



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE
T: +44 (0)20 7957 5700 E: contact@chathamhouse.org.uk
F: +44 (0)20 7957 5710 www.chathamhouse.org.uk

Charity Registration Number: 208223

Asia Programme Briefing Note: ASP 2009/01

The UK and China: Dealing with a New- Old Friend

**Kerry Brown, Senior Fellow, Asia Programme, Chatham
House**

June 2009

Chatham House is independent and owes no allegiance to government or to any political body. It does not hold opinions of its own; the views expressed in this text are the responsibility of the author. This document is issued on the understanding that if any extract is used, the author and Chatham House should be credited, preferably with the date of the publication.

Recommendations

For the UK to maximize its relationship with China it must:

- Accept the distinctiveness of China's political system, and make a political decision in the UK that relations with China are of an order, and nature, which means that UK-China relations must be treated differently than relations with other countries.
- Appoint a cabinet level Minister to have specific responsibility for the relationship with China, perhaps backed up by a special envoy who enjoys close contact with the highest levels of the Chinese government and is seen as being the key go-between. They would sit on a specific, politically empowered coordinating body for UK-China relations, which would have the authority to set policy.
- Set out two or three clear policy areas where the UK can realistically become the key partner for China, in Europe, and perhaps even globally. These could be working with China on its outward investment, or on climate change. But the UK will have to think through clearly what it wants and articulate this in clear policy formulations that are then accepted and acted upon across Whitehall.
- Establish a government-linked/funded centre for intense study and expertise on China, either in the Cabinet Office, or within the FCO, with a clear cross Whitehall mandate.

Old wine in old vats

The British government launched its 'UK and China: A Framework for Engagement' document with considerable fanfare early in 2009, just before Chinese Premier, Wen Jiabao, came to the UK. Prime Minister Gordon Brown and Foreign Secretary David Miliband proudly put their signatures under bold sounding statements about the UK extracting maximum benefit from its unique relationship with China. Brown's leadership over the response to the banking crisis in late 2008 had won plaudits in China, as had the fact that the UK had chosen China over all other countries to issue such a document with in the first place. Even so, many might ask exactly where the UK stands with China, a country that is new to the UK in the sense of its recently re-established economic might, but old in the sense that both have a shared history, and, because of Hong Kong, talked in great depth and got to know each other profoundly over the last decades.

The UK should be in a good position in relation to China. It has many advantages: the English language is widely used in China, a large number of Chinese students study in the UK, relations between the two countries are long-established, there is a long history of mutual interaction and understanding and an increasingly impressive academic and specialist community in the UK with extensive knowledge about China. Even so, is the UK really maximizing the advantages of our relationship with China? Does China take the UK seriously? If not, what should the UK be doing differently? The most striking feature of the framework document was that while it was a nice gesture, it offered hardly anything in terms of substance. Its outcomes and strategic objectives have been spelt out in many other places over the years. Its articulation of focus is so broad and general as to be literally meaningless. There is a suspicion that it has been produced within a rubric of international objectives and principles. Whilst this helps bureaucrats achieve their personal 'career scores', it offers no practical guidelines for the UK and China to work with each other in key areas of common strategic interest, and what happens when they disagree. It does not take sufficient account of the particularities of China and the UK's present and historical relationship with it. In many ways, while keen to tell China what to do, it does not show much understanding of what the UK might learn from China, or for that matter, what the UK wants from China.

Why should the UK want a good relationship with China? In terms of its political system and many of its social and cultural characteristics, there is nothing but pure difference. In energy, there are ways in which the two are competitors. The UK runs huge trade deficits with China. And it regards

unguided immigration from China so negatively that it maintains strict controls over the issuing of tourist visas and has only recently relaxed the regulations for allowing highly skilled Chinese to stay in the UK after graduating. The UK has been critical of China's human rights, its use of the death penalty, and its impact on the environment. All of these are legitimate areas of concern. Even so, the general consensus now is that China's economic clout means that it matters greatly, and that preserving good relations with it is in our national interest. No one seriously disputes that. China's integration into the international economy and world order is regarded as a good thing. But how does this help the UK?

How an old enemy became a new friend

One characteristic of the Framework document is its odd combination of being both aspirational and complacent. The objectives of helping China with environmental, energy and resource problems, are pitched so high that they remain way above anything the UK on its own can realistically hope to achieve. The UN, the US, or even the EU, will realistically be the drivers of this. Britain will play a role, but this role may be minor.

Following this, another striking characteristic of the document is its ahistoricity. It reads as though China and the UK have no prior relationship. It gives little acknowledgement to the long shared history - a history of engagement stretching back perhaps longer than any other major western power. No doubt in a government document this history is hard to refer to. The Opium Wars, the ceding of Hong Kong, the disputes during the Cultural Revolution, and the negotiations over the return of Hong Kong have all given the UK and China a considerable body of knowledge about each other. Perhaps the UK and China know each other too well but find it easier to pretend that they have only just met.

This history is one of the UK's greatest strategic assets. In Europe, the UK ranks as one of the leading centres of expertise on China. Germany has Heidelberg; France has some experts at l'Institut français des relations internationales (IFRI). There are pockets of world class knowledge in Sweden, Holland and Italy. But the UK now has in Oxford, Leeds, London, and elsewhere, some of the most dynamic, exciting, and vibrant centres of Chinese studies in the world, the envy even of the US. This is a result of intelligent funding choices, and the patient building up of departments, programmes, and expertise. Much of this expertise is not just in Chinese departments, but across the full range of disciplines, from social and political

sciences to technical subjects. Ironically, while the UK has done well here, in the last few years there is a sense that it has lost focus.

Could do better

There is much that is positive in the UK's attempt to build up a relationship with China. The government has put serious effort into its embassy in Beijing, three consulates in mainland China and one in Hong Kong. There have been frequent ministerial visits and a series of initiatives, memoranda of understanding (MoUs), and bilateral announcements. In fact, there has been perhaps too much work here. A look at what the UK and China have signed over the last few years comes up with a bewildering list, from Science and Technology cooperation, to MoUs on trade, and finance, and the listing of Chinese companies on the London Stock Exchange. There has never been so much talking leading to so many papers and statements. But this is a good point for self-reflection. What precisely has this achieved? Does the UK, for instance, get the maximum benefit out of the Chinese students who have come to the UK? Beyond their student fees is there some other way the UK can benefit from this? Do the Chinese students who study in the UK return to China as 'ambassadors' of the UK, with an understanding of its cultural, political and social values? Have the plethora of trade delegations, trade promotion and trade enhancement activities provided the maximum possible return?

I would say not. In terms of my experience of government relations with China, there has been a loss of expertise from within government (with a severe running down of at least the research analyst capacity in London) and a remarkable Balkanization of expertise and relations with China. This does not denigrate the work done by people still working in these areas, but they are stretched beyond what they can reasonably deliver. This might be linked to a wider question of the role of the Foreign and Commonwealth Office (FCO) more generally. Even so, this process is a pity. FCO expertise on China used to be world class, and the FCO valued understanding and knowledge of China. That seems no longer to be the case. The most brutal example of this was the closure of its Mandarin language training two years ago, and the hiving off of this to schools around London. There seems to be little active effort to recruit people with China expertise for jobs dealing with China.

The fact that there are myriad mini dialogues with China between different parts of government might be good in some ways, and show how much

government talks to each other. But in other ways it is problematic. With a weakened FCO, who is steering the dialogue? The Whitehall China officials' group attempted to co-ordinate work but as a consensual entity, it lacked teeth to really focus on hard objectives and drive them through. There are good reasons to coordinate work on China. From the Chinese side, while there are clear signs that on foreign policy it is well coordinated, despite the diffraction and complexity of the Chinese government more generally. There is a sense that in specific areas, and in the dialogue with foreign countries, someone at the top is in control. This is not reciprocated in the UK, undermining the good work that the working-level dialogues set out to achieve.

Accept that China is different

In the UK – as in much of the West - calls for smaller government and distrust of bureaucracy are widespread. And for the majority of countries in the world, the 'free market', in its loosest sense, works fine. But China is different, for one obvious and one less obvious reason – Chinese governments need to lead from the front. The obvious reason is China's size, its complexity and the fact that it embraces a fifth of humanity. The less obvious reason is that China maintains a unique political structure, in which government is still dominant and where one political party has monopolized power for 60 years. Inter-governmental relations *matter* when it comes to dealing with China. If a business experiences difficulty in China, it is helpful to refer to an official agreement between the UK and China, or to seek help from an embassy or consulate. In the past, when relations with the UK were poor at a governmental level, contracts got shelved and commercial disputes were harder to resolve. Universities setting up campuses or seeking cooperation in China need formal links with officials in the local or national bureaus of education to help them. And even straightforward non-governmental organizations need, at some level, support from government in China – even if that support simply amounts to non-interference.

For all the talk of a non-state sector, NGOs, an avante-garde art scene and free minded, free spirited, and wealthy young people which have arisen in China in recent years, plentiful evidence demonstrates that the state has a deep and penetrating reach. Those that enter without an awareness of this unique attribute will rely on luck rather than judgment to avoid pitfalls. Good relationships usually flow from official links. And that necessitates that with

China, the British government has a key role in communicating the parameters of the relationship.

Of course, for a British politician in the British system, the suggestion that one might expend political capital on something that is not an obvious vote winner cuts against the grain. But this is where vision comes in. It is a safe bet that China will continue to be a major force in the 21st century, with a massive impact on the world's economy, environment and political future. Politicians might not like risks, but they ought to be motivated by future glory just as much as immediate returns.

It's not just government

While 200 million Chinese have been learning English at various levels, in the UK we are more elitist. Our universities turn out world class experts on specific aspects of China. But beyond a few modules at Keystage 6, knowledge of China in the British educational system is optional. Because of the importance of government links, and the real benefits people find when they put some investment and effort into understanding and learning about China, the British government needs to put its money where the Framework document's mouth is and actually support, promote, and show that it values knowledge of China. It might cut across most of the strategic focus of the FCO now, with its focus on 'cross-cutting' issues like the global economy or international terrorism. That quite rightly maps the general processes of globalization. But to cut out cultural understanding is too extreme. The government, either in the FCO, or elsewhere, needs to bite the bullet and make the exception with China. It needs to say that because of its size, the rapidity of its rise, the likely impact it is going to have on the future, there needs to be a core cadre of expertise, recruited and deployed because they understand China, know how to speak to China, and to speak about China in the UK. It is no good to hive this task to Chinese students based in the UK, no matter how long they have been there. Few understand the vagaries of the British governmental system or understand the things that British people need to learn about China. Only those who have spent most of their lives here and been through the process of trying to understand China from this side will be able to help others navigate this hard journey.

At the same time, there needs to be greater centralization over China-related work within the central government. At the moment, it sometimes seems that different departments run separate China policies, only loosely related to some larger, overarching UK policy. For China, parties that appear to be

fighting among themselves are fair game: look at the way the EU has been picked apart for several years. Why do the Home Office, DFID, UK Trade & Investment (UKTI) and multiple other Whitehall departments each have discrete areas of China activity which often seem wholly unconnected. What is the coordinating body for this activity? The China Task Force? A China Whitehall Committee? If that were to work, it would need a major political figure at the head of it. But ministerial responsibility for relations with China is split between the Foreign Secretary, a Minister of State, the Business Minister, with other figures hovering in the background. Is it any surprise there is a lack of clarity about who, in the end, is driving all this work?

A Chinese official in 2008 complained privately about the fact that under the early second Bush administration, the Chinese government felt that they had no specific highly-connected figure in the administration to deal with. President Bush got two things right. In 2006, he set up a clear high level mechanism for talking about at least one key area with the Chinese government – the Strategic Economic Dialogue – and he sanctioned Hank Paulson to deal with this. This went down well in Beijing. Barack Obama has upgraded the dialogue to include security, and let Hillary Clinton run the show. Why can't the UK at least partially steal this idea? Of course, much of the UK agenda might fall under the EU. But appointing a powerful figure as a clear point of governmental contact between the UK and China, would be an 'easy win'. A key issue is to work out what the UK wants to achieve bilaterally, and what needs to be undertaken through the EU or in partnership with others. The Framework document does not suggest that much discussion has taken place over this.

No more backslapping

Governments everywhere like the defensive rhetoric of self-congratulation. But perhaps with UK-China relations, there is a need for brutal self-criticism. If relations improve the UK is well placed to become one of the key relationships for China and a true partner. But there is a need for clarity over priorities. The UK is fond of agonizing over what China wants and a preference to try and read into its multiple actions some clues over how to interpret its strategy. There is less fondness for appreciating how mixed up and complex an actor China is: its partial decentralization, mixed between different interest groups, allegiance groups, and classes (apart from in identifying its foreign policy priorities). Will the UK be able to work this out? Perhaps the most sensible thing would be to back-engineer the question and

at least be clearer about what the UK wants. This would be precisely what China has done for the past thirty years.

In the 1980s, during the first years of the opening up and reform process, China did not allow its policy makers and leaders to sit around agonizing over what the west might want when the issue of foreign investment came up. Instead, in a series of government policies and laws, and a number of liberalizing measures, China set out a clear vision of the sectors and regions where it sought investment, and set up the infrastructure to do this with special economic zones, preferential laws, tax breaks. A quarter of a century later, this part of the Chinese economic story worked. Foreign investment into China now stands at US\$700bn. Foreign investment has brought in know-how and managerial techniques and has fundamentally altered the way in which Chinese enterprises operate. In that sense, it has been a success. Now, as we face investment coming out of China, we need to look at how China initially did to receive foreign investment and copy some ideas. The most important is to set out not what China might be interested in, or might want to invest in, but leave that until the UK has worked out what it needs and wants. Once that is clear, the next set of issues can be addressed with more focus and strategic intent.

The 'China Threat'

Part of the challenge in stating China's importance and the political need to take a risk in creating a special relationship with it, at government level, is that China still arouses complex, antithetical feelings in much of the Western public. Tibet, Taiwan, human rights, the death sentence and long-standing communist rule, are all negatives for many. Explaining the complexity of China to the electorate is not easy, and it is not helped by China's own ability to put across its own case (though there has been a gradual improvement in the recent past).

There are two important issues. The first is that the choice is either-or. On many issues, from political reform to economic impact on the rest of the world and outward investment, China stands at a crossroads. It can be left to its own devices, or other countries can take as full a part as they can in its development and evolution. The worst that can happen if the latter choice is adopted is that assistance is ignored. The evidence, however, suggests that in many ways the Chinese government listens and responds to international opinion, more than it might wish. One commentator called it a fragile

superpower. The complexity of China, of its provincial, economic, political, social and ethnic structure, is striking.

In the next decades, perhaps more quickly than is generally expected, it will have to adapt, change, and evolve profoundly, and this will affect the rest of the world. Potential instability, now that China is a profound part of the world economy, will destabilize the rest of the world. Its environmental challenges are now ours. It might be time for a cooler analysis of the 'China Threat'. From what is understood of China's internal issues, it seems far more likely that China suffers from massive internal disruptions that in turn brings down the international system, with huge movements of displaced people, and regional destabilization than it becomes an aggressive international actor, projecting its force into Africa, Latin America, or even the EU, undermining our systems and trying to convert us to the 'Chinese way'. From what they say, China's leaders think similarly.

New leaders and the importance of making friends

Everyone, from business people, to diplomats, to academics, stresses the importance of personal relations in China. It is commonplace to accept that these relations are key. There is no reason to suspect that this does not also work at the highest levels of government. China is undergoing a leadership transition before the 18th Party Congress to be held in late 2012. By then, if all goes well (there is little to suggest the opposite) there will be both a new Party Secretary/President and a new Premier/Head of government. Time spent now by the UK's national leaders getting close to the figures that may succeed in 2012 would be time well spent, as they are likely to be around for the following decade. Once more, the UK should lose some of its immodesty, and copy former French President Jacques Chirac whose hours reading poetry and flattering the ego of former Chinese President Jiang Zemin in the late 1990s brought rich dividends in terms of France's lack of political problems in China, its trade and ability to attract students.

What does the UK want?

The UK works with the EU, the UN, and a number of other parties when it comes to China. But there are two key areas where the UK can engage deeply on a bilateral basis. On climate change, the UK's expertise and technological and policy-making skills are widely respected in China, as has been demonstrated by Chatham House's on-going work with a range of

Chinese research institutes on climate change. The UK's role in the Kyoto, Bali and Copenhagen processes is well understood. The UK, in fact, wanted stronger and more specific language on climate change in the communiqué issued at the end of the G20, though this was, in the end, toned down. China's leaders, and its people, know what a massive mountain they have to climb in addressing their environmental problems. They can see all too well the toll on their natural environment, on its air and water that the last three decades of intense manufacture-based industrialization has created. They are in the market for ideas, assistance, help, policies which have been looked at elsewhere and work.

There are other areas where the UK stands well placed to be a key interlocutor, and this is Chinese overseas direct investment. This could build on the excellent work already done and translate into real political rewards from China, particularly since dialogue on this issue between China and the US is easily politicized. The UK can avoid this. China stands poised to become a major outward investor, its annual stock of ODI has increased exponentially since 2003 making it the world's sixth largest outward investor in 2008. But its lack of experience in the international environment means that state and non-state enterprises have made mistakes, resulting in financial losses, reputational damage. Many of these mistakes are due to simple misunderstandings of the foreign business environment, particularly in the US and EU. Attempts to acquire assets in the US have led to political problems. But the UK, as a finance centre, a major investor in China, a gateway to Europe, and a liberal, open economy, is ideally placed to benefit from engaging with this outward flow of Chinese enterprises. At a time when manufacturing companies and other businesses in the UK need capital, here is a potential partner with US\$2trn in foreign reserves and no clear strategy to manage these reserves. Here the UK can clearly work for its own national interest, in an area where China has a specific, large, and obvious unmet need.

Conclusion

As stated in the recommendations above, the UK must act immediately. None of the recommended actions carries massive political risks. All would serve to make the UK's machinery for dealing with China, at least at a government level, more fit for purpose. The waves of Chinese investment, benefits, and gains that the more optimistic expect, in the short term, is not guaranteed. But at least the UK will know that it did its best. At the moment, it is passing up

what could be a great opportunity. And it may well find not only that it is pushing at an open door, but that it will open up a rich and rewarding set of future possibilities.