

China-Britain Business Council – Written evidence (TRC0014)

House of Lords International Relations and Defence Committee The UK's security and trade relationship with China

Submission by the China-Britain Business Council – 24th March 2021

Since 1954, the China-Britain Business Council (CBBC) has acted as the independent voice of business, engaging across both the UK and China in every business sector and geographical region. Our diverse, 400+-strong, membership includes some of the UK's leading companies and universities, many of our most dynamic SMEs, and an increasing number of Chinese companies exporting to, and investing in, the UK.

CBBC was pleased to note that, in the recently published Integrated Review, the Government acknowledged the significance of trade to the UK economy and the benefits of the UK's economic ties with China in terms of growth and jobs, a point underlined by the Prime Minister in his statement to the House of Commons, where he emphasised the need to *"work with China where that is consistent with our values and interests, including in building a stronger and positive economic relationship and in addressing climate change"*.

We support the conclusion of the Integrated Review that the bilateral relationship requires a "robust diplomatic framework for this relationship that allows us to manage disagreements, defend our values and preserve space for cooperation where our interests align", but value the Government's stated aim that it will pursue "a positive trade and investment relationship with China", and its commitment to investing "in enhanced China-facing capabilities, through which [it] will develop a better understanding of China and its people".

General

How is the work of different Government departments on China co-ordinated? How effective is this co-ordination?

CBBC urges the UK Government to put in place a strategic framework, agreed across Whitehall, to promote and encourage engagement with China, bringing together relevant Government departments and multiplier organisations such as CBBC.

We believe that using lean and cost-effective organisations such as CBBC, which are run with commercial discipline, brings benefits to businesses, as well as to taxpayers. In addition, Government Departments such as the Department for International Trade (DIT) could improve how they work with organisations like CBBC by having a clearer delineation of responsibilities.

Moreover, however well DIT China is resourced in terms of the physical number of staff, skills are a fundamental issue – understanding how to operate in or break into less than familiar environments is key. This is where deep country-

specific knowledge and relationships, combined with stability of support, are essential, whether provided by staff in overseas Posts, DIT in the UK regions or long-term specialist organisations like CBBC.

In what ways has UK policy to China changed between the premierships of David Cameron, Theresa May and Boris Johnson? What were the drivers of these shifts (for example domestic opinion, the UK's relationships with international partners, or developments in China)?

The UK began the 2010s with an effort to improve ties with China, under the 'golden era' rubric. Several commentators now criticise this initiative, labelling it as 'kowtowing' to China.

Such criticism ignores the gains the UK has made from the rapid growth in our economic ties with China in recent years. It also ignores successful examples of the UK using its 'soft power' to influence China.

For example, the UK's prominent role has helped to ensure the AIIB's development as an institution with high corporate governance standards, and compliance with international investment norms -- in turn allaying fears that Beijing would use the bank primarily for its own political purposes.

This form of engagement should be a model for our use of soft power in relation to China: sharing our expertise in ways that demonstrate to Chinese institutions the benefits of compliance with international standards, while giving us influence over the actions of such institutions. Recent British Council polling showed that 81 per cent of Chinese surveyed had a favourable view of the UK.

Safeguarding the UK's national security is paramount; however, it should be acknowledged that the attraction of our universities and other educational institutions is another source of soft power for the UK in its relations with China. Attending courses in the UK offers Chinese students -- many of whom could ascend to leadership roles back at home -- an opportunity to become familiar with our country's values and political system.

There are legitimate national security concerns about our engagement with China, particularly in the realm of technology. We accept that, where necessary, safeguards should be applied to protect British interests -- as in the case of the mechanisms set up to review Huawei's involvement in UK telecoms infrastructure. It is important that, in as far as national security considerations allow, the detail and rationale for any such safeguards are explained openly and transparently.

Trade

How important is China as a current and future trade partner for the UK?

China's emergence as the world's second largest economy is arguably the most significant geopolitical development of the last four decades. The continuing rise of a country of 1.4 billion -- nearly one-fifth of all humanity -- offers major challenges and opportunities for the UK.

The UK's economic links with China are already highly significant:

- third-largest export market for goods;
- Trade and investment ties with China support up to 129,000 British jobs¹;
- Foreign students studying at our universities come from China than from any other nation.

Maintaining and expanding our economic ties is clearly in the UK's economic self-interest. No other major export market is growing as rapidly for the UK. We exported £25.8 billion worth of goods direct to China in 2019, up 38% year-on-year, and a rise of 240% since 2010². Our goods trade deficit with China has narrowed in recent years as our exports have grown faster than imports.

Our trade in services with China is smaller, but the UK has consistently run a surplus: In 2018, the latest year for which figures are available, it amounted to £2.8 billion³.

We are pleased to note that China's importance as a trade partner is recognised in the Integrated Review: "China will contribute more to global growth than any other country in the next decade with benefits to the global economy. China and the UK both benefit from bilateral trade and investment".

Which sectors are of most significance (such as financial services, higher education et cetera)?

China is already a key export market for major British companies, from GSK to Jaguar Land Rover, BP to Rio Tinto. British brands, such as Peppa Pig and Premier League, are well-known and well-regarded in China. Our cultural institutions such as the British Museum and the Royal Shakespeare Company have successfully toured China in recent years. China's middle-class continues to grow (over 50% of the population) and will, through their increased consumption and appetite for British brands, provide a growing customer base for what Britain has to offer.

A free trade agreement with China is an appropriate medium-term goal for the UK. In the meantime, we should look to secure sectoral agreements where possible.

China's economy, like that of all major countries, has suffered from the COVID-19 pandemic. Yet even if its annual growth rate were to slow to low single-digits in the near-term, the foregoing evidence demonstrates how vital a market it *already* is for the UK. The IMF predicts growth for China this year of 8.1%.

The UK should push for greater and easier access to China's vast markets. China's own objective is to open its economy further, particularly in areas of traditional British strength such as financial and other services.⁴ Beijing has

¹ http://www.cbbc.org/cbbc/media/cbbc_media/4.%20Files/2020-08-20_UK-China_Report_Phase-1_Revised.pdf

² <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/march2020>

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<https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservice/julytoseptember2019>

already eased access for foreign investors to its bond and equity markets, and allowed more western financial institutions to wholly own key operations inside China.

Our unrivalled education and tourism offer should continue to prove highly attractive to an ever-wealthier Chinese population. China's efforts to tackle its environmental problems and improve its healthcare system should also bring opportunities for UK businesses in sectors like green technology and medical devices. Cooperation will also allow the UK to share in the gains as China makes its own technological advances.

China's determination to advance its own technological and scientific capabilities will be a major factor in developing technologies such as artificial intelligence and batteries, and in industries from mobile payments to semiconductors and electric vehicles.

CBBC believes that increased investment in improving British understanding of China, particularly our Chinese language capabilities and knowledge of Chinese history and society⁵, is vital, and will allow us more insight into its approach to the relationship with the UK.

CBBC also supports regular engagement between senior UK politicians and officials and their Chinese counterparts.

⁴ <https://www.economist.com/finance-and-economics/2020/09/03/is-wall-street-winning-in-china>

⁵ <https://bfpg.co.uk/wp-content/uploads/2020/07/BFPG-Report-July-2020-FINAL-4.pdf>

How does UK trade with China compare to that of other comparable countries (such as France and Germany)?

In 2019, the UK exported goods worth over £30 billion to China, over £6 billion more than to nearby France. More important, UK goods exports to China have grown 17-fold since 2000, whereas exports to France and Germany increased by only 36% and 62% respectively in the same period.

Even during the pandemic, China has remained a reliable market for UK producers. Excluding crude oil and non-monetary gold, the UK's goods exports to China rose by 2.3% in 2020 compared with 2019, to a total of £12.9 billion. By contrast, comparable exports to France and Germany dropped by -24.6% and -11.2% respectively.

Between 2000 and 2019, the UK was also the most attractive destination for Chinese foreign direct investment in Europe. In this period, the UK received nearly £43 billion worth in Chinese FDI. By comparison, Germany, Europe's largest economy, received £19 billion, and France only £12 billion in Chinese investment.

Should the UK be seeking to increase trade with China? What considerations should underpin the Government's trade agenda with China (for example intellectual property protection, human rights et cetera)? Are these issues specific to China, or common to the UK's overall trade policy?

CBBC believes that a sound economic relationship with China, based as far as possible on mutual trust, is the best basis on which the UK can pursue its broader goals with China.

Yet our broader relationship with China is complex. Events such as the spread of COVID-19 and political developments in Hong Kong and other regions have intensified political debate about our strategy towards this global power.

The Chinese Communist Party continues to dominate the country's political system. Policy formulation is opaque, as is the process by which the country's top leaders and senior officials are chosen.

While China has pursued a host of market-based reforms in recent decades, State Owned Enterprises (SOEs) are still pre-eminent in vital sectors of the economy, such as banking, energy and telecoms. Successful non-state-owned companies, operating in sectors such as e-commerce or video games, often enjoy considerable government support, blurring the lines between China's private and public sectors.

Although China's economy has become far more open, it retains strict capital controls that can complicate the repatriation of funds for overseas investors and companies. The country's so-called 'Great Firewall' enables the Chinese authorities to restrict online content, while press freedom remains circumscribed.

Yet it is obvious that China's cooperation will be essential as the world confronts major transnational threats such as climate change or the spread of cyber-crime. China's role in global supply chains and as a consumer of global output mean it will remain central to the world economic system.

UK companies going into China face numerous non-tariff barriers to entry such as unequal treatment by local agencies, fees with at best no clear legal basis, overly long processing times, and lack of access to public funds and procurement. Data protection and intellectual property remain a concern for foreign companies operating in China. In addition, differing technical standards and data regulations can prove demanding and costly for UK business.

For doing business in and with China, what UK firms need most is deep knowledge of the market. UK companies need advice from experienced professionals who can help them to avoid pitfalls of operating in China. Recently, CBBC has been working closely with DIT and other stakeholders setting up information-sharing channels and producing guidance on human rights and supply chains.

Over the decades, CBBC has been able to reinforce the formal UK-China government relationship with strong, consistent and continuous business engagement, through a dedicated and knowledgeable team in both countries. An unrivalled business network of CBBC members provides an invaluable source of intelligence and sharing of experience for the wider British business community.

Intellectual property protection and technology transfer remain a concern for UK businesses. Through the Prosperity programme (and its predecessors), CBBC has worked closely with FCO, IPO and other Government departments, building up unrivalled links to Chinese stakeholders, both government and industry, in order to promote best practice in IP and providing practical support to UK companies entering the market.

China's IP protection landscape IS, however, changing. Pressure from the UK has played a part progress in tackling intellectual property theft: Chinese courts accepted 480,000 IP cases in 2019, up fivefold from 2012; foreign plaintiffs won 89% of all patent infringement cases⁶.

A decision by a Shanghai court in the early months of 2021 confirmed that Peppa Pig (owned by CBBC Member company eOne) was now recognised as a 'well-known trademark' in China. This is the highest level of IP protection available to brands under Chinese law.

Showing Beijing our support for solid economic ties will give us the best platform from which to get our views across to China's leadership. Dialogue on economic matters should be pursued both for its own sake, and as the starting point for engagement with China on matters where we disagree, and for topics -- such as climate change -- where there is huge potential for meaningful cooperation.

⁶ <https://www.economist.com/briefing/2020/08/15/xi-jinping-is-trying-to-remake-the-chinese-economy>

Trade issues, such as human rights, IP protection, market protectionism etc, are not specific to China, and we urge the Government to consider trade policy in an actor-agnostic manner.

How important is Chinese investment to the UK? What are the principal sources of current and potential investment (for example private companies or sovereign wealth funds)? Which sectors receive the most investment?

The Integrated Review notes that the “UK will need to engage with China and remain open to Chinese trade and investment”.

The UK has attracted more Chinese FDI than any other European country⁷. Chinese investment has been important in helping create and protect British employment; for example, Jingye Steel’s acquisition of British Steel, completed in March 2020, helped to safeguard over 3,000 jobs.

Chinese tourists made over 880,000 visits to Britain in 2019, up nearly sevenfold from a decade ago⁸. Those tourists spent some £1.7 billion here, also nearly seven times more than ten years ago. Tourism from China supports an estimated 16,000 British jobs, according to Cambridge Econometrics.

And nearly 120,000 Chinese students attend British universities – a quarter of all overseas students in the UK -- with applications rising at double-digit rates pre-crisis. Those students support a further 18,000 British jobs, according to CE estimates.

Chinese expertise in, and capital for, infrastructure development is well placed to help with the Government's levelling-up agenda.

According to Oxford Economics, Huawei’s contribution to the UK economy was £3.3bn in 2019, and its presence in the UK helps to sustain 51,000 jobs each year, and was also responsible for £1.1bn in UK tax receipts⁹.

The cost of removing Huawei from the UK’s 5G networks is estimated at £18.3bn. And, the Future Communications Challenge Group has estimated that a slow roll-out of 5G may lead to 173bn lost GDP over a decade, that is equivalent to more than 500,000 jobs at average salary.

⁷ https://merics.org/en/report/chinese-fdi-europe-2019-update?utm_campaign=Chinese%20FDI%20in%20Europe%202019%20Update&utm_medium=Email&utm_source=Newsletter

⁸ <https://www.visitbritain.org/markets/china>

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https://d2rpq8wtqka5kg.cloudfront.net/595655/open20201119035400.pdf?Expires=1616172308&Signature=pTqtM6-rnmPKHGgSseXwrsKMNIIm0OrE-8SLugRiDSE7wfDUMLh1Wz0jN2gABIkYoF2fN5ikA6vGeaKow7lp0yueD8r8rHueBH0~hAo-xYFuyFUjLHMILy~0arcZiRaVy5fvfYinzKWOxBb~Y6rQjSiD1nRRfTnNvrymqWWqzTA4Zq~rYwcLKouRVvhT4X9aK8QE00kCjkynRAwcOU7M43yo7JUJ2K0YhTiKc-cfjeMLYEv8bTDM33cuwbqbPexm63EnTLt~7GEh7FaABTFN59ySuKBlyWLOzjBxttifw25reuydvk1FQk0ZzxM8aFyYgYqCoCgXsqzMT8nMA~KQyyQ_&Key-Pair-Id=APKAJVGCMR6FQV6VYIA

What implications will the National Security and Investment Bill (when passed) have for Chinese investment in the UK?

Clearly there are considerable risks to our relationship with China. Formulating a coherent, robust and independent approach towards China should therefore be a priority for the UK Government.

CBBC believes maintaining and enhancing our economic ties should be at the core of this effort. We need to be clear that other countries will be only too ready to take advantage if we step back from China.

Maintaining commercial engagement will ensure we get our fair share of the China dividend. It will also bind China ever closer into a world economic order characterised by free markets, level playing fields and transparency.

The UK can and must play a role in ensuring China evolves into a responsible power, recognising that a country of its size will inevitably play a leading role in global institutions. Such a strategy is manifestly in our economic and national security self-interest, and that of the broader global community.

How does the EU approach to Chinese investment, in particular the EU-China Comprehensive Agreement on Investment, differ to that of the UK? Are there elements of the agreement that should be replicated for the UK-China relationship? To what extent has leaving the EU altered the UK's approach to China in the areas of trade and investment?

The UK's openness to Chinese investment has benefited the UK economy as a whole, and provided jobs across the country.

We should use the repatriation of commercial policy following Britain's exit from the EU to negotiate further advantageous economic arrangements with China, taking our own decisions on how to calibrate the bilateral relationship. In particular, the UK should continue to argue for a trade and investment relationship with China that is based on adherence to internationally agreed rules.

Doing nothing is not an option.

We can and should learn from the EU-China Comprehensive Agreement on Investment, whilst noting that the agreement appears limited in scope, and areas such as market access and reciprocity remain unresolved (indeed it appears the concept of reciprocity has been entirely abandoned, and is not mentioned in the final document).

What are the implications for the UK's relationship with China of the UK's planned membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)? What is the likelihood of China joining the CPTPP, and if it did, what would be the implications for the UK?

CBBC believes that increased engagement in Asia Pacific, including through membership of CPTPP, will have a positive impact on UK economic opportunities and political collaboration in the region. We also believe that encouraging China to join the Partnership will bring it further into the global community, to the benefit of the UK.

China's approach

What are the implications of China's pursuit of major international strategic initiatives (such as the Belt and Road Initiative) for the UK's foreign, development and security interests? Are these in conflict with, or compatible with, the UK's interests?

It's clear that questions about the initiative persist, and we should remain watchful; based on feedback from our Members, however, we believe that the Belt & Road Initiative offers potential for UK business:

- As the global leader in the financial and professional services sector, the UK has a wealth of experience, offering innovative advice, support and solutions to Chinese businesses as they develop complex investment projects;

- As projects become more varied and complex, so too the associated challenges increase, particularly in emerging markets. We therefore believe it is vital that the UK and China work collaboratively to address these risks – both at government and business level;
- Given the large-scale, infrastructure nature of BRI projects, there is also clearly an impact on both the physical and social environment in countries in the BRI region. But, by making sustainability fundamental in construction and financing, these projects can also be a driver towards attainment of environmental commitments in recipient countries. The UK has a strong history and experience in green finance which should be encouraged and leveraged.

How and in what ways does China use its economic strength as a foreign policy tool? How should the UK respond to this approach?

China has positioned BRI as a platform for enhanced global connectivity. President Xi Jinping has stated that that China has no "geo-political calculations". Beijing has nonetheless acknowledged concerns, leading to an element of 're-branding', and a move to increased scrutiny of projects, and recipient countries. The UK should continue to press for adherence to international best practice, including in terms of transparency in procurement, rigour in environmental impact assessment work, and inclusiveness in engaging local communities and sharing the benefits of projects.

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