

ERASE AND REWIND: BRITAIN'S RELATIONS WITH CHINA

The Search for a New Framework

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FRONT COVER IMAGE:

Xi Jinping in a welcoming ceremony to the United Kingdom, 2015

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EXECUTIVE SUMMARY

Britain and China have a long and complex relationship. Britain's infamous colonial involvement in Qing China from the First Opium War of 1839 onwards sits at the centre of a narrative of national humiliation which has been a theme of Chinese self-understanding, particularly in the last two decades as China's economic prowess has seen the return of national self-confidence. The negotiations over the reversion of Hong Kong to Chinese sovereignty from 1980 to 1997 were often fractious and, in the final years, contentious. Through this process, around a unique shared interest, the UK and China learned a lot about each other. The management of the Hong Kong issue marks their relationship and differentiates it from China's relations with other European or North American powers, including Portugal, which returned Macau to Chinese sovereignty in 1999, but after a far less protracted, complex and convoluted process. Britain and China were forced to become familiar with each other. The handback of Hong Kong meant that from 1997 they were also able to enjoy a period of new engagement.

Despite this, the relationship since then has been volatile, with steep highs and lows. Although state visits have been steady, investment between the two rising incrementally, people-to-people contact sound and political links on the whole regular and expanding, a number of events between 2012 and 2015 demonstrate how unpredictable the relationship is. After the meeting between British Prime Minister David Cameron and the Dalai Lama in June 2012, the Chinese placed a major diplomatic freeze on the UK. In October 2015, during President Xi Jinping's state visit to the UK, there was an almost complete turnaround, with the declaration of a 'golden era' between the countries. The UK seemed to be exploring the frontiers of investment and political relations in ways which surprised its US and European Union (EU) allies.

One of the characteristics of the relationship beyond its history has been the reversed asymmetry between the two powers. In the era in which Britain had sovereignty over Hong Kong, it was a more powerful economy and a greater geopolitical player. But since 1997,

Britain and China were forced to become familiar with each other. The handback of Hong Kong meant that from 1997 they were also able to enjoy a period of new engagement.

China, through events like the 'China Now' festival in the UK in 2008, Confucius Institutes and other cultural engagement, wants to be seen as a cultural and global equal to Britain.

on almost every indicator, China has risen above the UK. It has a bigger economy, a larger (albeit less experienced) military and a much higher geopolitical rank. In 2014, President Xi could declare during a visit to the US that there was a new model of 'major power relations'. The UK was not part of this exclusive club, except through its closeness to the US and its membership of the EU. At most, it figured in the conceptualisation of the world from Beijing as a member of its 'civilisational partner' – another term coined in the Xi era – Europe. It was for this reason that President Xi, like President Obama, expressed concern about the possible British exit from the EU after the referendum planned for 2016.

Whatever 'golden era' might mean, there were two features that mattered to each country that bound them together, even in this new, sometimes disorientating context of reversed asymmetry: first, the prime importance to both of London as a finance centre and a hub for RMB trading, and second, the openness of the UK to Chinese outward investment, with the possibility of it being a launchpad into the major markets of Europe and even North America. The UK from the mid-2000s figured as a more liberal environment for Chinese state and non-state companies, one that offered a softer place from which to start international expansion than, for instance, France or Germany, where Chinese investment levels remained low.

Culturally, as a knowledge partner and through people-to-people links, Britain and China have, at least in principle, a good story to tell. But their understanding of each other is often discordant, despite their history of contact. Britain wants China to think of it as creative, modern, trendy and cutting edge. China wants the UK to see it as a noble, dignified, ancient civilisation now emerging to great power status and worthy of respect. Both wage campaigns in order to promote these images to each other, with the UK's 'Think China' in 2003 and its participation in events like the 2010 Shanghai Expo and the 2012 Olympics and other activities, trying to 'rebrand' the country away from images of London fog, bowler-hatted gentlemen, conservatism and heritage architecture. China, through events like the 'China Now' festival in the UK in 2008, Confucius Institutes and other cultural engagement, wants to be seen as a cultural and global equal to Britain.

Despite all this effort, old attitudes have proved hard to shift. Surveys show that Britain is still seen in China as a place more famous for castles, Shakespeare and the Royal Family than scientific discoveries and innovation. For China, there is a whole set of different frustrations, for example, dealing with a country which commits so little effort to understanding China that UK universities produce only 300 graduates each year in Mandarin Chinese, a figure unchanged between 1999 and 2014. It is true that the UK's attitudes towards China suffer neither from the undercurrents of 'fear and greed' which former Australian Prime Minister Tony Abbott said typified the attitude of his country's citizens towards China, nor the visceral fear in the US of being displaced as number one by a politically and militarily threatening upstart force. On the whole, descriptions of British attitudes outside the political elites in the UK in 2015 could be characterised as indifferent, lacking real emotional connection and displaying a pragmatic acceptance of engagement where it suits the UK's economic interests – but little beyond this.

The state visit to the UK by President Xi Jinping in October 2015 marked a sea change in UK-China relations, one that has been propelled for once by senior politicians, in particular the Chancellor of the Exchequer, George Osborne. Risks are being taken, with talk of Chinese investment in nuclear facilities, and history forgotten, with the colonial legacy and its language of promotion of rights and values seen as British preoccupations downgraded, or, in some cases, simply jettisoned. A simpler narrative is being pursued with China, one which overwhelmingly stresses tangible economic gains, particularly in the finance sector and focused on London and its role in Chinese RMB currency internationalisation. While imaginative and certainly bold, this strategy carries many risks. It aspires to create what might be a new template of relations between a developed economy and China. It also risks underdelivering, antagonising the UK's allies and alienating public opinion in the UK.

HISTORY

Great Britain was one of the very first nations within industrialising Europe to seek opportunities in Qing Dynasty China. The initial engagement was tellingly not a happy one. Lord Macartney led a delegation to Beijing from 1792 to 1794 to open up new markets and discover fresh trading partners for a country at the forefront of the Industrial Revolution and undergoing profound change. His mission, however, proved to be a long exercise in miscommunication and mutual incomprehension. The British delegation ended up being rebuffed, with Emperor Qianlong, then in advanced years, simply saying there was no need for Britain's manufactures and rejecting the overtures of the group. Diplomatically, the event became most famous for the torturous negotiations over whether the British should prostrate themselves before the Chinese ruler. In the end, they bowed. This characterised a clash of world views which did not disappear and perhaps never has.¹

While the Macartney Mission was a benign event, the next properly historic engagement between the two countries was not, and served to set parameters for the relationship which continue to echo to this day. British frustration at the Chinese hoarding of, in particular, silver reserves used for payment for their silk, spices and other exported goods, led to the discovery that only the addictive drug opium had anything approaching a decent market within China. British traders plied this trade, sending ships laden with the opiate from India and other Asian countries into Chinese ports, creating a tale of human misery which maintains its grip on the Chinese popular imagination into the twenty-first century. By 1839 the Qing Court had had enough and enforced destruction of opium stocks in Shanghai and other ports, with stern declarations that the trade was to end. This precipitated an encounter with the full might of British naval power, leading to a full-blown war between 1839 and 1841 which only ended with the first of several unequal treaties (in the contemporary Chinese parlance), the Treaty of Nanjing, which ceded a number of open ports to the British, as well as Hong Kong Island, a desolate but strategically useful island in the southern part of the country.

¹ See Julia Lovell's excellent treatment of this mission in *The Great Wall: China against the World, 1000BC – AD 2000*, Atlantic Books, London, 2007.

Throughout the rest of the nineteenth century, Britain, along with other European powers seeking colonial gain, effectively picked into the Chinese economy, continuing to ply drugs but also to open up areas of trade with China. A second war in 1860 led to the ceding of more of Hong Kong, the Kowloon Peninsula. The 1901 Boxer Rebellion, which saw savage reprisals against foreigners in China, led to the sacking by British forces of parts of Beijing and yet more indemnities and punishment. This was crowned by the Treaty of Versailles in 1919 and its unjust outcomes for China including the ceding of Qingdao from Germany to Japan. The subsequent protests across China about this, the May Fourth Movement, in the same year, marks one of the most important awakenings in modern Chinese history.²



The Boxer Rebellion

Source unknown

² This whole history is dealt with eloquently in Rana Mitter, *A Bitter Revolution: China's Struggle with the Modern World* Oxford University Press, Oxford, 2004.

COLONIAL FOES

Britain never colonised China in the way in which it colonised India but it maintained hold over Hong Kong and built a port there which mattered hugely to its global business network and imperial power. Hong Kong remained a focus of the relationship, even as the Second World War ended in Asia and the nationalist government in China lost the Civil War with the Communists and fled to Taiwan. The creation of the People's Republic of China (PRC), with its mission to unify the country, modernise it and restore its dignity, rhetorically demanded the return of Hong Kong but the Communist government was pragmatic in accepting that the port under British control offered a much-needed financial and trade conduit with the outside world at a time when the PRC was isolated and still dealing with the demands of reconstruction. Hong Kong was therefore left alone. Even the widespread riots by Communist sympathisers in the city in the Cultural Revolution from 1966 did not change this stance.

Hong Kong was the reason why Britain was amongst the earliest to recognise the PRC.

Hong Kong was the reason why Britain was amongst the earliest to recognise the PRC, in 1950, at a time when America and other countries did not confer diplomatic recognition. To preserve its interests in Hong Kong and maintain at least some semblance of dialogue with the Communist government in Beijing, Britain maintained a liaison office with a charge d'affaires in the PRC's new capital. It even enjoyed some modest trade contact, with Rolls Royce sending Spay engines to China in 1962. Companies with British shares like Shell and BP, along with Standard Chartered Bank and HSBC, maintained trading offices in the country at a time when foreign companies barely

registered there. Through figures like the great scholar Joseph Needham with his monumental 'Science and Civilisation in China', cultural contact continued even though movement between the two countries was very difficult.

Hong Kong also meant that there was a significant group of ethnic Chinese in the UK. Because of the importance of its port in Victorian times, Liverpool had the oldest Chinatown in Europe. Chinese from Guangdong province and Shanghai, via Hong Kong, started to arrive in the UK during the 1930s, and this migration increased in the 1950s and 1960s, giving rise to the phenomenon of Chinese restaurants appearing in the UK: at least on the level of cuisine, the British were familiar with China and had some vague idea about what the place was, where it was, and some approximation of what its people might eat. With the visit by US President Richard Nixon to China in 1972, the UK was emboldened to upgrade its diplomatic recognition to ambassadorial status.

Deng Xiaoping was categorical. They, and Hong Kong Island, had to be restored.

HONG KONG SHADOW BOXING

Despite this, relations between the UK and China were marginal and continued to be focused on one issue – Hong Kong. Hong Kong Island had been ceded to the British in perpetuity after the First Opium War but the larger New Territories on the mainland only had leases of 99 years running from 1898 and these were due to lapse in 1997. In March 1979, the Governor of Hong Kong, Murray MacLehose, visited Beijing and held initial talks with Deng Xiaoping, then at the centre of the emerging leadership seeking to repair the economic damage of 27 years under Mao and rebuild China's international status. Deng had delivered the main speech at the December 1978 Third Plenum of the Eleventh Party Congress in which the first signs were given of China embracing foreign capital, something approaching a domestic free market and entrepreneurialism through a non-state sector. MacLehose would not have known the impact these ideas were going to have; he did, however, broach the possibility of China extending the leases on the New Territories for a further period. Deng Xiaoping was categorical. They, and Hong Kong Island, had to be restored to the PRC. There could certainly be negotiations about the terms by which they were returned and the framework but no challenge to the principle of their reversion to Chinese sovereignty.

Destroying Chinese war junks
1841
EG Duncan



The newly elected Conservative Party government under Margaret Thatcher in Britain attempted to find ways in which at least the island might remain in British hands post-1997. But Hong Kong's complete dependence on the mainland for water, food and electricity meant that this was impractical. The Chinese proposed a framework inspired initially by ideas Deng had had about how to manage Taiwan, a renegade province in Beijing's eyes which had enjoyed de facto independence under the Nationalists fleeing from the mainland when they were defeated in the Civil War in 1949. The rubric, 'One Country, Two Systems', was sketched out in the Sino-British Declaration of 1984, an initial agreement between the British and Chinese committing to the return of all of Hong Kong to China in 1997.³

The One Country, Two Systems idea granted that Hong Kong, for fifty years after 1997, could maintain its capitalist system.

The One Country, Two Systems idea granted that Hong Kong, for fifty years after 1997, could maintain its capitalist system with its own law courts, police force and administration enjoying a high degree of independence, set its own interest rates, appoint its key officials and have its own flag, currency and tax system. It did not need to return any taxation to the central government. The Beijing government would take responsibility for two areas – foreign affairs and defence.



British Prime Minister Margaret Thatcher and Chinese Premier Zhao Ziyang
AP

³ The declaration is available from the website of the Hong Kong SAR Constitutional and Mainland Affairs website, <<http://www.cmab.gov.hk/en/issues/jd2.htm>>.

The details of the transfer of Hong Kong from the UK to China were worked out from 1984 to 1990 and enshrined in the Basic Law, a mini-constitution for the city passed at the Chinese National People's Congress in 1990.⁴ This granted all the rights listed above but in language general enough for the final Governor of Hong Kong, Christopher Patten, to test its limits and attempt in the final five years of British rule to introduce far greater levels of democracy than had existed during the century and a half of colonial governance. The franchise for the election of members to the Legislative Council – the Hong Kong city parliament – was broadened and attempts were made to set out a clear framework for the implementation of universal franchise for elections of the Chief Executive, the successor position to the Governor after 1997. The Patten reforms not only antagonised Beijing but also opened up clear fissures on the British side, with diplomats ranged for and against the moves and Patten often exposed to dissent within his own side.⁵

Hong Kong did successfully revert to Chinese sovereignty in July 1997. Despite fears by the more pessimistic that the city would be engulfed by Communist soldiers and overwhelmed by the new non-democratic regime, the greatest initial challenges were from the external Asian financial crisis that decimated the city's growth, not from any overt interference from Beijing. After the Tiananmen Square incident in June 1989 and the massacre of students protesting in the capital – and, less dramatically, across the country – nerves in the city grew tense. Many Hong Kongese arranged alternative passports, with the UK, Canada and Australia as favourite destinations in the years immediately before 1997, as a form of insurance just in case things went wrong. Companies like Jardines, which had been in the city for over a century, shifted their headquarters away from the city in 1997, with many headquartering in Singapore, the British Virgin Islands or, in the case of HSBC, moving to London. There were frequent expressions of the idea that Hong Kong's days would be numbered under the new regime, particularly just before and after the handover.

⁴ *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China*, Constitutional and Mainland Affairs Bureau, Hong Kong, latest edition 2015.

⁵ Patten's account of this era can be found in *East and West*, Pan Macmillan, London, 1998, that of his nemesis, the formidable mandarin and Mandarin speaker Sir Percy Cradock, the Prime Ministerial foreign policy advisor for some of this period, in *Experiences of China*, John Murray, Edinburgh, 1994.

In hindsight, this was always very unlikely to happen. China valued Hong Kong for precisely the same reasons as the UK had – its excellent legal system, its status as a world-class financial centre and its immense entrepreneurial assets and attributes. Hong Kong companies, after all, had been the key partners during China's early era of reform in the 1980s, opening factories and joint ventures on the mainland in the new Special Economic Zones there, the most famous of which was directly opposite the city - Shenzhen. Beijing did not want this asset to be adversely affected. And so, through the first decade and a half after 1997, on the whole, both sides kept to the spirit of the handover agreement. Hong Kong was granted a high degree of autonomy over its fiscal and administrative systems and maintained at least some of its cultural and political differences to the Mainland.



Chris Patten, the last Governor of Hong Kong, receives the British flag on June 30 1997 at the handover ceremony of Hong Kong to China

AP

For the UK, under the newly elected leadership of Labour's Tony Blair, the mantra became 'engagement'. Like friends who knew each other well, the UK and China would be open, honest and frank with each other.

THE ERA OF ENGAGEMENT

Negotiations over Hong Kong had often been harrowing and contentious, especially towards the end, but this meant, ironically, that the two countries learned a lot about each other. British officials of a certain generation had learned about how Chinese negotiated and what their attitudes to the outside world and their expectations towards opening up to it were. The Chinese had also learned a lot about the UK. Even so, there was the need for a reset in the relationship and a clearing of the air. Both sides post-1997 needed to start over again, after their very different experiences of colonialism. For the UK, under the newly elected leadership of Labour's Tony Blair, the mantra became 'engagement'. Like friends who knew each other well, the UK and China would be open, honest and frank with each other. This would sometimes result in brittle exchanges but the long history of knowing each other meant the countries were well-placed to deal with any disagreements.

**British Prime Minister Tony Blair
at the Great Hall of the People,
Beijing, July 21 2003**

AP



Engagement allowed for the first-ever state visit by a leader of the PRC to the UK, when President Jiang Zemin toured London, Cambridge and Edinburgh in 1999. It also meant that Blair and his successors were able to visit Beijing relatively frequently. And while the UK government was obliged to report biannually to its parliament on how the One Country, Two Systems arrangement was going, there was a

feeling that the relationship needed to diversify and explore different areas. In the early 2000s, the British remained (just) the largest investors in China among EU countries and there was an increasing trickle of Chinese students coming to study at British universities. There were small amounts of Chinese investment coming into the UK and some technology transfer and intellectual co-operation. Even so, the signing of the World Trade Organisation accession agreement by China in late 2001 alerted the UK to the fact it could do much better. The question was how – within which framework?

First there had to be an admission that for all the sound and fury, as one of the world's major economies, the UK had very little benefit from its extensive relationship with China. Companies like BP, Shell (partly considered a British company) and Vodafone did have multimillion dollar joint venture projects in China. But an audit of British investment across China's provinces over this period revealed that the impressive figure of some six thousand plus partnerships with the Chinese tended to break down into projects that sounded like offshore entities rather than direct investments.⁶ In 2003 for example, the author visited Hohhot in Inner Mongolia and was told that even this relatively isolated place had almost two dozen investment projects but when presented with a list, apart from the clothing manufacturer Dawson, the rest looked like they were registered in the British Virgin Islands or the Cayman Islands. It was hard to discern any real link with the UK.

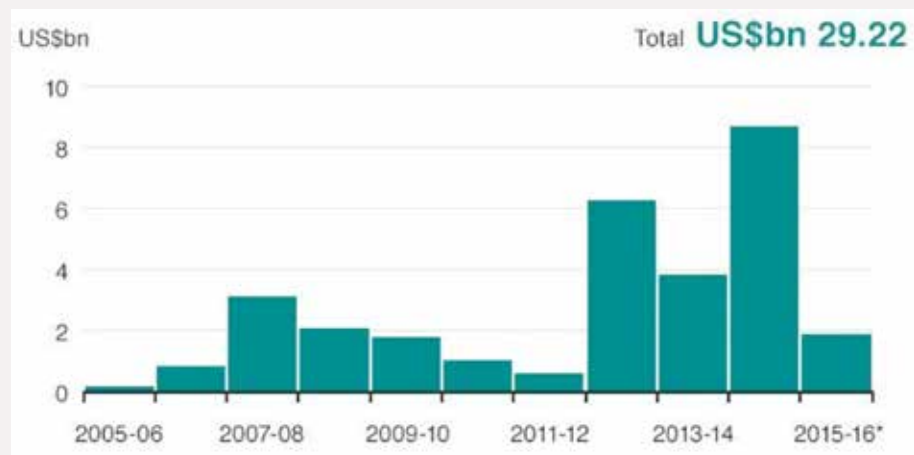
The same could be said for Chinese investment into Britain. Throughout the first decade of the twenty-first century there was any number of false dawns. In 2005, after painful and protracted negotiations involving political figures at the top of the systems in both countries, Nanjing Auto bought the MG Rover car factory in the British Midlands. But after this, the new Chinese owners promptly mothballed the company, taking some of its technology and reducing its employment levels. In the finance sector, one of the UK's great strengths, the story was no better. HSBC and Standard Chartered had bought shares in Chinese banks, a process allowed under the

Throughout the first decade of the twenty-first century there was any number of false dawns.

⁶ The author compiled this audit while a British Foreign Office official in Beijing from 2000 to 2003, largely using statistics from the Ministry of Foreign Trade and Economic Co-operation, an entity subsequently replaced by the Ministry of Foreign Commerce.

WTO and some companies like Prudential had achieved insurance licenses to operate in China. The greatest excitement was just before the global financial crisis of 2008, when the China Development Bank bought 3.5 percent of Barclays. But far from presaging a bold new era of rising levels of inward and outward investment, the story remained static, even despite expectations that the impact of the crisis would create more advantageous conditions for Chinese mergers and takeovers of British finance entities.

FIGURE 1: CHINESE INVESTMENT IN THE UK, 2005-PRESENT

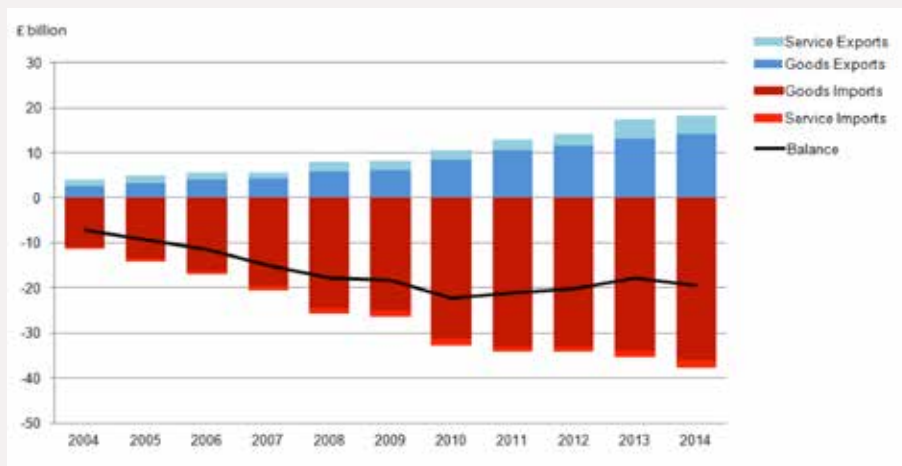


Source: The American Enterprise Institute and The Heritage Foundation
*data up to June 2015

Nowhere was this better illustrated than in the story of Chinese companies listing on the London Stock Exchange. The City of London Corporation, the official organisation in charge of promoting London's finance district, presented London as a great global centre for the raising of capital and appointed representatives in both Beijing and Shanghai. Delegations went between the two countries exploring the possibility of increasing listings. On the main London market, by 2007, five Chinese companies including the Bank of China had listed. On the smaller Alternative Investment Market, by the same date, about 55 companies had listed but it soon became apparent that some had become punch drunk with excitement and not looked at the detail. Listed Chinese companies sometimes demonstrated huge problems of governance, an inability to deliver transparent accounts and failure in compliance. The Chinese government imposed restrictions, meaning the march on London's markets stopped almost as soon as it had started.

Companies emerging from China like the telecoms provider Huawei and the internet company Alibaba did have a presence from 2007 in the UK: the former secured a major supply deal with British Telecom despite security fears; the latter set up an office in London. A Chinese company bought the cereal brand Weetabix and there was Chinese investment in Heathrow Airport, Anglia Water and other utilities. The UK presented itself as a more open, convenient and flexible place to do business than elsewhere in Europe. But as will be shown below, this was not a straightforward story. As of 2010, the bilateral trade relationship was overwhelmingly in China's favour and the investment relationship was underwhelming.

FIGURE 2: UK-CHINA BALANCE OF TRADE



Source: British Office of National Statistics, <<http://www.ons.gov.uk/ons/rel/international-transactions/outward-foreign-affiliates-statistics/how-important-is-china-to-the-uk-economy-/sty-china.html>>.

CASE STUDY: HUAWEI AND THE UK

The Chinese telecoms company is considered amongst the most innovative and dynamic of enterprises emerging from the PRC. Founded by former People's Liberation Army soldier Ren Zhengfei in the 1980s, it is regarded, at least within China, as a non-state company. However, its core business of telecoms is one in which government involvement is still significant in China and many governments have regarded Huawei warily. Attempts to bid for large contracts in the US in 2011 were met with a highly critical US House Intelligence Committee Report which accused the company of cyber-espionage and labelled the company a security threat. A year later in Australia, there were reports that the Australian Government had prevented the company tendering for the construction of the National Broadband Network. While issuing no formal announcement, according to Reuters in March 2012, a spokesperson for Huawei in Australia, Jeremy Mitchell, stated that the company was 'informed by the government that there is no role for Huawei in Australia's National Broadband Network'. The report goes on to quote a spokesman for then Australian Attorney-General Nicola Roxon stating that the comment from Huawei '... is consistent with the government's practice for ensuring the security and resilience of Australia's critical infrastructure more broadly'.⁷ Huawei, partially listed in Hong Kong, has managed to develop more than half of its business abroad, however, and employs almost 100,000 non-Chinese.

Huawei's fortunes in the UK have been mixed but it has never faced unilateral disbarment.

Huawei's fortunes in the UK have been mixed but it has never faced unilateral disbarment. In 2005, concerns were raised over its interest in taking over struggling British-owned Marconi Communications. As an indication of the more relaxed attitude in the UK, Marconi signed a partnership agreement with Huawei to work together on microwave products in early 2005. Later that year, there was even talk of Huawei making an outright bid for the company amounting to about USD1 billion but the very poor financial status of Marconi meant the bid was not pursued by either side and Marconi went into voluntary liquidation a year later. Had the deal been pursued, there were signs that the British Opposition at the time,

⁷ Maggie Lu-Lueyang, *Australia Blocks China's Huawei from Broadband Tender*, Reuters, March 26 2012, at <<http://www.reuters.com/article/2012/03/26/us-australia-huawei-nbn-idUSBRE82P0GA20120326>>

the Conservative party, would have raised issues about its impact on security and intellectual property. Their concerns meant any ultimate deal would probably have needed cabinet agreement, though there is no set process for this, as well as scrutiny by the Parliamentary Intelligence and Intelligence Committee. It would also have needed to be seen as compliant with EU and British regulations.

More serious issues were raised in a report in 2009, when intelligence officers were quoted as stating that the company posed a serious threat. 'Intelligence chiefs', the article stated, 'have warned that China may have gained the capability to shut down Britain by crippling its telecoms and utilities'.⁸ Despite reports like these, Huawei has been able to operate in the UK relatively more easily than in, for instance, the US. It managed to secure a large contract with British Telecom and employed over 400 people by 2010. Work grew to such an extent that in 2013, the company established the Huawei Cyber Security Evaluation Centre (HC SEC) in Banbury, Oxfordshire, to self-monitor the firm's technology in the UK and work with British government agents in order to build confidence. One issue in an initial report on the work of this 'cell', as it soon came to be called, was that being a company entity, it was staffed by Huawei personnel, creating an immediate question about conflicts of interest. 'While we recognise that there are some benefits associated with the current staffing arrangements for the Cell,' the 2013 report concluded, 'these do not, in our opinion, outweigh the risks of Huawei effectively policing themselves'.⁹ Later that year, the British National Security Council proposed that there be greater oversight of the cell by the British Government Communication Headquarters (GCHQ), the chief interception and signals intelligence agency. A visit to the centre in 2015 by the head of cyber security from GCHQ, however, resulted in Huawei's products being given a green light as a result of this closer surveillance and oversight regime by the government. 'HCSEC fulfilled its obligations in respect of the provision of assurance that any risks to UK national security from Huawei's involvement in the UK's critical networks have been sufficiently mitigated', the report said.¹⁰ Despite this, the cell continued with its staffing arrangements.

⁸ Michael Smith, *Spy Chiefs Fear Chinese Cyber Attacks*, Sunday Times, March 29 2009, at <http://www.thesundaytimes.co.uk/sto/news/uk_news/article158319.ece>.

⁹ BBC, *Staff's Role at Cybersecurity UK to Probe Huawei Centre*, July 18 2013, at <<http://www.bbc.co.uk/news/technology-23355950>>.

¹⁰ Dan Worth, 'Huawei Does Not Pose UK Security Threat', *Vc.co.uk*, security news website, March 25 2015 at <<http://www.v3.co.uk/v3-uk/news/2401447/huawei-does-not-pose-uk-national-security-threat>>.

THE STRANGE STORY OF CHINESE STUDENTS

When President Jiang Zemin visited the UK in 1999, there were barely 2,000 students from China studying at British universities. This was unsurprising. The UK was expensive, fees for international students prohibitive and there was little appetite or incentive for the UK's 44 universities to accept large numbers of foreign students into courses they would probably not be able to handle for language reasons, especially from a country which had no real record of sending its youth abroad to study – at least not since 1949.

The UK did have a history of 'deep' engagement with China academically through the departments of oriental studies set up in Cambridge and Oxford, and, later, Leeds. Figures like the great writers Lao She and Qian Zhongshu had studied in the UK in the 1930s and when back in China had written about their experiences. And because of Hong Kong, the UK certainly had academics who were ethnically Chinese, even if they had not come from the PRC. At the summit of this was the work of Joseph Needham, referred to above, who was labelled the greatest scholar since Erasmus in the sixteenth century because of the scope and ambition of his learning.

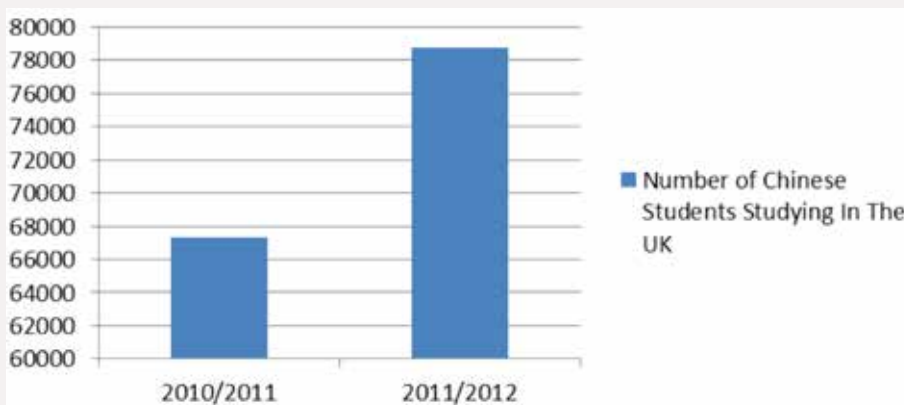
From 2000, however, and almost entirely by accident, the number of Chinese students coming to the UK skyrocketed.

From 2000, however, and almost entirely by accident, the number of Chinese students coming to the UK skyrocketed. There was no government-led strategy behind this, nor was it a product of any particular wisdom or genius either at the British Foreign Office or the British Council. Instead, it was the reputation, particularly for economics and science, of key British universities like Imperial College, Cranfield College and Liverpool. The UK had supported elite educational provision through the Chevening Scholarships scheme for students from China to come to the UK but this amounted to no more than a few dozen students each year. The vast majority of the thousands who came after 2001 were self-paying and did so on their own initiative.



Mayor of London Boris Johnson with Chinese Students
AP

FIGURE 3: NUMBER OF CHINESE STUDENTS STUDYING IN THE UK



Source: <http://www.colordarcy.com/press-releases/5-reasons-to-invest-in-bradford-student-property/>

The UK is not of course alone in this phenomenon. The US, Australia and to some extent New Zealand, Japan and Singapore also saw it happen. But for the UK it became perhaps the most visibly successful part of the bilateral relationship whereas others, like Australia or the US, could point to different areas (investment, for instance, or export success to China) to measure the tangible success of their engagement with China. The rise in students going to the UK was helped to some degree by the tightening of conditions by the US for visas there, despite the fact that this was the favourite destination, after the September 11 2001 terrorist attacks. The UK was able to reap the benefits of this cohort of Chinese students who felt the US was too hard to gain entry to and therefore came to the UK instead. It

also helped that the reputation of UK universities was high and that the language in which courses were taught was English, by far the most popular foreign language in China.

Chinese students going to the UK rose to over 100,000 in 2014. For most universities, they are overwhelmingly the main international body. In this way, the UK is similar to Australia, and like Australia, it has struggled to create a narrative within which to fit a group of students it previously did not have to consider. In Australia in the 2000s, students were able to stay after graduation and seek work for five years but with the Coalition government from 2013, and fears about migration and employment, this scheme was stopped. British universities, however, had the tantalising prospect of a large, dynamic group heading back home who were likely to take up important government or company positions and with whom links had to be maintained.

The sobering fact of the story of Chinese students in the UK is that it was unplanned. It was never a major part of an engagement philosophy. That it became the strongest tangible link between the two countries was largely accidental, although the process benefited from government and proactive university lobbying. This raises the question of whether a deliberative policy stance by the UK towards China actually leads to tangible benefits or a laissez-faire approach works better.

That it became the strongest tangible link between the two countries was largely accidental.

SEARCHING FOR A FRAMEWORK

Prior to 1997, everything had been clear. The priority for the UK was the success and stability of Hong Kong after its reversion to Chinese sovereignty. This was more than just colonial face saving on the part of a retreating UK. It was also because the UK had strong financial vested interests in the city through its banking and company links, the location of over 1,500 of its companies' Asian offices and the links it had throughout Hong Kong society from the universities to civil society and the political elites. Tung Che-hwa, the first Chief Executive, typified this: educated at Liverpool University before joining OOCL, the huge shipping firm set up by his father. Maintaining influence in Hong Kong was important for the UK for these reasons.

After 1997, this tangible, direct link to China weakened significantly. Policy therefore lost its core focus. Engagement under Blair sounded, and often was, amorphous and imprecise. Blair only visited China twice during his decade in office. His successor, Gordon Brown, visited only once during his three years as Prime Minister. With the various wars in the Middle East from 2001, the fight against terrorism and the travails of the global financial crisis from 2008 and the impact this had on the European Union, China seemed remote.

There were plenty in the British government who were highly sceptical about whether the UK needed any policy position on China at all. For them, the best stance was to be pragmatic and opportunistic and accept that China had a radically different political model to the UK, that there were some areas of shared interest including security to economic matters, and that, on balance, the best outcome would be a careful delineation of areas where the two could work together, areas where they could work better in multilateral forums like the UN, and areas where they simply had to agree to differ.

There was one attempt, in January 2009, to try to set out a formal British policy towards China. Issued by the Foreign Office in the dying days of New Labour when David Miliband was Foreign Secretary, 'The UK and China: A Framework for Engagement' was a unique venture. Never before had an explicit statement been made on the relationship

... the best stance was to be pragmatic and opportunistic and accept that China had a radically different political model to the UK.

in this way. The paper, which is now no longer available on the Foreign Office website, sketched out the usual parameters of engagement, the search for common areas where both countries could work together and articulated a vision of China's continuing economic rise where the outcomes were overwhelmingly positive for the UK.

As part of this, the paper mapped out three discrete areas where it proposed the UK could and should work with China. These were, in the words of the paper:

- > Getting the best for the UK from China's growth: This is about encouraging China to see the UK as a global hub, and boosting our business, educational, scientific and cultural gains from the bilateral relationship. It's also about ensuring the UK has the right domestic policies in place to benefit from China's growth;
- > Fostering China's emergence as a responsible global player: This is about encouraging an approach of responsible sovereignty on international and global issues, from proliferation and international security to sustainable development and climate change. It's also about helping China to define its interests increasingly broadly;
- > Promoting sustainable development, modernisation and internal reform in China: This is about influencing China's evolving domestic policies, helping China manage the risks of its rapid development and, over time, narrowing differences between us. Greater respect for human rights is crucial to this.¹¹

While there was nothing intrinsically wrong with harbouring such ambitions – and in particular, the first, which had, at its heart, self-interest – the second and third seem somewhat zealously interfering in tone. The benign rhetoric of helping China to solve its own problems so it could become more like the better parts of the outside world, in particular the liberal multiparty democracies like the UK, had its roots in 'EU-China: Closer Partners, Growing Responsibilities',

¹¹ Foreign and Commonwealth Office, *The UK and China: A Framework for Engagement*, London, 2009, pp. 4-5; this document is now only available on an American website, <<https://www.ncuscr.org/sites/default/files/migration//uk-and-china.pdf>> accessed November 9 2015; all traces of it have been excised from official British websites.

the 2006 Communication from the Commission to the Council and the European Parliament, the European Union's most important document on this subject between 2000 and 2015. This had set out a series of policy areas where the EU would seek both to work with China and to influence its development in benign and constructive ways, including 'supporting China's transition towards a more open and plural society', sustainable development and economic cooperation.¹²

... the EU would seek both to work with China and to influence its development in benign and constructive ways.

¹² Commission of the European Communities, *EU-China: Closer Partners, Growing Responsibilities (Communication from the Commission to the Council and the European Parliament)*, available at <http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130875.pdf> accessed November 9 2015.

TALKING ABOUT DIFFICULT THINGS

This document, more than any other issued from an official source, was a declaration that the old tone and style of approach towards China was ending.

For all its lofty tone, the 2009 UK statement on its strategy towards China did draw attention to the fact that since 1997, UK leverage on the PRC had declined. This document, more than any other issued from an official source, was a declaration that the old tone and style of approach towards China was ending. But there were more tangible examples of this. One of the greatest bilateral bugbears between Beijing and London had been the UK's continuation of a unique policy on Tibet. Tibet, subsumed as an Autonomous Region into the PRC in 1951, had been a place of specific British operation in the early part of the twentieth century, when British officials had partially recognised the region's unique status, even though they had never accepted its full autonomy. In 1914, a document best known as the Simla Convention between Great Britain, the newly created Republic of China and the Dalai Lama in Tibet, agreed to the recognition of Chinese suzerainty over the Tibetan area.¹³ Although the Republic of China was to withdraw from this agreement by withholding its signature, it was signed by Tibet and the UK.

Remarkably, recognition of Chinese suzerainty rather than sovereignty over Tibet, a cause of continuing and often mounting irritation on China's part, remained the British position until 2008. This was now, in the words of then-Foreign Secretary David Miliband, 'an outdated concept' which arose from 'the geopolitics of that time'. 'Some have used this to cast doubt on the aims we are pursuing and to claim that we are denying Chinese sovereignty over a large part of its own territory', he went on to proclaim. 'We have made clear to the Chinese Government, and publicly, that we do not support Tibetan independence'.¹⁴

To jettison a policy position which had stood for almost a century in such a low-key manner antagonised many supporters of the Tibetan cause, particularly in the UK, with commentators talking of betrayal

¹³ This is article two of the *Convention between Great Britain, China and Tibet*, Council for Foreign Relations, <<http://www.cfr.org/tibet/convention-between-great-britain-china-tibet-simla-accord/p16007>>.

¹⁴ David Miliband, *Written Ministerial Statements*, October 29 2008, Hansard, Column 31WS, <<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm081029/wmstext/81029m0001.htm>>.

and capitulation. But in essence, Miliband was right – the policy was an anomaly, belonging to another age, an irritant between the UK and China that sometimes stood in the way of the sort of relationship that the UK now wanted. The policy was a symbol of the colonial past which Britain was keen to move on from. In this sense, removal of this policy belonged to the same category as the removal of Hong Kong as an issue and the attempt to create a post-colonial relationship unburdened by historical baggage.

*... a post-colonial
relationship
unburdened by
historical baggage.*

More realist commentators might have hoped that removing this issue, with its heavy symbolism, might make things more straightforward in other areas with the Chinese. But not long after, during 2009, a constellation of issues raised questions over exactly what 'engagement' had really led to in terms of forging a more rights-conscious, rules-based Chinese society: the harsh imprisonment of dissident Liu Xiaobo for his involvement with the 2008 Charter 08 document demanding more political freedoms; the continuing clampdown on rights lawyers involved in protests against shoddy building standards following the tragic May 2008 Wenchuan Earthquake in Southern China; and the increasing surveillance on Chinese reformists and journalists. The UK was to be hit even more forcefully by this when a British citizen of Pakistani origin, Akmal Shaikh, was accused of smuggling four kilos of drugs into China in 2009 and sentenced to death by lethal injection. From its opposition to capital punishment on principle, both the UK and the EU made démarches to China requesting the sentence be converted to life imprisonment. The case was made even more complex by the fact that Shaikh had been diagnosed with severe bipolar disorder, adding to the case for him to be spared the most severe sentencing. His appeals, however, were rejected and despite a number of direct appeals for clemency by British Prime Minister Gordon Brown, on December 29 2009, Shaikh became the first European to be executed in the PRC since the 1950s.

**UK Foreign Secretary
David Miliband with Chinese
Premier Wen Jiabao**
Feng Li



THE ROLE OF PARTNERS – THE EU AND THE US

One of the complicating factors between the UK and China has been the involvement of other countries. Because of the dense networks of alliances around and between them, there has not been what might be termed a 'pure' bilateral relationship in recent decades. For the UK, these alliances have primarily been with the US and the EU and they have impacted on how the UK calibrates and formulates its China policy; from 2014, this has increasingly created a sense of divided allegiances.

These alliances have primarily been with the US and the EU and they have impacted on how the UK calibrates and formulates its China policy.

The relationship between the UK and the US, the fabled 'special relationship', is of huge significance. With Hong Kong, the UK had a discrete area of interest that it could claim ownership over with China and where the US was far less involved. But since the reversion to Chinese sovereignty of Hong Kong in 1997, Britain has worked in a context where, on China relations and almost every other foreign policy issue for that matter, it has increasingly had to balance fidelity to Washington on one side and to Brussels (de facto capital of the EU) on the other. The economic opportunities that China has offered have provided an added temptation, especially as China has, subtly and carefully, placed question marks over some of the traditional areas where, by default, the UK would have always taken the US or the EU's side.

A turning point occurred in 2004 and 2005, when the EU was looking to review its stance on the arms embargo placed on China after the 1989 Tiananmen Square massacre. This was the moment when the EU intended to display full autonomy and pursue something approaching its own security interests with the PRC. The argument supporting this at the time was straightforward. The embargo was largely symbolic because export control over dual use or sensitive military technology would be captured by other legislation covering arms sales. This was considered sufficient for most problematic countries: there was, for instance, no similar embargo for North Korea despite the fact that it posed even sharper challenges than China.

The UK under Blair was supportive of removing the embargo and took the lead alongside the French in trying to achieve this. But once it knew of the moves, the US made it clear that it wanted the embargo to stay. In 2003, when the Chinese thought there was a chance the embargo would be lifted, the State Council issued their first-ever formal White Paper on the EU-China relationship in which it declared that Beijing ‘appreciates the importance the EU and its members attach to developing relations with China’.¹⁵ This marked something like a high point of Chinese idealism and optimism towards the EU, serving as a balancing counterpoint to the Americans. Their hopes were to be dashed in 2005 when the EU backed down after heavy pressure from Washington. Britain’s role as intermediary had been to no avail. From this time, a less heady, harder-edged tone came from Chinese leaders when they spoke of the potential for EU-China relations. In areas of hard security, the events from 2003 to 2005 made it crystal clear that the US continued to have the veto.

Chinese Premier Wen Jiabao
with Belgian Prime Minister
Elio Di Rupo
AP



Britain’s role within the EU, for all the benefits it brings in terms of trade negotiations and access, also involves a layer of added complexity to its relations with China.

Britain’s role within the EU, for all the benefits it brings in terms of trade negotiations and access, also involves a layer of added complexity to its relations with China. A 2009 audit by the European Council on Foreign Relations (ECFR) of member states’ attitudes towards the PRC identified four broad groups amongst the 27 countries: assertive industrialists, ideological free-traders, accommodating mercantilists

¹⁵ Information Office of the State Council, People’s Republic of China, *China’s EU Policy Paper*, October 2003, at <<http://china.org.cn/e-white/20050817/foreword.htm>>.

and European followers.¹⁶ The UK was included in the second group, alongside Denmark, the Netherlands and Sweden:

... ready to pressure China on politics and mostly opposed to restricting its trade. Their aversion to any form of trade management makes it very difficult for the EU to develop an intelligent and coherent response to China's carefully crafted, highly centralised, often aggressive trade policy. For these countries, free-trade ideology is an expression of economic interest: their economies and labour markets – oriented towards high technology and services, particularly finance – benefit, or expect to benefit, from Chinese growth rather than being threatened by cheap Chinese imports.¹⁷

This captures the sort of pragmatic engagement policy being executed by Blair. But the ECFR's diagnostic was shallow. Issues like Tibet showed that the UK waged battles with China on rights issues at the peril of being proclaimed an old colonialist with no moral platform to stand on. Trade was the easy area to pay most attention to. That the UK was seen as a spoiler in so much EU politics, however, did not detract from it being seen by Beijing as a major portal in terms of investment and trade into the common market which was, after all, China's largest in terms of volume. In this area in particular, the EU mattered to China and while the UK market on its own registered in China up to a point, it mattered even more when it was linked to the rest of the vast EU common area, offering synergies for the Chinese with the EU via the UK that they might otherwise lack.

In a far more complex way, therefore, by the second decade of the twenty-first century, the UK shared an increasingly common bipolarity. For security issues, it stood alongside the US. For economic reasons, it looked more to China. It was differentiated by the complexity that the EU added to this relationship, creating a kind of trilateralism. On trade negotiations, remit lay with the Brussels administration. But where the UK could forge its own economic path, it did so.

That the UK was seen as a spoiler in so much as EU politics, however, did not detract from it being seen by Beijing as a major portal in terms of investment and trade.

¹⁶ John Fox and Francois Godemont, *A Power Audit of EU-China Relations*, European Council on Foreign Relations, London, 2009, p. 5.

¹⁷ *Ibid*, p. 6.

THE QUEST TO REBRAND

Despite the involvement in each other's affairs since the middle of the nineteenth century, to ask what the average Chinese thinks about Britain or the average British person's views on China are in the twenty-first century has consistently proven to be less straightforward than it might at first appear. In the early post-1997 period of engagement, there was considerable appetite within the UK to rebrand itself in the PRC, making full use of the second chance it had been given to forge itself as a bastion of the kinds of innovative, modern, scientific and fashionable values that China, now deep in the red-hot era of reform and modernisation, was showing such passion for.

The issue of Chinese views of the UK is not one of Chinese people knowing nothing about Britain but more about luring them away from entrenched views of what Britain is to something newer and fresher. Rebranding Britain, however, has had to overcome a formidable hurdle: the prime role Britain plays in the narrative of national humiliation which has been a mainstay of the official Chinese view of itself and the role of the outside world in its development since the 1990s. It was around 1994, during the era of President Jiang Zemin, that the national Patriotic Education Campaign started accentuating more than previously the sense of grievance and victimhood that China had from 1839 up to 1949. In particular, school text books clinically detailed Britain's role both in the 'Unequal Treaties' which had carved China up into different parts and in the fierce indemnities imposed after the 1901 Boxer Rebellion which contributed to national bankruptcy – and this view of history was reinforced by government campaigns.

Britain does not stir Chinese resentment anywhere near the level Japan does. Britain's perceived crimes over the century of humiliation occupy a different league to the brutalities visited on Chinese by imperial Japanese forces. But the nationalism resulting from the Patriotic Education Campaign does impact on views of Britain in China today.¹⁸

¹⁸ The context of the Patriotic Education Campaign is detailed in William A. Callahan's *China: The Pessimist Nation*, Oxford University Press, Oxford, 2008; the role of resentment in contemporary Chinese international relations is covered by Christopher Coker, *The Improbable War: China, the United States and the Logic of Great Power Conflict*, Hurst, London and New York, 2014.

Britain remains well-known for its colonial history and while some knowledge of British history and culture is positive – Shakespeare, Newton, Dickens, Darwin and the Industrial Revolution are all well-known amongst a wide public in China – the sense of Britain being a place of the past, a living museum with an ancient royalty, old castles, streets shrouded in smog and men wearing bowler hats or butler’s uniform has proved very hard to shift.

Throughout the 2000s, the UK did its best to shift these perceptions by waging various campaigns in China as part of its soft diplomacy to reset public understanding. The key demographic targeted was the emerging urban-based, service sector middle class who have the aspirations and expendable income to buy British goods, use British services and even visit the UK. Some of them have sent their children to the UK to study. In 2003, diplomats in Beijing and Shanghai embarked on a ‘Think UK’ campaign showcasing British design, fashion and creative industries. British scientists worked with Chinese partners on mapping the genome. British companies like Dyson and Surrey Satellite undertook joint ventures or research projects with Chinese partners. Figures like the footballer David Beckham became household names and British premier league football became so successful that teams like Manchester United opened shops in China selling goods produced locally at export prices. Elite British brand Formula One racing expanded to Shanghai in 2004, where a track was built at enormous expense.

This campaign was continued by heavy involvement in the Shanghai 2010 Expo at which both the UK nationally and a number of British organisations and cities, including Liverpool, had stands showcasing their modern attributes to the 70 million visitors during the six months the exhibition was open. Occasionally, British pop stars and cultural figures have performed for Chinese audiences. The Rolling Stones undertook two tours there, one in 2006 and the most recent in 2014. On their first visit, five songs were censored for ‘inappropriate content’. Demonstrating the dangers attendant on this kind of engagement, pop star Bon Jovi’s plans for a 2015 tour were cancelled because of claimed sympathy for the Dalai Lama. J K Rowling’s Harry Potter has proved a hit, with the ultimate accolade: contraband copies in Chinese appearing almost immediately the English versions are out.

... the sense of Britain being a place of the past, a living museum with an ancient royalty, old castles, streets shrouded in smog and men wearing bowler hats or butler’s uniform has proved very hard to shift.

Sir Andrew Cahn, Chief Executive of UK Trade & Investment at the British Pavilion, Shanghai Expo

AP



For all the specific cases of successfully introducing Chinese to facets of British modern culture, entrepreneurialism and creativity, knitting this into a new narrative which dislodges the old colonial image has proven difficult. This has partly been caused by the fact that since the late 1990s, with the increase in government-to-government engagement and intensification of official contacts, the Chinese have had to contend with the opening of a plethora of UK sub-regional offices and representative entities across the country. Northern Ireland, Scotland and Wales have all acquired representation of some sort; so has the City of London, cities like Liverpool and Manchester and areas like the North East and the South East as well as numerous other organisations. While the creation of this network is understandable, it detracts from attempts to convey a simple, unified message of what the UK is, speaking in the end to increasingly specialised, smaller constituencies. The 'brand' of the UK has therefore become complex, intensified with the plebiscite in Scotland in 2015 for independence which, while unsuccessful at least that time, created the sense in China of a country which was being eroded by forces of internal division.

If Chinese views of the UK were complex, those of Britain towards China suffered, and continue to suffer, from high levels of ignorance and indifference. Whereas issues around the EU antagonise most British out of their default position of complacency about any foreign issues that do not involve migration or military intervention, China

is both remote and, superficially, alien enough to barely register in mainstream public consciousness. Even the longstanding and significant role that ethnic Chinese have played in British life has done little to change this. The first Member of Parliament with a Chinese background was elected in 2015. In the House of Lords, there were no more than a handful of ethnic Chinese peers. Ethnic Chinese, who in 2011 numbered around 430,000 in the UK, ranked academically amongst the best performing¹⁹. Surveys showed that after the first and second generations, whose work was primarily in restaurants, shops and laundrettes, the third generation on joined the professions as lawyers, doctors or bankers. But the conviction in British society was that Chinese were low-key, apolitical and inscrutable. The nadir of this was the quasi-racist fantasies of the Irish writer Sax Rohmer whose Fu Manchu character appeared in a series of novels and films from the 1930s, combining fiendish intelligence with brutal evil. Rohmer never visited China, gave no evidence of speaking a word of Chinese or having any deep knowledge of the Chinese community in the UK; his works promoted the unhelpful stereotype of oriental amorality and violence. Fortunately, the British view of China and Chinese people never coalesced into the sort of racist stereotypes created by Sax Rohmer.²⁰

While visceral hatred of people of Afro-Caribbean ancestry figured in the propaganda of the extreme-right National Front Party in the 1970s and the British National Party three decades later, the fact is benign though lamentable: knowledge of China was and remains highly uneven. There are world-class centres of research on China at Oxford, Edinburgh and at British institutions like the British Library, the British Museum and the Victoria and Albert Museum. The Needham Institute in Cambridge continues to publish the epic 'Science and Civilisation in China' series of books. Chinese friendship associations and links with partners in China spread across the UK and into every professional area. But this constitutes a tiny part of the UK population. Hardly any space lies between these intense, elite levels of engagement and the largely uninformed and indifferent mainstream view of China.

¹⁹ Data from British Chinese, Wikipedia, <https://en.wikipedia.org/wiki/British_Chinese>

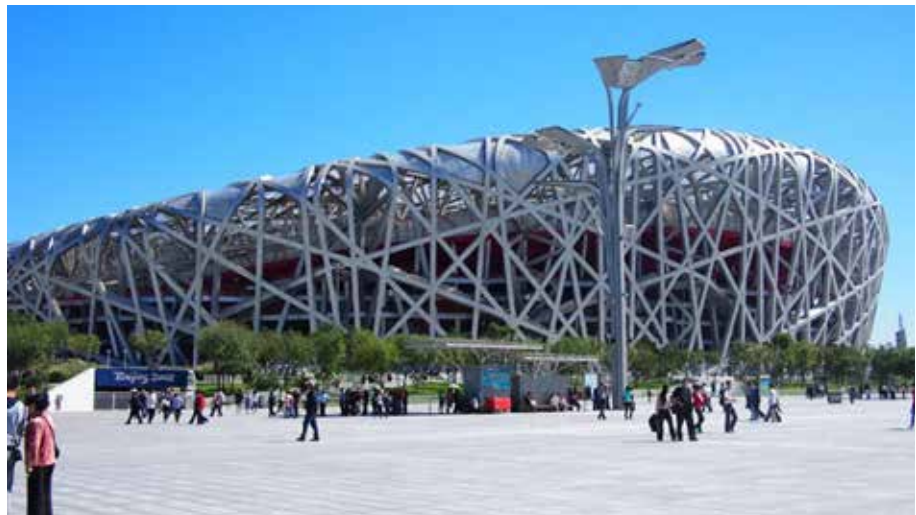
²⁰ See Christopher Frayling, *The Yellow Peril: Dr Fu Manchu and the Rise of Chinaphobia*, Thames & Hudson, London, 2014.

As with British campaigns in China, attempts to stimulate engagement with China's history and culture by the British public have proved patchy and challenging.

A 'China Now' series of events coinciding with the 2008 Beijing Olympics used the event's profile to build broader public awareness of Chinese culture. There were cookery contests, exhibitions about fashion and history across the UK, language lessons, lectures and the publication of a slew of books. But 'China Now' became more akin to 'China Then' by 2015, having hardly made any impact at all. The situation could be summarised, nearly two decades after 1997, deep into the era of UK-China engagement, as one of continuing mutual public misperceptions and misunderstandings. The most damning statistics of all, however, stand in China's favour: whereas an estimated 200 million Chinese were learning English, in the UK those learning Mandarin came to a paltry three thousand. Efforts through the Higher Education Funding Council from the late 1990s to create a national centre for the study of Chinese had limited impact.

One of Beijing's Olympic Stadiums

AP



A key reason for the difficulty of developing meaningful engagement with China is that the subject of China in the UK has always been highly politicised.

A key reason for the difficulty of developing meaningful engagement with China is that the subject of China in the UK has always been highly politicised. In the 1960s and 1970s the PRC was largely closed off to the outside world. In 1967, during one of the worst periods of the Cultural Revolution, the few diplomats based in Beijing were manhandled and beaten by marauding Red Guards.

There was no consensus amongst political and cultural elites in Britain on what to make of China, on what it was doing or what Britain might do to engage with it. Figures like the academic Joseph Needham were highly sympathetic to Chinese Communism. Needham was to pay for this by a considerable level of political ostracism, never being granted public honours despite his immense scholarly achievements. Groups like the Society for Anglo-Chinese Understanding, which he helped to found, started to arrange visits to China by members from the early 1970s and British students of Chinese were allowed to study in China from this period. But mutual distrust on both sides meant that contact with China was regarded as unusual enough to merit attention by the security services.

From the 1990s, the edge of this politicisation started to be worn away. There was an assumption that policy towards China between the main British parties of Conservative or Labour was bipartisan. The incoming Conservative government in 2010, after the defeat of the Labour Party under Gordon Brown, stated that, broadly, on policy towards China, they did not dissent from what had been in place before. However, the tone of dealings towards China changed. A constellation of issues emerged which, over the next two years, were to create a post-engagement era in which, while on one level UK-China relations proceeded relatively harmoniously – students, trade and investment – on the political level there were serious divisions.

THE ERA OF DISHARMONY

The first of these divisions was over the issue of values and human rights. Throughout the era of post-Hong Kong engagement, the UK had managed to deal with these contentious matters largely by holding sporadic bilateral human rights dialogues with China, addressing issues ranging from ethnic minority language use to treatment of suspects during trials. Such discussions, as commentators suggested about those between the EU and China, allowed politicians to state publicly that their country had robust exchanges on these issues with Chinese interlocutors, even though in fact these were outsourced to academic and other actors.²¹ The nadir of this form of tepid dialogue on difficult issues was the infamous occasion in 1999 in which Jiang Zemin, rather than Tony Blair, raised human rights issues during a bilateral meeting. This did not prevent Blair from stating at a press conference afterwards that he had raised concerns about human rights in China.²²

“On human rights, China and the UK should respect each other, respect the facts, treat each other as equals, engage in more cooperation than finger-pointing and resolve our differences through dialogue.”

Wen Jiabao

Newly-installed British Prime Minister David Cameron evidently felt strongly enough on the issue of human rights during the UK visit of Premier Wen Jiabao in 2011 to state, at the joint press conference after their main meeting: ‘We applaud the economic transformation that has taken place in China. But, as I said in Beijing last November, we do believe the best guarantor of prosperity and stability is for economic and political progress to go in step together’. Wen Jiabao responded sharply: ‘On human rights, China and the UK should respect each other, respect the facts, treat each other as equals, engage in more cooperation than finger-pointing and resolve our differences through dialogue’.²³

The situation was to deteriorate markedly the following year, 2012. The first problem developed from an event in November 2011: the death of British businessman Neil Heywood, a long term resident of China, in a hotel room in Chongqing in South West China. Chongqing was of

²¹ See Katherine Kinzelback and Hatla Thelle, ‘Taking Human Rights to China: An Assessment of the EU’s Approach’, *China Quarterly*, vol. 205, March 2011, pp. 60-79.

²² See former Department for Foreign and International Development official Clare Short’s recollections of this in ‘At the Court of King Tony’, *The Independent*, October 25 2004.

²³ ‘PM Signs China Deals but Urges Respect for Human Rights’, *BBC website*, June 27 2011, accessed November 9 2015.

interest because the leading Communist Party leader there, Bo Xilai, was known to be an Anglophile and had sent his son to be educated in the UK, firstly at Harrow, the elite public school, and subsequently at Oxford University. Heywood's death initially appeared to be the result of alcohol abuse but this changed dramatically when Bo's chief security aide Wang Lijun fled to the US consulate in neighbouring Chengdu bearing information which suggested that Heywood had been murdered by no less a person than Bo's wife, Gu Kailai.

As this story unfolded, another event effectively put the UK-China relationship into deep freeze at least in terms of political links. In July, in the undercroft of St Paul's Cathedral in London, while receiving a prize, the Dalai Lama met with David Cameron and his deputy, Nick Clegg. The Chinese government condemned the meeting as outrageous interference in its internal affairs. Reprisals were instantaneous. Ministerial-level visits to China from the UK were stopped as were visits from China to the UK. This continued for almost 18 months, until, in November 2013, Cameron was once more able to visit China, though his reception was lukewarm.



The Dalai Lama, David Cameron and Nick Clegg

Clifford Shirley

The usual default position until 2013 had been for British leaders to meet with the Dalai Lama as a spiritual leader rather than a political one. But as China had grown more powerful economically, its tolerance for what it saw as a palpable excuse dwindled. With the uprising in Tibet in April and May 2008, just prior to the Beijing Olympics, Beijing's

Investment and trade, however, suffered no visible impact from the political impasse.

sensitivity to this issue increased. That the British were holding such meetings with someone China regarded as problematic, alongside their long history of, in its eyes, British meddling and interfering in Tibetan issues, only added to the fury.

Investment and trade, however, suffered no visible impact from the political impasse. Chinese companies still came to invest in the UK and British companies continued to be welcomed in China. Most other indicators showed that the relationship was fine. But at a political level it ailed. No senior Chinese leader came to the opening of the 2012 London Olympics. What political business the UK needed to transact took place via the EU.

Heywood's case was resolved, albeit in a highly unsatisfactory fashion. For over two decades the UK and China had built a legal cooperation dialogue in which judges had visited Chinese courts and Chinese lawyers had come to the UK. Despite China following a continental legal system rather than one based on common law as in the UK, entities like the Law Society and the Great Britain-China Centre supported training and programs for solicitors, lawyers and barristers. Tony Blair's wife, Cherie, an accomplished human rights barrister, participated in a mock trial in Beijing during a visit in the early 2000s. But the treatment of the Heywood case raised many issues over the effectiveness of the Chinese criminal law system, with the accused, Gu, tried and sentenced over the space of 48 hours in August 2013, based on forensic and witness evidence which was perfunctory and, in places, contradictory. Britain's official response to this episode was subdued. 2012 into 2013 can therefore be described as a period of semi-crisis in the UK-China relationship. This makes what has followed since then all the more striking.²⁴

²⁴ The Heywood case is discussed in John Garnaut, *The Rise and Fall of the House of Bo*, Penguin, London, 2012, Jamil Anderlini, *The Bo Xilai Scandal: Power, Death and Politics in China*, FT Books, London, 2012, and Kerry Brown, *What's Wrong with Diplomacy: The Case of the UK and China*, Penguin, London, 2015.

2015 : THE YEAR THE UK REDISCOVERED CHINA

From the end of 2003 to October 2015, UK-China relations went from deep freeze to an era labelled 'golden' by officials on both sides. In essence, this transformation involved a combination of multiple factors: a desire by the UK to finally put paid to the legacy of colonial history; the sponsorship by London of a highly pragmatic, mercantilist and self-centred policy on China, pursued even at the risk of antagonising US and EU allies; the ambitions of a Chinese leadership to have a much more expansive foreign policy vision; and, perhaps most powerfully, the potential on both sides to create a new stream for wealth and business creation. Narratives in London and Beijing, uniquely, coalesced. This is a still-evolving story, however, and it is unclear whether it will have a happier ending than the many earlier false starts and 'new eras'. The one thing that can be clearly stated is that, as of the end of 2015, the era of UK-China 'engagement' has been replaced by one of much clearer and stronger 'commitment'. The UK has, over the space of 18 months, become the most committed to China – and the most proactive in trying to engage with it – among EU nations, and, possibly amongst developed economies. Finally, the long record of experience and knowledge of each other seems to be of use.

Narratives in London and Beijing, uniquely, coalesced.



The Duchess of Cambridge with President Xi during his visit to London in 2015

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The first sign of a possible seachange came in March 2015 when the UK unilaterally decided to join the China-instigated Asian Infrastructure Investment Bank.

AIIB member representatives at the signing ceremony in Beijing, June 2015
AIIB

The first sign of a possible seachange came in March 2015 when the UK unilaterally decided to join the China-instigated Asian Infrastructure Investment Bank (AIIB). The AIIB had already attracted criticism from, in particular, the US, followed by Japan, who felt that it was a direct threat to the post-World War Two Bretton Woods architecture of global financial decision-making and that it carried further evidence of a grand Chinese plan to hijack even more international space. For Washington, the concerns of the Obama administration were that in terms of transparency, governance and political aims, the AIIB was risky, that China had no record of directing such an ambitious entity and that its investments in places like Africa over the last decade had raised concerns about corporate social responsibility, observing regulations, being environmentally compliant and respecting labour laws and human rights. There was also the suspicion that the AIIB in its infrastructure investments would carry a political as well as economic price for those taking one of its loans. Would countries in the region find their loyalty was being bought over issues that mattered to China like Taiwan, the South and East China Seas and Tibet?

The UK's rationale for applying to join the bank was simple: that China was well placed after nearly three decades of building significant amounts of infrastructure of its own to advise and be involved in countries in the region, that it was better to be on the inside of this initiative trying to influence it rather than outside, and that in any case, the amount of capital being discussed (USD200 billion) was very small compared to the needs. The AIIB offered a chance to integrate China even more into the global system and to allow it, in a controlled way, to show what its real vision and capacities now were.



In the US, the response to the British application was, according to press reports, highly critical. One official quoted anonymously in a *Financial Times* article said that this showed ‘constant accommodation’ of China.²⁵ Chancellor of the Exchequer George Osborne (in effect Britain’s Finance Minister) was unrepentant, stating: ‘Joining the AIIB at the founding stage will create an unrivalled opportunity for the UK and Asia to invest and grow together’. Once the UK had joined, Germany, France and a number of other European powers also signed up. Australia followed suit, despite initially declining the opportunity.

Osborne had other surprises up his sleeve. On a visit to China in September 2015, he undertook a number of risky activities. The first was to visit the Shanghai Stock Exchange, despite the huge falls in value it had experienced in July necessitating highly criticised government intervention. For someone clearly representing the interests of London as a finance centre, doing this was defensible enough. But the most striking visit he paid was to Xinjiang, China’s restive, vast North Western autonomous region, which had seen a series of violent events since July 2009 when its main city, Urumqi, had erupted in ethnic clashes and violence. At the time Osborne went, there were clampdowns in one of the isolated parts of the region because of recent unrest. His five-hour visit was under high security and baffled commentators because the UK had little tangible investment or trade links in this area. Lacking these, there were real concerns that Osborne may have visited to curry political favour in Beijing.²⁶

“Joining the AIIB at the founding stage will create an unrivalled opportunity for the UK and Asia to invest and grow together.”

George Osborne

²⁵ Geoff Dyer and George Parker, ‘US attacks UK’s “constant accommodation” with China’, *Financial Times*, March 12 2015, <<http://www.ft.com/cms/s/0/31c4880a-c8d2-11e4-bc64-00144feab7de.html#axzz3r6JupNo0>>.

²⁶ Kerry Brown, ‘Why Did Britain’s Chancellor Visit Xinjiang?’, *The Diplomat*, October 6 2015, at <<http://thediplomat.com/2015/10/why-did-britains-chancellor-visit-xinjiang/>>.

George Osborne at the
Shanghai Stock Exchange, 2015

Reuters



Parallel to this was a 'soft diplomacy' strategy, with the deployment of younger members of the British royal family to China in March 2015. Prince William, second in line to the British throne, was despatched to Beijing in March to carry the formal invitation for President Xi Jinping to undertake a state visit to the UK later in the year. In view of the attempts over the previous decade and a half for Britain to rebrand itself as fashionable, modern and trendy, this tactic was somewhat contradictory. But William had youth on his side and was a much safer choice than his father, Prince Charles, who had been vociferous over the years in his expression of distaste for Chinese leaders. Attending the ceremony marking the handback of Hong Kong in July 1997 in a heavy downpour, Prince Charles had afterwards labelled the Chinese leaders 'appalling old waxworks'. During the state visit of Jiang Zemin to the UK in 1999, Prince Charles had failed to turn up at the welcoming banquet at Buckingham Palace. He was to repeat this feat when Xi Jinping visited in October 2015, even though his son had travelled to China to formally invite the President on behalf of the Queen. Even more toxically for the Chinese, Prince Charles had frequently expressed sympathy for the Dalai Lama and the Tibetan cause. William came unladen by such baggage.

The deployment of royal flattery had worked in 2014 when Chinese Premier Li Keqiang had visited Britain in May. Contrary to normal

protocol, Li, despite being Head of Government rather than Head of State, had been granted an audience with Queen Elizabeth. In hindsight, this presaged the intensification of ties and the renewed concentration on China that was to become evident over the next 18 months but at the time, it was seen as strange behaviour by the UK, particularly as Beijing, almost the moment Li set foot in the UK, issued the second official White Paper since 1997 on Hong Kong whose tone was far more categorical than ever before. 'The HKSAR comes directly under the Central People's Government and its chief executive is accountable to the Central People's Government', the White Paper declared, making clear that full and supreme authority for Hong Kong now lay in Beijing, not elsewhere.²⁷ In the acid words of the *South China Morning Post*, this carried the simple message from China: We're in charge now.

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Chinese Premier Le Keqiang with Queen Elizabeth II, London, 2014.

The Guardian UK

After Li's royal meeting, UK attitudes towards Hong Kong were placed in a wholly different context. The Basic Law, Hong Kong's de facto constitution, had allowed for consultations and then the implementation of a new means to elect the Chief Executive for the territory after 2017, extending the franchise. The Chinese National People's Congress, in effect its parliament, and on paper at least the supreme authority over Hong Kong, issued an opinion in August 2014 which stated that a much more limited form of selection would be used – a committee would screen candidates, vote on them and then put them before the public for wider vote. This fell far short of what

²⁷ State Council, 'The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region', available on Xinhuanet, June 10 2014, <http://news.xinhuanet.com/english/china/2014-06/10/c_133396891_3.htm>.

pro-democracy groups in Hong Kong wanted, precipitating protests throughout September and into November. Despite expressions of concern, however, the UK distanced itself from these events. A delegation of Members of Parliament was refused entry to Hong Kong in December with only mild expressions of irritation from London. A few weeks later, in early 2015, visiting UK Minister of State Hugo Swire was not even met by the Chief Executive.

This had no impact on British proactivity towards China and was not alluded to publicly except for some words of concern on the part of George Osborne when he visited in September. Nor did Hong Kong figure greatly when the state visit of Xi Jinping finally took place over four days in October. There were rational political reasons for this. The UK's influence over this issue had long disappeared. Expending political capital on a matter that was best left to the people of Hong Kong and China to sort out was no longer a priority, especially as it became clear that any intervention by Britain was more counterproductive than helpful. The harsh reality was that the UK had its own interests to look after and the more it distanced itself from its complex, colonial past, at least in China's eyes, the better. There was another dimension here, too, something that was emerging in the Osborne visit to China and the Xi visit to the UK: the fact that London and its primacy as a Chinese currency trading centre and internationalisation hub was the great prize the UK was pursuing and Hong Kong was more a competitor than an ally.

Expending political capital on a matter that was best left to the people of Hong Kong and China to sort out was no longer a priority.

XI'S VISIT

The last state visit from China to the UK was by Hu Jintao in 2005 and is memorable largely due to its low visibility and to the complete failure of Hu to register in any meaningful way on the British public. This suited Hu's highly self-effacing style but for those keen to see more action in the UK-China relationship, it was problematic. With Xi Jinping, there was a much more extroverted, ambitious-sounding leader, one who had been a frequent traveller abroad since becoming President in early 2013. After so much preparation and messaging, there were great expectations about Xi's visit.

A number of policy strands became clear during the visit which gave it a much more coherent narrative than previous high level visits but carry far greater risks:

- > The core of the relationship was to be simplified to investment and trade; for the UK, despite 10 years of effort, only 0.1 percent of its stock of inward foreign investment was from China; in view of the strong historic links, the openness of the UK economy and the strategic role the UK played between the EU and the US and China, this was underwhelming; there was a core of promising Chinese investment – in Anglia Water, Heathrow and in other utilities as well as expressions of interest in infrastructure but this had yet to become significant; UK investment into China constituted only one percent of the whole stock China had; in view of the UK's major role as an outward investor, this was once again underwhelming;
- > While growing steadily, people-to-people links were still not as powerful as they could be; Britain's non-membership of the EU Schengen common visa zone meant that Chinese, who needed to arrange a separate visa to visit the UK, did not come in the numbers that France or Italy saw; only 66,000 Chinese visited London in 2014, ranking it thirty-third city in the world - for a city that, according to Loughborough University's measure of globalisation, ranked alongside New York as one of the world's most interlinked and interconnected places, this was a poor performance; this was even worse when put in the context of the

After so much preparation and messaging, there were great expectations about Xi's visit.

The Xi visit attempted to address these structural challenges by a joint effort between the British and Chinese governments to raise the profile of China and its importance to the UK.

burgeoning numbers of Chinese touring elsewhere and the per capita spend cities like Paris and Rome were experiencing;

- > British engagement with China in terms of language learning remained parlous. In 1999, during the first Chinese state visit to Britain, 300 undergraduates a year were graduating with a Chinese language degree; this figure had remained static in the intervening 16 years; schools were teaching Chinese more but Chinese language skills remained a minority interest; understanding of Chinese languages, history, culture, geography and politics remained outside the mainstream; one of the great symbols of this was the closure of the East Asian Studies Department at Durham University in 2007 after half a century of distinguished teaching and research.

The Xi visit attempted to address these structural challenges by a joint effort between the British and Chinese governments to raise the profile of China and its importance to the UK. There were three major strands to this:

- > Agreement to Chinese investment in a nuclear power station in partnership with the French company EDF; of all the possible sectors, this is one of the most sensitive and strategic; investment in such a contentious area would position China's investment engagement with the UK far ahead of that with other EU and American partners;
- > Facilitation of people-to-people links through liberalisation of visiting visa protocols and limited work visa programs;
- > Presentation of London as a finance centre as China's premium partner, geared up for the era of accelerated RMB internationalisation.

Each of these carries risks for the UK. The commercial and security issues for Chinese investment in a nuclear power plant are considerable. In view of the UK and China's sometimes turbulent and tetchy relationship, there were huge questions over what impact these might have over such a high-profile, high-risk project. There were

also issues over the safety record of Chinese construction of nuclear plants. Regarding the liberalisation of visas, this was happening at a time of heightened British anxiety over migration, with public opinion hardening over the accessibility of the UK jobs market to non-British. Was there really space for a parallel narrative which said that Chinese should be granted preferential treatment because it brought benefits other groups did not? As for London, the issue was that so far so little had happened and, moreover, that London-centric policies like this risked alienating the rest of the UK.

Moves were made during Xi's visit to address these concerns. To counter London-centric concerns there was a visit to Manchester to make clear that other parts of the UK did figure in the UK-China relationship. For the nuclear deal, there was a link with the RMB trading deal: close interconnections in one area to China's seeming favour were balanced by a renewed dependence on London by China and a need to preserve London's interests there. For the visit as a whole, the effort was to simplify the narrative that the UK held towards China. Complicating issues around human rights, values and Hong Kong obligations were simply either unaddressed or framed in ways that related them solely to UK interests. This attracted fierce criticism. But the simple fact was that the existing UK dialogue with China on these areas had failed to lead to any visible changes or successes. Something different needed to be done. The great assumption this new kind of relationship was testing was whether, when mutual dependence so clearly existed in tangible areas, questions of values and rights would be easier to talk about and pragmatic outcomes more likely to be achieved.



British Prime Minister David Cameron, Mrs Cameron, Queen Elizabeth II and Prince Philip with President Xi Jinping and his wife in 2015

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The UK was in effect running its China policy no longer from the Foreign Office, the former bastion in this area, but the Treasury.

One of the final striking aspects of the Xi visit was the ways in which it confirmed an institutional change. The UK was in effect running its China policy no longer from the Foreign Office, the former bastion in this area, but the Treasury. The Chancellor of the Exchequer was in charge of UK-China relations rather than the Foreign Secretary. This raised the question of how much difference the sponsorship of a single individual and their personal interest could make in a foreign policy area like China. Osborne's engagement showed that these sorts of connections did matter. In the previous two decades, the simple fact was that not a single Prime Minister had shown much passion or interest in China – Major disliked the place because of the humiliation Hong Kong policy visited upon him during his visit in 1991, Blair was preoccupied by America and the Middle East and Brown by his own domestic travails. Prior to Xi's 2015 visit Cameron evinced little enthusiasm for China, but Osborne seemed to have a genuine link to the country through a youthful visit there and some imagination and willingness to invest political and personal capital in doing something different with the country. This is not to overstate the hard core of pragmatism guiding him or to understate the real risk the UK is running in 2015, particularly with its allies in Europe and the

Performers gather outside of the Palace of Westminster to welcome President Xi Jinping
BBC



US who remain baffled by its new approach to China. There is a prize the UK seems to be striving for in all of this: Chinese currency and the role of London. It is here that success for the new policy approach will appear most quickly.

LONDON: THE EPICENTRE OF UK-CHINA ENGAGEMENT

London is no stranger to Chinese money, as the story of Chinese listings on the various London stock exchanges mentioned previously makes clear. The Bank of China had an office in London even in the era of Mainland closure in the 1960s. After financial deregulation in the 1980s, however, the financial services sector has risen in importance in the UK economy, constituting 9.6 percent of national output in 2011, and contributing 11 percent of national tax revenues, making the UK the world's largest exporter of financial services. In 2012 alone, London contributed GBP35 billion to national output, employing more than one million people. According to a City of London Corporation report, 'Financial and associated professional services make a vital contribution to the UK economy, because of the distinct competitive advantage the industry has built up over the longer term. It is also central to the daily lives of people and businesses in the UK and internationally – a jewel in Britain's crown'.²⁸

In an era in which the UK's manufacturing base was under challenge and competition was emerging from developed and developing economies, maintaining the primacy of financial services has been a shared priority for Labour and Conservative administrations. London is the epicentre of this, with the largest concentration of companies, capital flows and expertise. London's markets in 2012 hosted a daily turnover of USD1.91 billion, the world's largest foreign exchange market.²⁹

The liberalisation of China's capital account and the internationalisation of the Chinese currency has been a keenly watched development for London. Between 2011 and 2014, Forex trading in RMB in London increased twentyfold. RMB Forex spot trading in early 2014 increased 160 percent over the same period the year before. In a context in which China was clearly looking to incrementally increase its RMB internationalisation and position RMB

²⁸ City of London, *An Indispensable Industry: Financial Services in the UK*, 2013, p. 4.

²⁹ *Ibid* p. 5.

London Stock Exchange
APEU



as a potential long term reserve currency against the dominance of the US dollar, the volumes and capacity of London's foreign exchange market appear very attractive. During Li Keqiang's visit to the UK in May 2014, the China Construction Bank was appointed the official RMB clearing house in London, with the clearing system going live on July 29 that year. Moves subsequent to this have seen the London Stock Exchange enter into agreements with Chinese banks to develop new RMB denominated products. In October 2014, the UK agreed for the first time to establish a sovereign offshore bond in RMB to finance UK reserves.³⁰

The volumes and capacity of London's foreign exchange market appear very attractive.

RMB trading is exciting for London because of its potential rather than the actual amounts now. According to SWIFT payment data, between 2013 and 2014, the Chinese currency rose from thirteenth to fifth place amongst the most traded currencies globally. Even after this, it still constituted only 4.4 percent of global payments. As a report by Bourse Consulting in 2015 made clear, this trajectory had to continue upwards:

³⁰ Data from City of London Corporation, 'London RMB Business Volumes January-June 2014', available at <<https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2014/RMB-business-volumes-Jan-June2014.pdf>>

... the goal of transforming the RMB into a global currency will inevitably expose China to the risk of an outflow of a considerable amount of funds to other financial centres and investment opportunities around the world. Indeed to achieve its goal of becoming a global currency continued outflows are required to build-up a very sizeable pool of RMB outside the country.³¹

Developing an indigenous financial sector in China centred in Shanghai has become one of the key aims of the Xi-Li leadership. Alongside the establishment of an international entity like the AIIB with its 57 founding member countries, Shanghai also established a free trade zone in 2013. Policy over the specifics of the Shanghai Zone and what opportunities it offers have been sparse. The overall direction of Chinese government strategy however, is clear: to strengthen as far as it can its internal financial services during the transition to a more service sector economy, to seek intellectual and technical support from foreign partners for this and to accompany it with a controlled but accelerating exposure of RMB to the outside world.

The overall direction of Chinese government strategy is clear: to strengthen as far as it can its internal financial services during the transition to a more service sector economy.

Hong Kong with its dim sum bonds products and its high volumes of RMB trading still stands preeminent in this process and has great importance for China. Deals have also been signed across the world, including one in April 2013 with Sydney, for direct invoicing in RMB and swap currency deals. The options for the use of RMB globally have increased along with the volumes. Singapore, Frankfurt, Paris and other financial centres have entered into similar deals.

Despite this, London has many advantages for China, from the mundane (London is almost perfectly placed between the close of China's market and the opening of those in the US) to the technical (London has deep liquidity, high capital volumes, strong regulation and great diversity). The sheer size of the London market is perhaps most important for Chinese, alongside its high levels of internationalisation.

The commitment by the UK government to the promotion of financial services in general, and of London in particular, has been consistent

³¹ Bourse Consulting / City of London Corporation, *London RMB Business Trading Volumes 2014*, p. 4, available at <<http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2015/London-RMB-business-volumes-2014.pdf>>.

When they talk money and finance, the UK and China in 2016 do not need a translator standing between them.

throughout the new era of engagement, providing its cornerstone. The UK has a clear advantage over its competitors in this area, in contrast to manufacturing or the creative industries. The UK as a market for exports is tiny for China. It ranks relatively high as an educational provider, but for only a very small proportion of Chinese. Tourism and people-to-people exchanges are also worthy, but low priority. Even as an investment destination, the UK, on current statistics and in terms of future prospects, would be unlikely to have the volumes to satisfy eventual Chinese demand. Where the UK really has importance for China is the strategic role of London as the key platform for the internationalisation of the RMB, a place that offers a uniquely strong and coherent partnership. At heart, therefore, the UK and China are joined by this area of clear mutual interest. For both, this has the huge benefit of offering returns that are tangible, uncontentious and unscarred by the complex history between the two. When they talk money and finance, the UK and China in 2016 do not need a translator standing between them. They are speaking the same language.

A NEW DAWN FOR INVESTMENT

One of the propositions that the UK has consistently put to China since the early 2000s – when the PRC began to be a more significant outward investor – is that the UK is a uniquely open, liberal partner. Unlike in the US, there were no formal procedures for scrutinising inward investments beyond ensuring that they complied with UK laws and regulations. The UK does not have an agency similar to the Committee on Foreign Investment in the United States, an inter-agency body chaired by the Secretary of the Treasury which reviews significant foreign investment proposals and advises the President on whether they should be blocked or not. In 2012, for instance, this body counselled President Obama to block a wind farm deal by the Chinese renewable energy company Sany. Nor does the UK have anything equivalent to the Australian Foreign Investment Review Board, which has similar powers to its US counterpart to review proposed foreign takeovers, mergers and acquisitions. The only comparable UK entity is the parliamentary, cross-party Intelligence and Security Committee but while this body has the power to undertake investigations, issue reports and make recommendations to the government, it does not have powers to veto. Its sole power is to influence through pressure.

The UK is a uniquely open, liberal partner.



Chinese state-owned enterprise China General Nuclear Power now owns 33.5 percent of the Hinkley Point nuclear power station following a deal signed during President Xi's 2015 visit to the UK

Mark Robinson

The controls that do exist in the UK are through sectoral regulatory bodies. In the financial services sector, for instance, the key regulator is the Financial Services Authority which imposes a number of stipulations and reporting requirements on the acquisition by non-British of British entities. A similar role is played in the telecoms sector by the Office of Communications and in the energy sector by the Office of Gas and Electricity Markets. There are also compliance requirements arising from relevant EU legislation. The process in the UK is a largely regulatory one rather than a politicised one – that, at least, is the hope which lies behind the claim that the UK is uniquely open. The key requirement is to observe local rules and laws.

This message of openness was promoted in the first guide for outward investors issued in March 2014 by the Institute for International Economic Research, a think tank under the Chinese National Development and Reform Commission (NDRC), assisted by the British Embassy in Beijing. Launching this report, the Chinese officials talked of the strategic importance of the UK for Chinese state and non-state companies. For the British officials present, benefits were spelt out as ‘predictable legal and regulatory systems; ... deep talent and capital markets; ... long history of innovation and creativity, and ... physical location: between Asia and the US and with easy access to the vast European market’.³²

The UK is unique in having promoted this notion of its own openness so effectively in China and this lay behind the excited talk during the Xi visit of the UK being ready and well-prepared for rising levels of Chinese investment, with expectations that a new era was dawning. In fact, in terms of the usual drivers of Chinese overseas investment – servicing its export markets, leveraging the Chinese diaspora, sharing economic synergies with Chinese resource and energy needs – the UK is not such a natural partner. It is not a large market for Chinese goods, nor does it have as large a Chinese ethnic population as the US or Australia or major resources that might interest Chinese partners. This is borne out by the fact that as of 2015 the largest single sector for Chinese money was property, constituting almost a third of the

Chinese officials talked of the strategic importance of the UK for Chinese state and non-state companies.

³² *UK Welcomes New Guide to Investing in Britain Produced by China’s NDRC Think Tank*, report on British government website, March 25 2014, <<https://www.gov.uk/government/world-location-news/uk-welcomes-new-guide-to-investing-in-britain-produced-by-chinas-ndrc-think-tank>>.

USD29 billion invested in the decade after 2005. Energy projects made up only USD6 billion, with finance, food and beverages and transport coming in after these. The Chinese primarily put their money in the UK into bricks and mortar. In that sense, they are remarkably similar to the British themselves, who also delight in investing in this sector.



Chinese state-owned enterprise Bright Foods owns 60 percent of Weetabix

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The key fact is that it is hard to find a straightforward narrative about Chinese investment over the period 2005 to 2015. There are strands of different stories. The custodian of the Chinese foreign exchange reserves, the State Administration for Foreign Exchange (SAFE) had a USD2 billion stake in the energy giant BP. The Chinese state-owned company Bright Foods bought 60 percent of Weetabix, the cereal maker, in 2012. The restaurant chain Pizza Express was sold to Chinese private equity company Hony in 2014. The China Investment Corporation, the major state sovereign wealth fund, bought a nine percent stake in Thames Water in 2012. The same entity also bought a 10 percent stake in Heathrow Airport the same year – interestingly, in the middle of the diplomatic freeze caused by Cameron’s meeting with the Dalai Lama, demonstrating that it had no impact on the desire for Chinese state entities to seek profits in the UK. The committed investment to the UK by 2015 therefore was a hybrid list, which looked to be driven more by mutual opportunism than any profound strategic intent on both sides, either by the Chinese using the UK as a real hub for its state and non-state globalisation plans – if such a thing

The committed investment to the UK by 2015 therefore was a hybrid list, which looked to be driven more by mutual opportunism than any profound strategic intent on both sides.

existed: there was much scepticism about this – or by the UK pulling specific kinds of investment in – there is no consensus over how many sustainable jobs Chinese money has created.

The Xi visit in 2015 did mark an attempt to highlight diversification. The list below was produced by the British government once President Xi had departed and provides an appropriate place to end this report. It shows a mixture of sectors, with a strong emphasis on infrastructure, creative industries, technology and energy. It is in fact a map of British material aspirations towards China – the real manifesto, as it were, of where the government in Westminster in 2015 wishes to drive the new, mercantile, post-colonial, pragmatic relationship it has tried to create with the PRC. But there is, like all such lists of big headline deals signed between China and other countries over the last few years, a big question mark about how many will be realised. There are huge hurdles to surmount with the nuclear deal. The others, too, provide plenty of challenges and tellingly, there is no timeline to this list. It contains the hopes for British diversity. It does not say much about the will to achieve these deals, and who, in the end, stands to gain most.

CHINESE INVESTMENT IN THE UK

Deal	£ m/b	Jobs
BP – agreement to sell Liquid Natural Gas to Huadin over 20 years	£6.5b	
Hinkley Point C – China to take a 33.5% stake in the power station in a joint venture with EDF	£6b	Up to 25,000 (24,100 temporary / 900 permanent)
Oxford University – China Construction Bank (through subsidiary CCBI) to help fund regenerative medicine and tissue engineering research with Oxford University	£6b	
Carnival Plc – Agreement with China State Ship Building Company to build ships	£2.6b	1,600 created, 400 safeguarded
Alexander Dennis – joint venture with BYD for 200 electric buses	£2b	2,100 safeguarded
Inmarsat – to supply fifth generation satellite to China	£2b	
Royal Albert Docks – CITIC construction investment to redevelop Royal Albert Docks	£1.7b	
Rolls-Royce – deal with Hainan Airlines for 20 Trent 700 engines and Total Care Package	£1.56b	
Hualing – investment into three regeneration projects, Manchester, Leeds, Sheffield	£1.2b	
Garden of ideas – MoU to establish 'Garden of Ideas': £1 b	£1b	200 created
Sinophi Hospital – building seven hospitals	£800m	
Sanpower – acquisition and expansion of Hamleys	£600m	500 created

BP – ICBCL third party financing BP’s fleet rejuvenation program. BP’s first commercial transaction with ICBL	£550m	
International Hospital Group – hospital build with CREC	£204m	
York University – a TV training program with China Capital Investment Group	£200m	
BRE (UK) – partnership on green building with Evergrande Group and Tsinghua University	£200m	
Beijing Construction Engineering Group (BCEG) – taking a 21% stake in a major regeneration project in Manchester city-centre	£200m	600 created
Sanpower – first three House of Fraser stores to open in China	£100m	
Future TV and Distrify – Online distribution of film and TV programs in China and internationally	£85m	
Zhong Project – project to bring FDI to UK for export-oriented UK life sciences	£100m	
NetDragon Websoft inc – purchase of Promethean World plc	£84.8m	
Fosun Group – increased its stake in Thomas Cook	£70m	
Cerno – to distribute medical imaging machines for use by NHS trusts	£58m	
Counton GMS – working with UK private hospitals to provide specialist hospital treatment for Chinese patients in the UK	£57m	
Hainan Airlines – direct flights from Manchester to Beijing		
Geely – additional investment in Coventry	£50m	

Aston Martin – MoU with China Equity to finance the new electric Aston Martin Rapide	£50m	
China Dream Space – creation of a 2,000sqm to incubate innovative companies at Canary Wharf	£50m	
Thomas Pink – deal with LongGal to act as a franchise partner for roll out of its stores in China – over five years	£33m	
Newton Fund – Promoting UK-China Joint Research Partnership	£20m	
Annie Barr International – deal with TBF to provide training for elderly care workers in China	£16m	
Kings College London – contract with Nanjing Health Bureau to train nurses in Nanjing and Jiansu	£10m	
Phynova – Xiangxue investing in Phynova to develop herbal drugs	£5m	
Shanghai Upper Biotech – working with Microtest to research and develop point of care test technology	£2.4m	10 created
GlaxoSmithKline – a program to train 7,000 Chinese medics over three years.	£2m	
Glasgow Caledonian University – a deal with Beijing Health School to train nurses	£1m	

Source: UK Trade and Investment, British Government, October 23 2015, <<https://www.gov.uk/government/news/chinese-state-visit-up-to-40-b-deals-agreed>>.

CONCLUSION

Britain and China are engaged in a diplomatic experiment. There are huge opportunities that will flow from this if it succeeds. But there are also attendant risks. The priority for the UK is to focus on the economic and material benefits of engaging with China as that country migrates its development model to the services-orientated, finance-strong model in which the UK itself has demonstrated strength. For China, its relationship with the UK – a developed economy it knows well, sharing a long history – is the chance to finally identify a stable model for how it can relate to other similar economies.

The context for this realignment has the following drivers:

- > The desire of Britain to liberate itself finally from the strictures of its colonial history and seek a new future with China through a simplification of the relationship, jettisoning complex values and rights issues and concentrating mainly on economic themes with tangible outcomes;
- > The reversed asymmetry of the relationship, from a situation only two decades ago in which Britain had the stronger economy and global position, to one where China is larger and stronger;
- > China's strong interest as it proceeds with creating a more sophisticated, services-based economic model by 2021 with key strategic partners abroad, particularly aligned with the internationalisation of the RMB and the very powerful attributes that London as a finance and expertise centre brings;
- > The willingness of the British government to exploit domestic public indifference towards China in order to articulate an engagement framework which in some areas (migration, security) may be ahead of public opinion; delivering clear tangible benefits in the economic realm, from job creation from Chinese investments to economic outcomes through London, may appease public concerns;

The priority for the UK is to focus on the economic and material benefits of engaging with China.

The willingness of Britain to risk complicating its alliances, particularly with the US and within the EU, in areas where national interest is served by a more unilateral approach to China. Once more, delivering clear, tangible gains which demonstrate to other countries how an engagement strategy with China might work, or bring knock-on effects to other countries, might help mitigate the unease of allies.

There are clear risks with these new developments in UK-China relations:

- > Delivery for Britain on its engagement with China in terms of clear economic outcomes needs to be quick; Britain has expended diplomatic capital in creating a new closeness with China at a time when it is worrying other countries through greater perceived aggressiveness in cyber espionage and its regional role; Britain has to produce, in a short period, results that it can show come from the risks it has taken over 2014 into 2015 and demonstrate they were worth taking;
- > Britain's referendum on continuation of membership of the EU worries China as much as the US; a result to withdraw will be problematic for China, although it is unlikely to affect its attitude to London's finance centre, or, for that matter, investment; the greatest impact of possible Brexit will be to make the UK diplomatically more isolated, and more exposed in issues relating to China – particularly those concerning security;
- > British desire to forget the past and move away from its colonial history, while fervently desired in London, is unlikely to be so easily forgotten in Beijing; the Chinese have proved to possess long memories, sometimes conveniently so, and the use of the narrative of Britain somehow 'owing' China through its past misdeeds is unlikely to vanish.

But countering this, there are clear, major opportunities for both the UK and China:

- > For Britain, if it does succeed in the key area of becoming the centre for RMB trading and China's partner of choice in the

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finance sector, it will have secured a major strategic role for itself in the relationship with this newly-burgeoning aspiring economic superpower; it will also have identified a key point of leverage with a country it has been seeking a focal point with for some years; if Britain achieves this, it will also create new partnership opportunities to others in Europe with strong finance markets, and, in principle, with the US;

- > For China, it has, in the UK, a highly experienced and pragmatic partner in the finance sector and benefits greatly from working with it; this creates at least some certainty and stability as it attempts to move forward with opening its capital account incrementally and dealing with the various challenges that will lead to; China's cautiousness over this area has been longstanding; if things go smoothly, London and Beijing have at least one area where they speak the same language; this will have a positive impact on other areas from investment and leading into more politically-charged areas like the environment, security and political dialogue.

In 2015, Britain has responded with diplomatic and political imagination as a developed, services-based economy to China's rise and what it might mean for its own long-term future. It has relatively strong and diverse investment links with China and a range of intellectual, social and political links and it is striving to use the contentious historic links as a strength – because of the knowledge they give it about China – rather than a weakness. Of all the EU nations, therefore, it is best placed to embark on this more risk-taking but also more wide-ranging and ambitious approach to China engagement. The UK, because of the clear importance of London to China, is the greatest fulcrum of the relationship.

The only issue for the UK, however, in view of the risks it has taken with its allies in the security and political realms, is whether the results of its new engagement framework with China come through quickly enough to offset antagonisms it may have created within the EU and with the US. Rapid increases of good quality investment, clear signs of London being a centre for Chinese RMB trading large enough that other countries see value in engaging with this process via London and evidence that better-quality economic links lead to better-quality

engagement across the diplomatic spectrum, including working with China commercially in third party locations like Africa or Central Asia, will be the factors most closely watched and seen as indicating success. In essence, however, the UK approach is driven by the simple fact that there are two strategic choices: either engage with China more deeply or simply eschew the opportunities the country offers as it modernises its economy. The UK has clearly chosen the former. If this choice proves correct, it will have major implications for other countries' engagement with the People's Republic, providing a new model of how developed countries can relate to China.

ABOUT THE AUTHOR

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Until November 2015, Professor Kerry Brown was Director of the China Studies Centre at the University of Sydney and Professor of Chinese Politics.

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Educated at Cambridge (MA), London (Post Graduate Diploma in Chinese with Distinction) and Leeds Universities (PhD), he worked in Japan and the Chinese province of Inner Mongolia, before joining the Foreign and Commonwealth Office (FCO) in London in 1998. He worked in the China Section and then served as First Secretary, Beijing, from 2000 to 2003, and Head of the Indonesia East Timor Section at the FCO from 2003 to 2005.

He is a Senior Fellow of the China Policy Institute at Nottingham University and of the LSE Ideas Centre, as well as an affiliated scholar with the Mongolia and Inner Asian Studies Unit at Cambridge University.

ABOUT THE LAU CHINA INSTITUTE

King's College London has a long history of formal and informal connections with China, with the first Professorial Chair in Chinese established in the 1840s. More recently, academics and departments at King's have developed a wide range of links with academic organisations in China, Hong Kong, Singapore and Taiwan.

The Lau China Institute opened in London in 2008 as the King's China Institute, to coordinate and develop these links, provide a home for cutting-edge research and teach innovative postgraduate programmes on contemporary China – particularly its culture, society, business and politics. The Institute became the Lau China Institute in 2012 after a transformational gift of £6 million from the family of Dr Lau Ming-Wai, a King's alumnus based in Hong Kong.

The Lau China Institute has become a focal point in the British capital for research and teaching on contemporary China. The Institute faculty are actively engaged in dialogue and debate with government, policy-makers, media and industry in the UK, China and beyond. They have relationships with a number of universities and research organisations in China, including the College's two strategic partners – Renmin University of China in Beijing and the University of Hong Kong. The focus of research is China in a contemporary global setting, with interdisciplinary teaching and research drawn from across the arts and humanities, policy, science and health disciplines. Research specialisms include Chinese political and social science, governance, international relations, economics and culture.

ABOUT ACRI

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 860 million more middle class Chinese than today.

In 2014, the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.



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