be in play in the case of the FCDO process in question.

3. In discussing PRC involvement in the UK's civil nuclear energy sector, I refer primarily to PRC involvement in the projects at Hinkley, Sizewell, and particularly Bradwell, where an agreement was reached that China General Nuclear (CGN) would take operational lead and instal its own reactor, the Hualong One. To put it as concisely as possible, this decision by the UK government, which was against the wishes of many of the country's security experts at the time and looks an even more troubling decision today, was made not simply because of PRC lobbying. It was also facilitated by the presence of commercially focused groups and individuals within the UK government decision-making process that had some links, or even dependence, on the PRC (in the form of the importance of continued PRC market access, for example). There is no great conspiracy, rather, UK security was not a concern to such commercially focused groups but their combined (most probably uncoordinated) effort, in light of a willing Treasury, garnered enough momentum to overpower security concerns. I include examples below to demonstrate how the cumulative effect influenced government policy. Though listing examples in this way adds to the length of this submission, it is important that Committee members understand the degree to which this issue permeates political debate and policy direction in the UK. I would argue this should be a concern to the Committee in terms of how to ensure the FCDO process in question doesn't become compromised.
 - a. The Office for Nuclear Development (OND) operated inside the government's Department of Energy and Climate Change. The OND was later criticised for operating within government as a "promoter of nuclear power", failing in its duty to provide impartial adviceⁱ.
 - b. The OND's "expert chair" was Tim Stone. Stone was a strong advocate of nuclear energy in government and worked for the UK government at the same time as working for KPMG, a group that received £4,363,767 from the UK government for its advice on the Hinkley dealⁱⁱ. KPMG had been hired by China General Nuclear (CGN), the Chinese party-state firm that made up the Chinese side of the Sino-French bid to construct Hinkley. Stone would go on to work as the head of the nuclear trade body, the Nuclear Industry Association (NIA).
 - c. The OND itself was heavily lobbied by the leading financial group, Rothschild. Like KPMG, Rothschild also counted the Chinese nuclear group CGN as one of its clientsⁱⁱⁱ.
 - d. Opposition from Liberal Democrats (at the time part of the coalition government) was averted after support for the project from Ed Davey, then Energy Secretary. Davey pushed the deal both in Parliament and in public, telling the former that "people should not worry" about PRC involvement^{iv}. Davey went on to take a position with lobbying firm MHP Communications, long term advisors to EDF, the French side of the Sino-French bid for Hinkley.
 - e. Lazard, a financial advisory and asset management firm, earned £2.6 million from the Department for Business, Energy and Industrial Strategy (BEIS) of the UK

government for its advice on Hinkley^v. It was also an advisor to EDF and has generated extensive profits from cooperation with groups deeply embedded within the PRC party-state, not least China Development Bank, who funded CGN's Hinkley role.

- f. The All-Party Parliamentary Groups (APPGs) (relevant to PRC involvement in the UK's civil nuclear energy sector is relevant) all evidence similar linkages. In the case of the China APPG, the Nuclear Energy APPG, and the Energy Studies APPG, all three have received sponsorship from EDF – CGN's partner in Hinkley. In addition, members of the Energy Studies APPG were taken to China by CGN to visit their Taishan site at a cost of over £52,000 to the Chinese party-state energy group^{vi}. After the trip, the APPG's chair, Ian Liddell-Grainger, reported back to Parliament that PRC state group CGN was working "hand in hand with EDF to develop as a major nuclear player, as well as develop its own reactors, and we were taken to see the working EPR in Taishan. It is very good; it does the job that CGN set out for it to do"^{vii}. Liddell-Grainger had also led efforts in Parliament to push back against official UK intelligence advice that equipment made by ZTE, the Chinese Party-state "state-owned and privately run" technology group, was a national security risk.
4. I refer to the points above to demonstrate the scope of the problem but this is only a portion of the apparent conflicts of interest in the case of PRC involvement in the UK's civil nuclear energy sector. My research contains a more thorough account. Given the extent to which commercial considerations permeate governance, I would suggest that the Committee considers how to protect against such considerations influencing departments and individuals that will be involved in the FCDO process under discussion.
5. The second point I would like to raise in light of my own research is the manner in which the UK government assesses state-private linkages overseas. There is a risk of over-projection of liberal democratic values when assessing linkages in other territories. This point is central to the manner in which the FCDO will assess whether a company (or state) seeks to obtain control of, or influence over, a UK company.
6. Both my experiences on the ground in Beijing and my academic research since, have led me to frame PRC party-state control over Chinese entities (including private companies and major organisations) as a "latent network". I employed this term as I believe it neatly sums up the nature of power in the PRC for those attempting to understand this element of relationships between entities within the country. PRC institutions, though not necessarily controlled by the CCP directly in their day-to-day affairs, are dependent on CCP patronage and by extension, subject to CCP direction. This is especially true at critical junctures. There is a tendency for those from liberal democracies to examine the legal standing of PRC companies and organisations to ascertain the degree of influence the CCP possesses over the group in question. Whilst this information can be useful, one must understand that the PRC is a "rule *by* law" (rather than "rule *of* law") country, and the CCP is ultimately the law. Naturally, this changes the equation by which we consider the acquisition of a British company by a PRC entity.
7. The result of what is described above is a latent network where power does not need to be constantly and forcefully exerted. Rather, such organisations can lead themselves as long as they do not cross CCP red lines (which in itself leads to self-censorship). Often such groups

possess a degree of agency but they are steered in part or whole by the CCP when the CCP deems it necessary. For this reason, I would argue that one typically only learns of the extent of the CCP's reach into such organisations in extreme situations (by the CCP's definition). This state of affairs was clear when working closely with PRC companies, but for wider evidence, I would refer to examples such as a series of messages sent to Chinese entrepreneurs reminding them that "private companies have an important role to play in the CCP's 'United Front work'"^{viii}. In addition, there are multiple examples of the CCP reigning in private entities both large and small at will, perhaps most famously, the government seizure of Anbang Insurance Group in 2018. As was commented at the time, "the Chinese government doesn't want to have a company default on foreign debt and it also wants to teach a lesson to other Chinese businesspeople that the party is in charge"^{ix}. Such behaviour is in some respects a blind spot for those accustomed to liberal democratic values. I bring this phenomenon to the attention of Committee members to ensure it is a consideration when the FCDO assesses foreign ownership of UK companies.

ⁱ Thomas, S., 2016. The Hinkley Point decision: An analysis of the policy process. *Energy Policy*, 96, 421–431.

ⁱⁱ Rogers, C., 2016. Hinkley Point consultants cost government over £20m [online]. *BBC*. Available from: <https://www.bbc.co.uk/news/uk-england-somerset-38031448>.

ⁱⁱⁱ Thorley, M., 2019. The confused and uneven response to Chinese party-state influence: A symptom of corporate influence and capitalisation – Part Two: Practice. *Asia Dialogue*. Available from: <https://theasiadialogue.com/2019/12/19/the-confused-and-uneven-response-to-chinese-party-state-influence-a-symptom-of-corporate-influence-and-capitalisation-part-two-practice/>.

^{iv} Davey, E., 2013. UK Nuclear Energy Programme (Volume 569). *Hansard*. Available from: <https://theasiadialogue.com/2019/12/19/the-confused-and-uneven-response-to-chinese-party-state-influence-a-symptom-of-corporate-influence-and-capitalisation-part-two-practice/>.

^v Ralph, A., 2018. Advisers on Hinkley Point C nuclear power station had 'cosy' ties to both sides. *The Times*. Available from: <https://www.thetimes.co.uk/article/advisers-on-hinkley-point-c-nuclear-power-station-had-cosy-ties-to-both-sides-xftxcl9sz>.

^{vi} House of Commons, 2019. Register of All-Party Parliamentary Groups as at 2 January 2019: Nuclear Energy [online]. *Parliament.UK*. Available from: <https://publications.parliament.uk/pa/cm/cmllparty/190102/nuclear-energy.htm>.

^{vii} Liddell-Grainger, I., 2018. Hinkley Point. *Hansard*. Available from: <https://hansard.parliament.uk/Commons/2018-11-14/debates/91D198A9-A2FD-4919-A9B1-583A469662CF/HinkleyPoint?highlight=taishan#contribution-D41D9B83-53D9-4295-82C4-E0A5669F3C4E>.

^{viii} Mitchel, T. & Liu, X., 2020. Chinese Communist party asserts greater control over private enterprise. *Financial Times*. Available from: <https://www.ft.com/content/582411f6-fc3b-4e4d-9916-c30a29ad010e>.

^{ix} Kennedy, S., 2018. Cited in, Chinese government takes over troubled insurance giant Anbang. *The Guardian*. Available from: <https://www.theguardian.com/world/2018/feb/23/chinese-government-anbang-insurance-giant>.