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Resetting UK- China Engagement: 2021 Update

The UK's Evolving Priorities,
Geopolitical Developments, and
China's New Strategic Framework

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Introduction

Much has changed since we published our report, 'After the Golden Age', in July 2020. Back then, the United Kingdom was taking its first tentative steps into relative freedom after months locked down to slow the spread of the coronavirus pandemic. While the absence of vaccines certainly curtailed any sense that the nation was truly 'out of the woods' in any meaningful sense, there was an air of optimism. As we write this update paper, once again there is a feeling of unfurling and liberation – but despite the tremendous success of the vaccine roll-out, we have now learned to greet these moments with more trepidation.

In geopolitical terms, we also feel somewhat older and wiser. It has been a turbulent period, characterised by extraordinary developments in our European regional neighbourhood and an increasing intensity of activity and focus in the Indo-Pacific region. On the one hand, the inauguration of President Biden and the convening of the first G7 Summit since the pandemic has restored some degree of trust and optimism in the liberal alliance and its capacity to respond to the rapidly evolving challenges of twenty-first century governance. Equally, there is a sense that the experience of this past decade, let alone this past year, will leave scars that can be smoothed but not eradicated.

One area in which there has been some degree of consistency and coming together has been the need to establish a stronger collective framework of relations with China beyond the heterogeneous bilateral approaches hitherto pursued by Western nations. Alongside our close allies, the United Kingdom has been a major actor in the push to establish a coordinated means of challenging China's human rights transgressions, its territorial incursions and its ambivalence about adhering to norms of international governance. This new impetus to counter China in the diplomatic and political arena, however, continues to be balanced by more complex economic strategies that remain utterly distinct even within the closest partnerships, such as the Five Eyes. While Britain and our allies move ahead with securitisation projects to better protect critical national infrastructure, research independence, and supply chains, these new safeguards will come under constant scrutiny and pressure as we also pursue other forms of cooperation with China.

China has also undergone major changes in the past year, and its evolving strategic framework reflects both geopolitical and internal developments. The China of 2021 is a more forthright, risk-tolerant and increasingly geopolitically conscious nation. In marking the centenary of the founding of the CCP, Xi Jinping has kept an eye to broader regional and global happenings, and is beginning to take decisions about China's economic and security capabilities through a wider lens. Ultimately, this reflects the perception that the domestic situation in China remains precarious, with the capacity for demographic, social, economic and political forces to erode the carefully balanced compact the CCP has forged with its enormous population.

Like every other nation, China has spent much of the past year grappling with the Covid-19 pandemic. After an initially clumsy response, the Chinese government implemented comprehensive and sometimes harsh measures to suppress the virus, and since the middle of 2020, has been largely successful in its attempts to prevent another major outbreak. China's economy is starting to recover, and although indicators such as domestic consumption are still below their equivalents in 2019, there are clear indications that the situation in the country is normalising in important areas such as domestic travel, retail and hospitality.

It is certainly the case that significant aspects of China's tactics to suppress the virus within its borders and in contested territories have served to increase domestic political control and the repression of any potential opposition to the CCP. The most notable examples are the use of the period of lockdown for the imposition of a National Security Law on Hong Kong on 1 July 2020, which has reduced or removed many of the political freedoms the territory had

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previously enjoyed, along with the establishment of what the government terms 're-education camps' in Xinjiang, in which it is reported that many thousand Uighur citizens have been detained.

On the international stage, China has made up some ground while conceding it in others. China received international criticism for its lack of transparency about the origins of the virus, and its soft power efforts in parts of the West have produced limited outcomes. At the same time, China has managed to gain praise in many parts of Asia and Latin America with the efficient rollout of its coronavirus vaccines, which have filled a much-needed gap left by the Western-led COVAX initiative. The CCP have pursued a noticeably more confrontational tone in their diplomacy over the past year, with their posted Ambassadors in nations such as France, Germany, and Sweden noted for what has been termed their "wolf warrior" style of rhetoric and social media communication. This approach, which has tended to harden, not soften, opinions amongst both elites and citizens, has become increasingly damaging to China's reputation. In June 2021, President Xi Jinping gave a speech calling for a more "humble" and "loveable" China in the world, suggesting a perceived need for a reset – although it is unclear whether this refers to action or merely language.

As ever, this paper is not an exhaustive summary of every single development over the past year, and we of course appreciate that events may have evolved further in the short time between our submission of the report and its publication. It is a testament to the extraordinary times in which we find ourselves that even focusing on one single year has produced such a wide-ranging field of issues to explore. Our intention is to illuminate some of the most pertinent developments within the United Kingdom, amongst our global allies, and within China itself, and consider what these choices and events reveal about the future state of UK-China relations over the coming years. In particular, to consider the steps that the United Kingdom can take to advance its interests within this rapidly evolving landscape, and to complete the process of resetting relations with China – recognising that we are now firmly in new terrain after the 'Golden Era'.

A Trio of Triads

This paper explores a wide range of issues, concepts and geographies, but it is helpful to consider Britain's interests with China through 'a trio of triads' – three sets of three-pronged areas of focus that we hold with China, that China holds with us, and through which we should consider how best to systematise and streamline our approach to UK-China relations.

The UK's Three Areas of Core Interest with China

The UK's core areas of interest that relate to China can be captured within three broad spheres: economics, security, and values. Ten years ago, values issues such as human rights were expressed, but not to the exclusion of the potential for economic benefit – a philosophy that characterised the 'Golden Era' – and security issues were rarely discussed. This political consensus was also reflected in the views of the British people, who tended to regard Russia as their primary security risk and paid little attention to China's development.

Now, in 2021, the balance in the three factors has shifted significantly. Security and values issues are now both paramount and increasingly consume political attention, while economic issues are downplayed. There is, for example, little prospect of an FTA discussion with China, despite many aspects of the economic relationship continuing apace. There is no specific configuration of these factors that can be described as optimum, but there needs to be greater discussion of them as being sometimes complementary, and sometimes in conflict. As we explain in the paper, a 'balanced' approach will necessarily compel tensions and friction that will frequently spill over into the public and diplomatic spheres. We must create a new system that can accommodate this reality, rather than feeling startled when areas of antagonism and dissension emerge.

China's Three Key Areas of Interest in Britain

Britain remains a source of outsized interest and curiosity for the CCP, with friendly relations seen to support both its geopolitical and domestic ambitions.

On a geopolitical level, Britain's uniquely close security partnership with the United States means the United Kingdom is seen as both a point of influence towards, and potential counter-balance against, China's primary competitor. Moreover, despite having left the European Union, the United Kingdom remains an integral part of the European security framework and an influential voice on European foreign policy matters. China has a vested interest in the current trend towards integrating the threats posed by authoritarian nations via forums such as NATO, and in the new security mechanisms established to address new areas of competing global interest, such as the Arctic Circle.

Moreover, the bilateral economic relationship is considered to have withstood the peak of the storm over the past two years, and with FDI now flowing back into the City of London and other key markets in the UK, there is optimism that the security-openness debate has fallen in a way that remains favourable to China's interests. There is a streak of economic liberalism and an embedded, instinct support for trade within significant parts of Westminster that suggests a degree of pragmatism about economic entanglement remains resilient, even in the face of escalating anxieties about national security risks.

It is also the case that the United Kingdom has specialist knowledge, research and production capacity in a range of areas of strategic importance to China – including Artificial Intelligence, digital and green technologies, semiconductors, renewable energy and health sciences.

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While these have not always been seen to be areas of 'critical national infrastructure', the outsized value of these areas to China's development plans and our own future economic competitiveness should compel a reconsideration of their categorisation.

Preparing for Three Types of Scenarios

The UK needs to prepare for three related, but separate, considerations in areas where we have differences with China, or may hold objections to Chinese actions. These are: actions that directly affect the UK – such as attempts to carry out cyber-attacks on UK defence installations, commercial organisations or civilian institutions; actions that affect others, including both allies and non-allies, but not the UK directly – such as the militarisation of the South China Sea and China's trade embargoes with Australia; and actions that Britain objects to that take place within Chinese boundaries or contested territories, such as the persecution of the Uighur minority and their internment in 're-education camps' in Xinjiang.

There will be certain developments in which it will be helpful for the UK to pursue collective action with its allies, to amplify its voice in the defence of global norms and international values. In other areas, individual interest may well come up against the compulsion to support a collective position – such as the fact that the UK could stand to benefit from the consequences of Chinese students being deterred from the Australian education market. The more Britain can prepare for these different scenarios and have a clear understanding of not only our own priorities but the likely behavioural choices of our allies and other partners, the better we will be able to adapt to and respond with speed and conviction.

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Coronavirus Pandemic

The coronavirus pandemic has continued to dominate the political and economic landscape in 2021, and the UK's obvious successes in its vaccination programme must also be measured against the pandemic's profound economic impact. Given its importance as a hub of services, tourism and leisure, and as a travel gateway between the Atlantic and Europe, the UK's economy has been one of the most drastically affected in the OECD. While strong growth is predicted in the second half of 2021 and into 2022, there is no doubt that the pandemic will leave scars on the UK's domestic social fabric and UK Government finances.¹

The pandemic has compelled tough decisions about funding choices, and has driven the decision to temporarily reduce the UK's aid commitment from 0.7% of GNI to 0.5% of GNI. Despite this, the UK has been one of the largest funders of COVAX, the global vaccine facility for the developing world, and is driving other nations to contribute further to reach a global target of one billion vaccine doses in 2021.² Global vaccination via the COVAX scheme is considered essential, not only for moral reasons, or to ensure collective health and well-being, but because many of the UK's strategic rivals – including China – are seeking to harness the vaccine scarcity situation for their own soft power objectives. G7 leaders were unable to reach the one billion target at the Summit held in the UK in June 2021; however, Prime Minister Boris Johnson pledged to donate 100 million doses to developing nations within the next year. COVAX have estimated that that an additional £2.3 billion will be needed in 2021 to secure the vaccine rollout.³

The UK has also been involved in advancing calls for a more robust inquiry into the origins of the Covid-19 outbreak in China, alongside nations such as Australia and the United States. The World Health Organisation (WHO) was only able to gain extremely limited access to Chinese facilities, personnel and records on their inspection in January 2021, and therefore their ambiguous conclusion is seen as insufficient to satisfy the global quest for answers.⁴ Although some calls for greater scrutiny are undoubtedly motivated by a desire to hold China's feet to the fire, others are simply anxious to understand the pandemic's evolution and containment failures, in order to prevent such a health disaster eventuating again in the future. Following the lead of British intelligence agencies, Prime Minister Johnson has said he will keep an open mind regarding the origins of the pandemic, and the recent G7 communiqué signalled that other allies are increasingly aligned in their preference for a renewed investigation.⁵ China has declared it will not accept the WHO undertaking a second investigation into the origins of Covid-19, and has put forward plans to investigate other countries,⁶ with its state media advocating unevincenced theories around the United States as an origin point.

UK Public Perceptions of China

As we noted in our previous report, the coronavirus pandemic and the prominence of negative media and political debate regarding China during 2020 encouraged a distinct hardening of public opinion in the United Kingdom towards China, which has been extended into the later stages of the pandemic and persists in the recovery. The BFPG's survey data demonstrates that the proportion of Britons who hold 'high levels' of distrust in China increased from 33% in 2020 to 42% in 2021, while the proportion of Britons who see the rise of China as a 'critical threat' increased from 30% in 2020 to 41% in 2021. Similarly, research by the Central European Institute of Asian Studies found that 62% of Britons have 'negative' or 'very negative' views of China, and 68% of Britons reported that their views of China have worsened over the last year, the largest proportion of the population to have their views of China worsen, out of 13 European countries surveyed.⁷

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Public attitudes towards China are heavily shaped by political debates within Westminster and the media's coverage of these, and therefore the strengthening of the visibility of 'hawkish' voices on China in British political life is consequential in forging the environment that influences Britons' views and the middle ground of Whitehall thinking. The growing presence of the China Research Group (CRG) is of particular note. Formed in April 2020, the CRG was founded by a group of Conservative MPs, to promote debate around the long-term opportunities and challenges presented by the rise of China. Over the past year, the CRG has led a number of major research projects, events and investigations, which have been central to agenda-setting in Westminster. They have provided research and policy recommendations on many of the most pertinent questions in relation to China, including the Belt and Road Initiative, Hong Kong, and the links between UK universities and Chinese companies and government bodies.⁸

Nonetheless, one of the striking findings of the BFPG's Annual Survey in 2021 was the fact that the Britons most inclined to support the particular type of balance being struck in the Government's evolving approach towards China – which emphasises both economic partnerships and competition, a strong degree of accountability on human rights, and cooperation on climate action – are not necessarily voters for the Conservative Party. Many of the Government's voters, by contrast, tend to support an even tougher line that does not accommodate any forms of engagement. In one respect, this curious misalignment reflects the fact that the potential bipartisan consensus building in Westminster, which we highlighted in our previous report, is beginning to come to fruition. The political consequence of such a consensus is that the Labour Party and other opposition parties do not tend to challenge the Government on its China policies per se – and, it should be noted, this extends to a range of other foreign policy issues – but rather hold the Government to account on delivery.

The eventuation of a bipartisan approach would undoubtedly set a different tone around the China debate, with one inevitable repercussion being that some of the 'heat' could dissipate around the subject of China in the UK's political debate. The Government's decision-making process should theoretically be able to take on more of a proactive quality, moving beyond the frenzied scramble to plug holes that has appeared to characterise its actions over recent years. Such a consensus would also provide a more stable foundation for our bilateral relationship; as has been so clearly demonstrated with the issue of climate change, enduring political support and a coming together of the parties around a baseline agenda can tangibly shape public opinion and provide a stronger basis on which to advance our interests on the world stage.

Integrated Review Framing of China

The Integrated Review of the UK's Defence, Security, Development and Foreign Policy, published in March 2021, draws attention to China's 'increasing international assertiveness', and describes China as a 'systemic competitor'. At the same time, it also leaves room for building a constructive relationship with China, including establishing a positive trade and investment relationship – ensuring national security and values are protected – and working together on key global issues, such as climate change.⁹ The framing of China in the Integrated Review is similar to that which is outlined in the United States' Interim National Security Strategic Guidance, which labelled China as a 'challenger'.¹⁰ The Review's framing of China has been contested, with some Conservative MPs advocating for a more fundamentally China-sceptic position and questioning the merits of a balanced approach. Former Chancellor George Osborne labelled these opponents "hotheads", declaring instead that the Review showed continuity with the 'Golden Era' framing pursued by former Prime Minister David Cameron's government.¹¹

The UK's relationship with China, as set out in the Integrated Review, stands in direct contrast with the approach outlined toward Russia, which is defined as an 'acute and direct threat'. This highlights the recognition of the disproportionate economic and geopolitical weight of China, which is seen to necessitate greater attention towards cooperation, as well as compelling potential new forms of confrontation.¹² Other aspects of the UK's evolving policies towards China are presented in more latent and implicit terms in the Integrated Review, including the

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emphasis on establishing new Indo-Pacific partnerships, and targeting defence spending towards cyber and technology – a reflection of the changing threats posed by authoritarian states such as China, including both the modernisation of its military and its increasing employment of ‘grey-zone warfare’.¹³

National Resilience and Critical National Infrastructure

After a long period of indecision around its approach towards China, the UK Government has been moving at pace over the past 18 months to implement new safeguards to protect the nation’s vital interests. The concerns over China’s role in the origins of the coronavirus pandemic and its monopoly over many of the core pandemic response supply chains triggered the Government to draw up proposals to reduce the nation’s reliance on China for strategic imports, under a project codenamed ‘Project Defend’. The framework is designed to increase national resilience by considering supply chains where UK businesses rely on components from abroad to complete products and services. Project Defend germinated alongside the formal announcement in July 2020 that buying Huawei 5G technology would be banned from the end of 2020, and that all current Huawei equipment is to be removed from 5G network by the end of 2027.¹⁴ This decision followed American sanctions on Huawei and the threat to withhold intelligence-sharing cooperation, which focused minds in Whitehall to declare the UK’s hand on what had been a seemingly intractable situation.

Two further major pieces of legislation have subsequently been introduced to tackle the UK’s existing or potential vulnerabilities towards China and other authoritarian states. First, the Telecoms (Security) Bill, which would allow Government to give instructions to major telecommunications companies such as BT about how they work with ‘high-risk’ vendors, and support enforcement for non-compliance. The Bill has passed its second reading and at the time of publication is currently at the committee stage of the parliamentary process. Ahead of the second reading of the bill, the UK Government released a roadmap for the removal of high-risk vendor equipment from the UK’s 5G network, including a requirement for telecoms providers to stop installing Huawei 5G equipment from the end of September 2021.¹⁵

The other prominent Bill is the National Security and Investment Law (NSI), which introduces requirements for transactions in 17 core sectors of the UK’s critical national infrastructure and security, ranging from artificial intelligence to communications, data infrastructure and energy. These requirements aim to reduce transactions that could pose a potential risk or threat to national security. The Bill also proposes greater Government oversight on technology acquisition and mandates that reciprocal access be granted to UK companies for China’s market. Having passed on the 29th of April 2021, the Bill will come into legal effect towards the end of 2021.¹⁶ China has now expanded its own National Security Review of Foreign Investments, just one month after the NSI Bill was announced in the House of Commons.¹⁷

As China seeks to reduce its reliance on American semiconductors, it is searching for alternatives to acquire in other international markets. In July 2021, it was revealed that Nexperia, a Dutch semiconductor firm entirely owned by China’s Wingtech Technology, was set to acquire Newport Wafer Fab (NWF), the UK’s largest semiconductor chip producer, for US\$87 million. The progress of the deal has raised questions about the practical application of the NSI, given that semiconductors are a source of strategic advantage for the West and a commodity highly valued by the Chinese state. There is a global shortage of this technology, and before having permitted the sale of tens of billions worth of relevant assets to foreign buyers, Britain was once the leading semiconductor innovator in Europe. Some of Britain’s other allies have recently applied scrutiny to similar efforts to purchase companies involved in the semiconductor supply chain, and the United States’ current sanctions prevent Chinese companies from making chips with technology of US origin¹⁸.

The US\$87 million price for Newport Wafer Fab is also significantly below the \$900 million being paid by Texas Instruments for a vacant Micron fab semiconductor facility in Utah,

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raising additional concerns about the value being secured by the sale.¹⁹ Certainly, NWF is not performing at its best and the low purchase price partly reflects the fact that the specific output of this company is not necessarily especially competitive in the market in its current state. Yet, the financial troubles of the company also theoretically push this sale into the domain of a distressed company acquisition, which is also a scenario intended to be addressed by the NSI. Moreover, while the value of NWF as an organisation is contested, it is certainly the case that full supply chain sovereignty means guaranteeing end-to-end protection, encompassing even seemingly small, low-value or innocuous products or capabilities – as exemplified in the ventilator shortage experienced in the early phases of the pandemic.

At the time of publication, the Prime Minister had ordered an urgent security review into the attempted acquisition and the possibility has emerged of a consortium raising funds towards a potential bid for Newport Water Fab, which could support the reduction of Nexperia's stake in the company.²⁰ The consequence of Government intervening in such acquisitions is that it may be compelled to 'bail out' such companies, which will not be sustainable in every circumstance. The UK Government must pick its battles. It is unfortunate, but predictable, that such a specifically high-value industry would become the focus of one of the first big tests of the NSI. The choices made around this decision will set a precedent for the tone of the NSI and our strategic rivals will be watching closely to understand our decision-making process.

The UK Government is also seeking to remove the Chinese state-owned China General Nuclear (CGN) company from all future nuclear power projects, including the planned Sizewell nuclear plant station in Suffolk, and plans for a nuclear plant in Essex. The United States Government already blocked CGN from participating in its infrastructure in 2019, after claims emerged that the company had sought to appropriate technology for military purposes.²¹ There is an expectation that the Sizewell plant in particular will remain viable without CGN's investment, but as in the case of Newport Wafer Fab, the intervention of the UK Government has necessitated the drawing up of alternative solutions – including the Government itself assuming on a multi-billion-pound equity stake in the Sizewell plant, and seeking alternative investors from allied nations.²²

The UK Government has increasingly promoted a narrative of 'resilience' as it builds the architecture of a new national security framework. The Integrated Review identified the sovereignty of critical supply chains and national infrastructure as particular priorities, and promoted the concept of a 'whole-of-society' approach, including individuals, businesses and institutions, to safeguard areas of vulnerability in an age in which risks are no longer confined to the traditional parameters of warfare.²³ Beyond our own shores, the UK is now seeking to foster support for the notion of collective resilience – working with G7 partners to explore the possibility of a D-10 alliance of democracies, which would seek to encourage alternative liberal suppliers for 5G technology and other infrastructure projects, to reduce China's dominance in competitive tenders for such projects.²⁴

One of the more striking developments of recent years has been the increasing prominence and visibility of senior defence and intelligence figures in the UK media, undoubtedly responding to a sense that a whole-of-society approach to national security necessitates greater transparency about the nature of the risks we face and the tools we have in place to address them. Since the publication of the Integrated Review, a number of high-level personnel have given interviews that touch on the UK's evolving relationship with China, including Brigadier Mark Totten, who said that Britain's special forces will take on a new covert mission against China as part of a shift towards countering "big state adversaries",²⁵ and the head of MI5, Ken McCallum, who warned that activity from hostile states including China should be taken as seriously as terrorism, and warned citizens to be vigilant.²⁶

Despite the tangible progress made during the past year towards strengthening the United Kingdom's defensive capabilities and plugging the holes of some of its more evident weaknesses, the nation remains vulnerable to various points of potential interference and coercion from China and other strategic rivals. The UK continues to be strategically dependent

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on China for a vast number of goods categories, including a substantial group of which have applications in critical national infrastructure.²⁷ We outlined many of the areas requiring stronger safeguards in our 2020 report, and it appears that a large number of these have yet to be adequately addressed.

As ever, the question of where to draw the boundaries of our CNI remains deeply contested. There have been calls, for example, for reviews into Chinese investment in the UK's electric car supply chain, an essential part of the 'greening' of the UK's economy.²⁸ Some would regard this form of investment as a particularly benign example of where Chinese investment could support positive economic and social outcomes in the UK, while others will feel alarmed that a foundational component of our future 'infrastructure' and way of life could be subject to disruption from a systemic competitor. There are no easy answers to these dilemmas and all decisions will assume a degree of risk; the most pressing task is therefore to design a risk assessment framework with precision and foresight, from which we can be most confident about our choices.

The practical implementation of a more security-conscious approach will present its own challenges. It is inevitable that the important decisions to be made under the NSI Bill may well be time-consuming and produce bottlenecks, which may disincentivise rigorous scrutiny and certainly will require sufficient resources. Higher education, for example, also remains in an early stage of its vulnerability assessment. Universities have also come under particular focus as a potential target for inappropriate or malign influence, with questions being raised as to whether it is wise for UK researchers wittingly or unwittingly to contribute to China's defensive apparatus, research excellence and/or commercial success.²⁹

There is much to be done to take this agenda forward, and new issues will continue to emerge as we strain to move ahead. The momentum which has pushed Britain forward in its reconsideration about its risks in terms of engagement with China cannot be allowed to stall, and must support the establishment of new systems and processes that are able to support active and ongoing scrutiny and adaptation.

The Indo-Pacific Tilt

Much of the UK's evolving relationship with China is being expressed through its Indo-Pacific 'tilt', which the Government has been keen to emphasise does not represent a pivot away from European regional security, but rather an additional investment in an area of significant economic and security dynamism. The renewed focus on the Indo-Pacific enables the United Kingdom to deepen and expand its relationships in the region, to buy into its economic growth, and to gain a seat at the table in important new regional partnerships. It also supports the UK Government's ambitions to actively contribute to the defence of the liberal world order, and ensure principles of openness, democracy and human rights are upheld, without directly confronting China as the single most powerful global authoritarian state. In effect, the Indo-Pacific tilt is a geopolitical strategy that indirectly challenges China, through ensuring that its regional neighbours are working productively together, generating economic growth, and building new structures of regional governance in a liberal framework.

The UK currently has a network of 52 posts in the Indo-Pacific, and recently appointed a new FCDO Director-General for the Indo-Pacific, and a dedicated Ambassador to ASEAN – to which the UK has successfully applied for Dialogue Partner status. The UK is also seeking to join CPTPP, a major regional trading agreement that was formed in the wake of the failed Trans-Pacific Partnership pact. The Integrated Review set out ambitions to become the leading European presence in the region, and although there is an element of competition inherent within this objective – particularly given the express intentions of other European nations – the language of the Review was careful to emphasise that the UK will seek to work within existing structures and 'only lead when we are best-placed to do so'.

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Although the Integrated Review has emphasised that the ‘tilt’ is not purely conceptualised in a defensive frame, the UK has recently sent a new aircraft carrier, the HMS Queen Elizabeth II, to the Indo-Pacific with the aim of ‘project(ing) cutting-edge military power in support of NATO and international maritime security’. The HMS Queen Elizabeth II was deployed on 23 May 2021 for an eight-month trip, with the aim of visiting 40 nations and eventually making its way through the South China Sea. HMS Queen Elizabeth is a 65,000-tonne vessel and will have 1,700 crew members aboard carrying eight British F-35Bs and 10 US F-35s. The MoD have said it will be the largest concentration of maritime and air power to be deployed from the UK in a generation.³⁰

Towards the end of May 2021, HMS Queen Elizabeth II took part in NATO exercises in the Mediterranean and the ship will also be joined by the US, Singapore, Japan and South Korea along the South China Sea route. Defence Secretary Ben Wallace has insisted that the UK is not looking for a ‘confrontation’, and that HMS Queen Elizabeth II is exercising its right to freedom of navigation.³¹ Nonetheless, the voyage in 2021 means it is expected that the carrier will likely sail past China while the CCP is celebrating the centenary of its founding, a route which will likely be seen as a direct security challenge. More generally, the UK’s ambitions to involve itself more substantively in the region has attracted the ire of China’s leaders, with state media outlets describing the strategy as ‘immature’ and overly optimistic, and drawing unfavourable comparisons with Britain’s colonial past.³² Most recently, China has warned the UK against any actions that could “destabilise regional peace”, including highlighting the UK’s collaboration with Japan, and warning that any “provocations” will be met with counter-measures.³³

Accession to the CPTPP

One of the most prominent elements of the UK’s ‘Indo-Pacific tilt’ is an ambition to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a Free Trade Agreement between 11 countries around the Pacific rim, representing a population of 500 million people.³⁴ Despite the CPTPP ostensibly focusing on trade, there is a much longer-range set of opportunities and risks relating to the Partnership, as a result of the complex relationship between security and economics in the region, and the fact that both the United States and China’s behaviour will affect the agreement, regardless of whether or not they are members.

The prospect of the UK joining CPTPP in 2022 has largely been welcomed in Westminster, in part because of the warmth already felt towards key members of the partnership, notably Australia and Japan, and the consensus that the Indo-Pacific region will be a source of significant future economic growth. There will be issues to be resolved on standards: the British people appear to wish to harness trade as an instrument to lift others’ standards or to uphold our own, a commendable aim that cannot always be realised in practice. On a geopolitical level, it is unclear how Britain’s political class will assess the prospect of the UK’s future role in an agreement that does not include the United States, but which China aspires to join.

Former President Trump took the United States out of the negotiations for the CPTPP’s predecessor, and while an American re-entry is not impossible under President Biden, it does not appear to be an immediate prospect. As China has made it clear that it is keen to join the CPTPP, present and future members will need to plan for the diplomacy around these conversations and have a clear position about this possible outcome. As Beijing already dominates the existing Regional Comprehensive Economic Partnership (RCEP) framework, which overlaps with many CPTPP members, China’s interests in the CPTPP raises the prospect of two major Indo-Pacific regional trade agreements featuring a strong Chinese presence and without the United States.

The UK formally applied to be part of the CPTPP on the 1st of February 2021.³⁵ Britain does already have Free Trade Agreements with seven of the bloc’s 11 members, including the new Japan-UK Comprehensive Economic Agreement and the six roll-over agreements that have been secured in the aftermath of Brexit – Canada, Vietnam, Singapore, Mexico, Chile and Peru – with two more currently undergoing negotiations.³⁶ However, the CPTPP collectively accounts

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for approximately 13% of the world's GDP and 15% of global trade and its members are increasingly valuable export and import markets for the UK, with benefits particularly identified in whisky, cars, digital and service industries.³⁷

China first explicitly stated its desire to join the CPTPP in November 2020, and its interest appears to have been accelerated by the success of the RCEP framework.³⁸ China's annual government work report issued in March 2021 said that China "will actively consider joining" the CPTPP. The CCP is primarily motivated by potential economic gains, with projections anticipating significant increases to be made in both China's imports and exports with the bloc, and that China's presence would also stimulate a large collective surge in trading flows over the next decade.³⁹ For China, the CPTPP could help to balance and offset some of the exposure it feels as a result of its increasingly fractious relationship with the United States.

As ever, however, it is impossible to separate economic and broader geopolitical ambitions. China's ascension to the CPTPP would undoubtedly also provide a platform through which the superpower could secure a prominent voice in establishing new norms of fair competition, governance and standards in the Indo-Pacific region.⁴⁰ These objectives currently stand as a barrier to China's admission to the CPTPP, as it would have to significantly adapt its current regulations to adhere to the existing protocols required by the bloc. For example, the CPTPP prohibits non-commercial assistance to state-owned enterprises (SOEs) which are currently a central element of China's economic strategy.⁴¹ The Comprehensive Agreement on Investment (CAI) deal that China was pursuing with the EU requires less stringent regulations than the CPTPP and the interrupted negotiations cast a shadow of doubt over the realistic proposition of it adhering to a more robust set of principles, not least of all because the CPTPP requires all members to agree unanimously on allowing members to join.⁴²

It is more likely, though not certain, that entry standards may be made more flexible for a very large economy joining than for a smaller one, and that a technical power of veto for an existing member may not be easily exercised in practice if the majority of members wish a particular outcome. As it currently stands, however, there is no clear consensus on China's potential participation. Japan is chairing the CPTPP in 2021, and although Prime Minister Suga has made clear that he expects the expansion of the bloc within the region, it is considered unlikely that Japan will want to extend CPTPP to China during its Presidency – not least of all, because he has declared that China's political and economic systems are incompatible with CPTPP principles. Japan also described China as a source of "strong" concern for the first time in its diplomatic 'Blue Book' in 2021, citing issues about its behaviour in the South China Sea and its broader role in international governance.⁴³ In any case, China required eight years to complete the process to join the RCEP, so one suspects any efforts to accede will not take place in the near future.⁴⁴

In terms of the UK's interests with the CPTPP, it is important to note that, while some democracies are members, the bloc is not defined by liberal social or political aims but rather liberal economic objectives. In its plans to formalise membership with the CPTPP, Britain will need to plan for a range of possible scenarios involving both China and the United States, and consider how best to respond to issues that may arise that challenge its values and other strategic interests.

The Force for Good Agenda

The 'force for good' agenda is a central part of the Integrated Review and the Global Britain project more generally – defined as 'defending openness, democracy and human rights – and an increased determination to seek multilateral solutions'.⁴⁵ Under the aegis of the 'force for good' agenda, the UK Government has become increasingly forthright and robust in its condemnation of alleged human rights abuses in China – particularly with regards to the persecution of the Uighur minority. In particular, it has sought to coordinate other allies in joint responses – an approach that both adds weight to the message and diffuses the direct

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focus of the challenge away from a bilateral frame. In October 2020, the UK led international joint statements on Xinjiang at the UN, which were supported by 39 countries.⁴⁶ The Foreign Secretary has also begun using social media to voice his concerns about the situation in Xinjiang, such as in February 2021 when tweeting his alarm at the “human rights situation in China” and calling the situation in Xinjiang “abhorrent”. He announced measures targeting supply chains using forced labour in the region, and also called for fact-finding experts to be given access to the area.⁴⁷

Although the UK Government has dramatically scaled up its rhetoric towards China, it has thus far refrained from employing the use of the term ‘genocide’ to describe the persecution of the Uighur people – which the United States has chosen to do.⁴⁸ Like the Canadian Parliament, in April 2021, the UK Parliament voted to declare that China is committing genocide against the Uighur people in Xinjiang, but the UK Government has instead referred to “industrial-scale” human rights abuses, and has emphasised that the use of the term ‘genocide’ must be decided by courts rather than Parliament. In practice, it will be difficult to secure an international judgement on the question of genocide. The International Criminal Court (ICC) announced in December that it would not investigate as China is not a member of the ICC, and it is therefore outside its jurisdiction. The International Court of Justice can also only regulate on cases when approved by the UN Security Council, over which China has veto power.⁴⁹

Despite not adopting the terminology of genocide, the UK Government has sought to bring economic penalties towards organisations that benefit from forced labour supply chains, announcing a review into UK exports to Xinjiang, financial penalties for businesses not complying with the Modern Slavery Act, and increasing support for UK public bodies to exclude businesses complicit in human rights from their supply chains. The UK has also joined the EU, Canada and the US in sanctioning Chinese companies and individuals – the first time the UK has done so – which the CCP has condemned as “severely undermin(ing) China-UK relations”.⁵⁰ China has retaliated by sanctioning a number of high-profile UK Parliamentarians, lawyers and academics involved in raising awareness of China’s human rights abuses, alongside other EU law-makers and organisations.⁵¹

The UK has also chosen to frame China’s unwillingness to uphold the principles of the liberal trading order as a challenge to the UK’s fundamental values. Given the UK’s outsized interests in pursuing trade agreements following our departure from the European Union, there is a renewed impetus to maintain a free and fair global trading system. The UK emphasised the preservation of liberal trade as a core objective during its presidency of the G7 Summit,⁵² and was able to secure some commitments towards this from both core and guest attendees.

There are essentially three key tenets to the UK’s challenge to China on free trade. The first is the CCP’s ‘Made in China 2025’ industrial policy, which is not only regarded as undermining international trading rules but is also seen as a security risk by a number of countries, including the US, Australia and the UK, for its reliance on IP theft, cyber espionage, unjust treatment of FDI and other discriminatory practices. The second is the tendency for China to engage in practices of intellectual property theft, cyber espionage and economic coercion.⁵³ The third is the belief that China fundamentally does not acquiesce to the responsibilities of the World Trade Organisation, and in fact, has sought to wrestle control of various aspects of the WTO’s operations in a manner fundamentally misaligned from the principles under which it was created.⁵⁴ In April 2021, Trade Secretary Liz Truss declared that now is the time to get “tough on China and their behaviour in the global trading system”, and she has now begun advocating proactively for the WTO to change China’s WTO status from a developing nation, and to strip it of the privileges that come with this.⁵⁵

Importantly, the ‘force for good’ agenda also extends beyond challenging China on its behaviour into establishing areas of potential cooperation where shared interests are identified. Principal among these is the issue of climate change, which the UK has made clear it feels cannot be sufficiently addressed without China’s participation in the global response. In the Integrated Review, the UK identifies tackling climate change as its “number one international priority in the

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decade ahead”, and the UK’s leadership of the COP26 Summit in November 2021 provides the opportunity to test the nation’s capacity to lead on securing tangible global commitments for an issue that fundamentally requires collective action. The Review highlighted that the UK will ‘cooperate with China in tackling transnational challenges such as climate change’, with its ‘force for good’ calculation in this instance tipping the balance towards cooperation. Speaking at the US Earth Summit 2021, Prime Minister Boris Johnson said, “the 2020s will be remembered either as the decade in which world leaders united to turn the tide, or as a failure” and urged leaders, including Xi Jinping and Vladimir Putin, to unite behind the common threat.⁵⁶

While China has taken some decisive steps to lowering its carbon emissions, announcing in September 2020 that it will aim to be carbon neutral by 2060,⁵⁷ this commitment remains significantly less ambitious than that of many Western nations. China burned over half the world’s coal last year,⁵⁸ and its domestic economic expansion continues to require imports of materials from around the world at the cost of a high carbon footprint. At the US Climate Leaders’ Summit in April, China was one of a number of nations which described efforts from advanced democracies to impose binding targets on developing nations as unjust⁵⁹ – although it is difficult to group the second-largest economy in the world among the grievances of smaller, genuinely ‘developing’ economies in Africa, Asia and South America. It is also notable that in other circumstances, China wishes to be defined as a ‘market economy’ rather than a ‘developing’ one.

Recognising that climate change remains one of the few areas in which Western nations are willing to engage constructively with China, the CCP has sought to maximise this point of leverage – possibly contributing to its decision to scale back its commitments on climate action in the short term.⁶⁰ There will be a difficult line to tread in continuing to make the case for China’s participation in the global community, while also making clear that its involvement in several key pillars of the liberal world order are destabilising and warrant a fundamental re-evaluation of those institutions. Recognising that morality or subscription to liberal norms have not proven persuasive, the scrutiny on China’s behaviour as a global actor in nations such as the UK must also be balanced against the need to persuade China’s leaders of the self-interested motivations for committing to collective action on climate change.

Given the centrality of this question of China’s participation on climate policies at the COP26 Summit, as President, the United Kingdom will need to devote significant diplomatic efforts towards preparatory engagement with China, as well as other nations within China’s orbit. This will require the UK being imbued with the authority to advocate on behalf of a wider group of nations, and China being receptive to Britain’s international leadership on this issue. For its diplomacy to be effective, the UK Government will realistically need to tactically shift conversations with China from the language of accountability, emphasising China’s outsized role in global emissions, to a more positive frame of mutual respect – highlighting China’s skills in designing and producing new technologies and solutions to address the climate crisis, and the common interest both nations hold in reconstituting our economies around a green agenda.

Hong Kong and the Joint Declaration

The UK Government has been watching the developing situation in Hong Kong with some alarm, and took a decision in 2020 more actively to challenge the incursions China has been progressively making into the city-state’s way of life since 2012. On 30 June 2020, China’s National People’s Congress passed a new national security law for Hong Kong, which entered into force the same day. The law is vague on what constitutes ‘endangering national security’, providing wide scope for punishment of dissenters, with concerns raised that this will lead to arbitrary punishment and infringements on human rights. The law also gives the Chinese and Hong Kong governments additional powers over education, media and social organisations, and gives extensive powers to investigating authorities.⁶¹ In response, the UK’s Ambassador to the WTO and the UN in Geneva, Julian Braithwaite, delivered a cross-regional joint statement

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on behalf of 27 countries condemning the security law in Hong Kong and the situation in Xinjiang, and the Foreign Secretary joined the foreign ministers of Australia, Canada, and the United States in a joint statement declaring serious concern regarding the arrest of 55 politicians and activists in Hong Kong under the new law.⁶²

Beyond the coordination of joint statements, the UK has taken an active policy decision to extend a route to citizenship for British National Overseas (BNO) passport-holders in Hong Kong. This came into force on 1 January 2021 and affords up to 5.4 million (70% of the territory's population) people the right to live in the UK. The new arrangements give BNOs five years' limited Leave to Remain, with the ability to live and work in the UK, and allows them to apply for settled status and later citizenship after this period.⁶³ As a result of this policy, the Home Office has estimated at least 154,000 Hong Kong residents could arrive in the UK in 2021, with between 258,000 and 322,000 arriving in Britain before 2026. This would constitute the largest resettlement of former colonial subjects since the Windrush migration to post-War Britain.⁶⁴

The decision to grant this pathway to citizenship for such a large number of people in the wake of an EU referendum outcome that was in part driven by concerns about immigration has raised questions about the scope of integration requirements to support the BNO arrivals. There is, however, a general feeling that the nature of the migrants – being young, working-age, and generally with higher education – will support their successful integration. Moreover, the Home Office has estimated that tax receipts of those moving from Hong Kong could result in a net benefit to government finances of between £2.4 and £2.9 billion over the next five years.⁶⁵

London, Liverpool and Manchester have seen the strongest interest from prospective Hong Kong migrants,⁶⁶ which suggests they are most likely to arrive into areas already equipped to absorb migration. Equally, some have raised concerns about the potential impacts on property prices given the housing market in London in particular is already out of reach for many of its residents.⁶⁷ The UK Government has allocated £37.3 million to fund a welcome programme to support Hong Kong BNO-holders, with an extra £5.8 million provided for Scotland, Wales and Northern Ireland to help BNO holders integrated financially, socially and culturally as they settle into life in the UK.⁶⁸ Citizens in Hong Kong have cautioned that Chinese security forces may still place them under surveillance even if they are in the UK and as such, have called on British authorities to exclude the Hong Kong police from the visa scheme.⁶⁹

It is unlikely that China anticipated Britain's radical decision, and the CCP was caught off guard in the aftermath of the announcement. China's then-Ambassador to the UK, Liu Xiaoming, declared that the UK was guilty of "gross interference".⁷⁰ The strength and depth of this action on the BNO-holders marks a decisive step-change in the UK's engagement on Hong Kong's future, reflecting the broader shift in the Government's approach to China over the past two years. For example, when Beijing stated that the Sino-British Joint Declaration was no longer valid in July 2019, the Foreign Office said this was "unacceptable" but took no further action.⁷¹ By contrast, in March 2021, the Foreign Secretary declared that China had breached the Sino-British joint declaration for the third time – having announced that all committee and political candidates in Hong Kong would be vetted, effectively ensuring those who oppose the Chinese Communist Party are unable to obtain political office. The UK declared that the move will "hollow out the space for democratic debate" in Hong Kong and Foreign Secretary Dominic Raab said that the dilution of elections would further undermine trust in China.⁷²

There is likely to be significant uptake of the BNO scheme, as conditions in Hong Kong tighten for many middle-class residents of the city, although Australia and Canada will also remain popular destinations for migration and there is a degree to which there will be a contest to attract the most economically desirable potential migrants.⁷³ At present, there has been little public discussion in the UK of the implications of this potentially transformative decision, although this is likely to change as the tightening of control in Hong Kong continues. The handling of this issue, both domestically and in terms of the messages conveyed to the people of Hong Kong and – by virtue of their interests – the Chinese Government, will be one of the most significant policy issues the UK Government will grapple with over the coming years.

Implications of Brexit for the UK's Economic Relationship with China

There had been some debate in Westminster as to whether the imperative to drive economic growth after imposing friction in our trading relationship with the European Union would necessitate a softer approach to financial investment from China. In practice, the decision to leave the European Union has altered the landscape in which we engage with China, but not necessarily in the manner in which it was anticipated.

First, having left our largest trading partner, the UK is certainly now on a mission to strike trade deals with a wide range of other nations, and we now hold an even greater interest in the maintenance of a free and open world trading system. This informs our decision to hold China's trading practices to account and to seek reform of the World Trade Organisation, as discussed above. Second, the UK Government is particularly keen to deepen its trading relationships in the dynamic Indo-Pacific region – both as a source of economic opportunity, and also in line with its wider strategy to challenge China's dominance in the region by supporting principles of open trade and promoting prosperity amongst other nations. The UK's trade deal with Japan signed in October 2020 was the first that differed from an existing EU rollover deal, and is expected to boost trade between the countries by £15 billion.⁷⁴

Alongside applying to join the CPTPP, the UK has been successful in securing its appointment as a Dialogue Partner of the Association of Southeast Asian Nations, which allows the UK high-level access and enhanced practical cooperation on policy issues within the regional bloc. The UK already has a dedicated Ambassador to ASEAN, but its new Dialogue Partner status now means that the UK can also be involved in ASEAN Summits and ministerial meetings.⁷⁵

Hence, rather than Brexit having directly compelled the strengthening of our bilateral economic relationship with China, it has encouraged us to pursue other economic relationships and advocate for global governance standards that may in fact diverge from China's interests. That said, it is certainly the case that the UK Government recognises the advantages conferred by maintaining a friendly economic relationship with China in areas it does not deem damaging to our national security. It has made efforts to establish a framework of safeguards that ensures it is possible to more confidently pursue an economic relationship on more balanced terms. UK-China trading flows, therefore, remain relatively buoyant despite the dramatically altered diplomatic relationship.

Total trade between the UK and China was £78.8 billion in the four quarters to the end of Q4 in 2020, a decrease of 8.5% from the same time period in 2019 – a result due to a combination of the coronavirus pandemic and the imposition of sanctions – but China remained one of the UK's largest trading partners. Other recent research looking at change over a longer period demonstrates that goods imported from China have increased by 66% since 2018, up until the first quarter of 2021, which has resulted in China overtaking Germany to become the UK's biggest single import market for the first time.⁷⁶ Chinese investment into the UK has reached an estimated £135 billion, and it is estimated that China owns £143 billion in UK assets, across 200 British companies – some of which would now be classified as part of the UK's critical infrastructure.⁷⁷ This data suggests that while politically, the UK and China have been in a state of diplomatic flux with several points of acute tensions, both nations recognise positive economic benefits to engagement and these relations continue to advance.

Chancellor Rishi Sunak's speech at Mansion House in July 2021 provided the first major public opportunity to understand the outcomes of the Government's period of reflection on China and the consequences for the nation's economic strategy.⁷⁸ The Chancellor emphasised the need for "nuance" in UK-China relations, and promoted a "mature and balanced partnership" that protects the nation's values and security, while also forging ahead with new economic, strategic, cultural and people-to-people links. The speech was well-received in China, and seen as a positive step forward after a difficult period. In the days after the Chancellor's speech, Chinese Premier Li Keqiang held a video conference with British business leaders, and emphasised the need for mutual trust and respect to stand as the foundation of the relationship.⁷⁹

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Some in Westminster, however, felt the Chancellor's speech fell too heavily on one side of a 'balanced' approach, and failed to interrogate the difficult choices that would need to be made to adequately safeguard our security interests.⁸⁰ Certainly, it is clear that the Chancellor has identified a pathway he feels comfortable pursuing in which economic engagement can be allowed to flourish, and that he believes that seeking this form of a partnership will be essential to Britain's prospects. Less apparent is the degree to which this calculation can withstand the inevitable inflection points that will arise around questions of the national interest in the future.

UK-US Cooperation on China

The Integrated Review made clear that the United Kingdom continues to regard the United States as "our most important bilateral relationship... and our largest bilateral trading partner and inward investor".⁸¹ One of the most significant developments since we published our first report in the Summer of 2020 has been the election of President Joe Biden, following the Presidential elections in November of last year. It is no overstatement to describe this event as transformational, representing a fundamental break from the instability and disruption that had characterised his predecessor's administration. China was a dominant focus during the Trump presidency, and many of the fundamental aspects of the shift in relations with China that took place during his term have found continuity under the Biden administration. The chaotic atmosphere of former President Trump's tenure masked the genuine successes he secured in shifting the needle of the conversation, not only in Washington but amongst many of the United States' allies, about the ways in which China was undermining the playing field of the liberal world order. The wake-up call was taken seriously, and although much of the intense focus on China has moved behind closed doors under President Biden, it is nonetheless consuming a considerable degree of the nation's foreign policy bandwidth.

The clearest distinction between the two administrations is found in tone. Not only has the Biden camp sought to diffuse some of the heat in the increasingly confrontational bilateral relationship – in part by recruiting a group of allies old and new to help address the challenges China poses – but the way in which the President speaks about China to the American people has fundamentally shifted. The degree to which China has come to represent 'the bogeyman of globalisation' is not always especially well understood in Westminster, where the European Union and the subsequent referendum on our membership has played this role as a source of expressive focus to highlight the asymmetries of globalisation's dividends. Former President Trump emphasised that China was a symbol of a world stacked against 'the good guys', in which nations that pursued a moral mission or sought to uphold the liberal world order were making themselves vulnerable and uncompetitive. He spoke in the language of aggrieved victimhood, positioning China as a bully who was exploiting America's good faith.⁸² By contrast, President Joe Biden depicts China as an ideological adversary, but a competitor to take seriously whose challenge should compel the mobilisation of American industry and the American people to reform, adapt and strive for excellence.⁸³

The Biden and Johnson administrations share a common mission of reinvigorating their nations' presences on the world stage, but there also appears to be a deep understanding between them of the particular role and responsibility that both countries share in establishing the frameworks of global governance. There are many similarities in both the focus and the tenor of the United States' and the United Kingdom's new foreign policy strategies, and it is also possible to perceive a common line of thinking in both the diagnoses and responses that underpin them. In particular, both have highlighted a level of existential threat in the battle for the future of democracy and the liberal world order, and the language emphasised in the UK's Integrated Review regarding China was characterised by striking parallels to a speech given by Secretary of State Antony Blinken in the weeks preceding the Review's publication. Of particular note is a shared desire to challenge China through forums outside the bilateral relationship, building up capacity in the Western alliance and forging new alliances with liberal nations with a similar interest in China's rise.

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The other important parallel is in their common focus on integrating their respective domestic and international policy agendas. Both the UK's 'Levelling Up' agenda and the United States' American Jobs Plan, make clear that national resilience must be built on a domestic foundation, with a prosperous economy, cohesive society and well-functioning democracy the necessary preconditions to counter the rising influence of authoritarian states.⁸⁴

Implications of the Temporary Reduction to the UK's Foreign Aid Budget

In 2020, Britain was the third-largest aid donor in the world, behind only the United States and Germany, spending £14.5 billion on international development. The dramatic hit to Government finances precipitated by the coronavirus pandemic compelled the decision to temporarily reduce the UK's aid spending from 0.7% to 0.5% of GNI, with a stipulation that this reduction will remain in place until the fiscal outlook improves. Office of Budget Responsibility estimates for the UK's financial outlook suggest that GDP may not recover until 2024,⁸⁵ which means the 0.7% commitment could theoretically remain curtailed until the next General Election period.

Many voices have spoken out against the decision to temporarily reduce our international development spending, whether arguing from a moral, strategic, reputational or security position. From a strategic and security perspective, one of the most challenging consequences of the decision to reduce our aid footprint is the risk that strategic rivals such as China will comfortably step into the void. As we noted in our 2020 report, China has extensively studied the UK Department for International Development's (DFID – now merged into the 'FCDO') practices and has considered its work in Africa to be particularly effective. Indeed, DFID and China had a long history of working together, with DFID becoming the first international aid agency to collaborate with China in 2011, when it signed an MOU to promote international development cooperation. China even sought assistance from DFID to improve its transparency standards. Cooperation was particularly prominent around global health, where the UK is recognised as a world leader in supporting health outcomes in the developing world.⁸⁶

Africa has been a particular focus of China's development activities. China's Foreign Direct Investment (FDI) into Africa has been growing rapidly over the past decade, trebling from just over £1 billion in 2009 to £3.8 billion in 2018. China is now Africa's largest trading partner, and also the largest financier of the construction of infrastructure including railways, roads, power plants and ports in the continent. These investments are primarily focused on high-speed transport, digital, space and health – including funding the construction of the African Centres for Disease Control and Prevention, an institution which has become increasingly important during the Covid-19 pandemic.⁸⁷ However, despite extensive investment by China into Africa, some important obstacles remain to its further advancement into the continent. Official lending to African countries by China's two main policy banks, the China Development Bank and the China Exim Bank, is expected to decline as lenders become increasingly concerned about the sustainability of rising debt levels on the African continent. Furthermore, while two-way trade is set to rebound after the pandemic, it is unlikely that it will return to 2019 levels of trade, as China has signalled its intention to diversify its sourcing of raw materials, which constituted a large part of its trade in goods.⁸⁸

While the speed of growth in China's investment into Africa has slowed, in part because of the coronavirus pandemic, Chinese FDI is tangibly linked to economic growth in countries such as Ethiopia.⁸⁹ These investments by China into Africa are reaping rewards in terms of soft power, with 63% of citizens surveyed from 36 countries in Africa reporting positive feelings towards Chinese investments – particularly spending concentrated in development and infrastructure projects. At the same time, however, among those surveyed who were aware of Chinese loans, 58% felt that their countries have borrowed too much, and 77% were concerned about loan repayments.⁹⁰

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The project to integrate the UK's foreign policy streams into an international super-department, enabling a more holistic strategic framework, appears to offer particular benefits in terms of our presence in Africa and other developing areas. In principle, the integration agenda should allow us to deploy our resources more effectively – recognising that support on governance, standards and regulations, targeted aid investments, and security initiatives, can provide the foundations of trust that facilitate productive trading relationships. They will also help to ensure that developing nations are able to build their political and economic settlements around principles of openness, democracy and liberal values.

It is unfortunate that the first bold steps in the integration agenda – merging the Department for International Development into the now-Foreign, Commonwealth and Development Office – were immediately followed by the devastating coronavirus pandemic, which has not only utterly consumed bandwidth within Government, but has ultimately led to the downgrading of the budgets crucial to laying those foundations for integration in the field. There are many reasons why the decision temporarily to reduce the UK Government's aid spending is regrettable, and both the Prime Minister and the Foreign Secretary have emphasised that these are recognised. Through a purely geopolitical lens, there is a genuine danger that the significant strength that Britain has held in forging mutually beneficial relationships with African and other developing nations will be disrupted – creating an opening for strategic rivals such as China to fill the gap. Meanwhile, the costs of reinstating interrupted programmes will likely be considerably higher than maintaining them.

One of the areas of particular concern is research and development, with China's levels of R&D spending growing at four times the rate of the United States' in recent years, as it seeks to reach its target of investing 2.5% of GDP in research and development. In March, China outlined plans to increase research and development spending by 7% per year between 2021 and 2025, with a particular focus on semiconductors, healthcare and computing.⁹¹ China is increasingly looking towards developing nations as targets for research and development partnerships, while the UK's ODA allocations for research and development in its business department and UK Research and Innovation have been significantly impacted by the temporary spending reduction, with budgets in some areas scaled down by as much as 70%.⁹² Although an extra £38million of funding has been allocated to the FCDO for R&D, this unpredictable redistribution of expenditure allocations enhances the attractiveness of the Chinese model, as some now regard it as more stable.⁹³ Although China's spending on R&D in development is not made public, the CCP's actions make clear their intent, with the BRI funding a growing number of research and education centres in developing countries.

There is no doubt that the pandemic and its economic consequences have required governments around the world to make tough decisions about the prioritisation of their spending, and how to ensure these short-term choices are sustainable into the future. The United Kingdom's fiscal outlook appears to be especially challenging, with the pandemic potentially leaving deeper economic scars than in many of our peers.⁹⁴ A nation's economic health is directly linked to its capacity to perform on the world stage and achieve its international ambitions, and therefore it is difficult to separate the UK's financial recovery from the effectiveness of our foreign policy. At the same time, we must acknowledge that the short-term savings we derive from adjusting our international development expenditure may leave imprints for the longer term.

Aid and development investments forged by China and our other strategic rivals in the developing world continue to reap rewards. In the future, these projects may strengthen their capacity to win future tenders and afford them the opportunity to play a more instrumental role in shaping these nations' business and governance environments. The UK cannot directly compete with the scale of China's resources, but it has a head start in many nations, earned by the long-term consistency and effectiveness of our aid and development programmes.⁹⁵ It will be essential that the UK reinstates its 0.7% aid commitment at the earliest opportunity the fiscal situation allows. Equally, there is an urgency to leverage democratic forums such as the G7 to support collective burden-sharing in international development amongst Western allies – prioritising areas of the greatest strategic importance and under the highest level of risk

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in terms of China's growing influence. It should be a matter of urgency that developing nations are given the choice to be able to pursue an architecture of openness, and the West should emphasise its consistency as a collective partner.

The G7 and NATO Summits

In June 2021, the United Kingdom hosted the G7 Summit – an event that was unusual in its stakes, taking place as the launching platform for the Global Britain project, the first coming together of leaders since the pandemic, and with the future of liberal cooperation on the line. Although not as forthright in its commitments as perhaps the United States or the UK would have liked, the final G7 communiqué was also striking for its emphasis on the threats posed to the future of the democratic and liberal world order by a rising China. The communiqué explicitly called on China 'to respect human rights and fundamental freedoms' in Xinjiang and Hong Kong, highlighted the importance of 'maintaining a free and open Indo Pacific' and committed 'to consult(ing) on collective approaches to challenging non-market policies and practices' in relation to China. G7 leaders also used the communiqué to call for a new investigation in China into the origins of Covid-19.

In turn, China warned G7 leaders that the day when a small group of countries decided the world's future have passed, accusing the G7 of 'baseless accusations' and 'slandering China'. Significantly, G7 leaders committed to funding for the 'Build Back Better for the World' initiative, designed to orient development finance tools towards challenges faced by Global South countries, including infrastructure, climate change, health, digital, gender equality and education. Although not elucidated in the communiqué, it is clear that the initiative is designed to focus squarely on nations which may otherwise take financing from China.

The Summit was not without its disagreements, and the decision to specifically address China as a threat was forged from a heterogeneous suite of views about which issues to highlight and the degree of cooperation that could be acceptable with the powerful authoritarian state. There is no doubt that the coming together of leaders to agree on the baseline levels of risk was significant, but it is unclear as to whether this Summit represented the apex of a new level of cooperation, or simply the beginning of a broader process to build a greater level of consensus.

The NATO Summit, held almost immediately after the G7 summit in June 2021, also featured a new aspect of cooperation around China, which was particularly significant because of the traditional focus of NATO on the European neighbourhood. Although NATO Secretary General Jens Stoltenberg emphasised that China was a challenger but "not an adversary", NATO leaders warned that China posed a "systemic challenge" to the West due to the rapid expansion of its nuclear arsenal, cooperation with Russia and opacity about its military modernisation. This statement represents the first ever significant mention of China in a NATO summit declaration. In response, China's Mission to the EU accused NATO of 'slandering China's peaceful development', arguing that it indicated a 'Cold War mentality'.

In the aftermath of the Summit, a number of NATO members neglected to mention China in their post-summit statements, and key European leaders including President Macron and Chancellor Merkel have made various comments that both reorient and temper the degree of focus that NATO holds on Russia as a singularly prominent risk. There is no doubt that Russia continues to present a particularly pernicious threat to liberal democracies and there can be no softening of political and security attention to its activities. However, the NATO Summit and the conflicting messages propagated in its aftermath underscore the challenge for the West in conceptually accommodating multiple significant risks at the same time. There is some effort to bring these together as a battle against authoritarianism, but it is also the case that these risks are distinct in various ways that can render such a neat compartmentalisation unhelpful. Ultimately, the challenges for NATO in accommodating China as a systemic risk will accelerate questions about the need for new alliances in the 21st Century.

Changes in UK and Chinese Ambassadors

In June 2020, Dame Caroline Wilson was appointed Her Majesty's Ambassador to the People's Republic of China, in succession to Dame Barbara Woodward. She took up her post in September. The Ambassador identified her priorities in her role as including 'build(ing) a strong relationship between the UK and China' and called for 'frank dialogue' to address divergences of view. She also emphasised the importance of working with China on global issues such as climate change and Covid-19.⁹⁶ Her appointment was well received in the UK given her strong diplomatic background, with Foreign Secretary Dominic Raab describing her as an "outstanding diplomat, who will help us navigate the path ahead".⁹⁷

Nonetheless, the beginning of her tenure was marked by a period of tension. In March 2021, Ambassador Wilson wrote an article on the WeChat page of the British Embassy in China making the case that the British media is not anti-China, and that any criticisms of China are made in good faith, in order to protect those who do not have a voice in China.⁹⁸ Wilson was summoned by the Chinese Foreign Ministry for being "arrogant" and "biased", and Chinese Foreign Ministry spokesperson Zhao Lijian said Wilson's article was a reflection of her "deep-rooted ideological prejudices".⁹⁹ Ambassador Wilson stood by her article and highlighted the way in which the outgoing Chinese Ambassador to the UK wrote 170 articles in the British media without interference.¹⁰⁰ The bumpy opening to Ambassador Wilson's service captures the escalating stakes underpinning the UK-China relationship as it moves into a new, more contested era.

China has also recently renewed its Ambassador to the United Kingdom, after a period in which attitudes in Westminster towards China deteriorated significantly. Liu Xiaoming was China's Ambassador to the UK from 2010 to 2021, and was a long-term supporter of strengthening economic ties between the two nations.¹⁰¹ However, in the eyes of some observers, his assertive style of diplomacy became a symbol of the CCP's uneven approach to winning hearts and minds. Ambassador Liu repeatedly condemned the UK's decision to ban Huawei from 5G networks and rejected any allegations of human rights abuses. He came under notable scrutiny in Britain following an appearance on The Andrew Marr Show on BBC One, where he declared that images of Uighur Muslims being blindfolded in China's re-education camps were fake, and accused the UK of 'dancing the tune' of Washington.¹⁰²

Ultimately, Ambassador Liu found himself on the frontline of a complete re-evaluation of the UK-China relationship taking place in Whitehall, and his uncompromising response to criticisms – embodied in his appearance on the BBC, which brought China's new style of diplomacy directly into the living rooms of British citizens – ultimately became a factor in the hardening of opinions about China in the public sphere of his host nation. His tenure as Ambassador to the UK coincided with a period of intensification of relations and then, in the end, a significant unravelling. Nonetheless, he did undoubtedly play a central and prominent role in facilitating the expansion of UK-China economic ties during the "Golden Era" years, which, as noted above, remain enduringly close, in spite of the political turbulence.

Ambassador Zheng Zeguang replaced Ambassador Liu in 2021. A former Cardiff University student, he has spent the majority of his political career following US-China relations, and has been vocal about America's role in criticising China's increasing incursions into Hong Kong.¹⁰³ It is too soon to say whether Zheng represents a significant shift from the tone of his predecessor, although it is expected he will seek to restabilise relationships and ensure that economic ties between the UK and China remain resilient. His appointment to the UK signals a shift in China's thinking, with Chinese commentators describing the reason behind it as "sending your top asset to the frontlines". The worsening ties with the United States has, to some extent, elevated Britain's strategic importance to China.¹⁰⁴ It is also worth noting that Ambassador Zheng is from Guangdong province, neighbouring Hong Kong, which may give him a particular interest in developments there.

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Meanwhile, the Chinese Government has requested planning permission for a new Chinese Embassy to be built on the site of the Royal Mint in London, which would be larger than the current US Embassy and would be among the largest embassies in the world. An architectural company has been engaged to restore the historic building and provide a distinct Chinese feel as an expression of the nation's soft power. Tower Hamlets Council are concerned about the potential impact of the Embassy on the local community, particularly in terms of the likelihood that it will attract a frequent stream of protestors, and there has been some discussion as to whether the Council should impose a community levy on the construction. The decision to invest such significant resources into this embassy demonstrates that the United Kingdom is considered a highly important part of the CCP's geopolitical and economic activities, and suggests the Chinese Government will be expecting to install a large presence of both diplomatic and intelligence operatives.

CGTN Licence Revocation

At the beginning of February 2021, the UK's communications regulator, Ofcom, concluded that, despite its efforts to present itself as independent, China's Global Television Network's (CGTN) licence is ultimately controlled by the CCP, and rejected CGTN's efforts to transfer the license at the last minute. This forced CGTN to cease broadcasting in the United Kingdom, although it is still available for viewing online. A spokesperson from CGTN said that the broadcasting network was in the public interest of the UK, and important in building "understanding, communication, trust and cooperation".¹⁰⁵ As we noted in our previous report, CGTN's audience in Britain was relatively low and therefore, the real-world impact of this decision is more symbolic than practical. However, it is self-evident that upholding standards for media freedoms in the domestic market will be an important foundation of any effort to promote this agenda on the world stage.

Angered by the decision taken by Ofcom, the CCP blocked BBC World Television from broadcasting in China. This was another largely symbolic gesture, as this particular television service had only been available in a very limited number of homes and upmarket hotels in China. However, the Chinese authorities employed strong rhetoric to justify the decision, arguing that BBC World News reports were said to 'seriously violate' and 'harm China's national interests'.¹⁰⁶ The BBC had recently released an investigation into allegations of systemic sexual abuse of members of the Uighur community, which included the first testimony of Uighur women on record to report the abuse they had suffered in Xinjiang. Foreign Secretary Raab said the move to ban the BBC, the most respected international broadcaster, from the Chinese market would "only damage China's reputation in the eyes of the world".¹⁰⁷

The decision to ban BBC World Television from China came after a period of heightened tensions, which had been escalating since the broadcaster questioned China's Covid-19 death toll figures, and what appeared to be the manhandling of citizens in its pandemic response. The BBC in China would also often encounter 'blackouts' with obviously targeted timing – particularly clustering around periods in which China was being reported on, such as during the introduction of the UK's new National Security Bill.¹⁰⁸ Despite restrictions on their broadcasting, it is notable the BBC continues to be taken seriously enough by China to be regarded as a target. Along with UK media brands such as the *Financial Times* and *The Economist*, the BBC's reputation meant that the UK was one of the most prominently represented nations in the Chinese market, and an important component of elite Chinese perceptions of the most powerful global media – providing a powerful platform through which to project the UK's soft power. This incident should serve to strengthen the recognition within the UK Government of the immense value we derive from our broadcast and media assets as part of our 'mission to persuade', and help to drive momentum to ensure that our remaining access is deepened and expanded wherever possible.

Chinese Diaspora in the UK

The Chinese diaspora within the UK is not a monolithic entity. Its longest-standing element is comprised of the communities which migrated from China, including Hong Kong, in the twentieth century, particularly after World War II. Subsequent generations of British-Chinese have taken their place in the UK's diverse society alongside British communities of South Asian and Afro-Caribbean heritage, although the British Chinese are still far less prominent in public life and the media than other ethnic minority communities. In the past two decades, a smaller but growing community has emerged of PRC citizens who live and work in the UK, often in the white-collar professions such as banking, business and the law. Evidence suggests there are high citizenship adoption rates amongst this community, and therefore the potential for strong levels of integration on a number of levels.

The Chinese population in the United Kingdom has been the subject of increasing attention as the nation's geopolitical relationship with China evolves. During the early phases of the COVID-19 pandemic in particular, there were disturbing reports of anti-Chinese prejudice and racial harassment in parts of the UK.¹⁰⁹ The diverse nature of the community also means that distinct preferences, values and ideologies can also find themselves represented within British life. For example, the Uighur community in the UK rallied together and staged a demonstration outside the Chinese Embassy in London in April 2021, organised by the Uighur Solidarity Campaign, following a similar protest that took place in November 2020.

One of the more concerning potential developments has been the interest demonstrated by the Chinese diplomatic establishment in keeping in close contact with influential groups of Chinese citizens resident in the UK. Although it is entirely to be expected that the diaspora will maintain relationships with their relevant embassies – and indeed, the UK Government could do more to leverage connections with its own diaspora – there are some anxieties about the intentions of these outreach efforts. On the positive side, during the pandemic, Chinese embassies sent care packages to Chinese students in the UK containing scarce resources, with the labelling stating 'the motherland is forever at your side'.¹¹⁰ However, migrants who have come to the UK through the BNO passport scheme are now reported to be subject to harassment from Chinese organisations in the UK that remain loyal to the Chinese Government and their actions in Hong Kong. It is worth noting that 200 Chinese organisations in the UK have stated their support for the National Security Law.¹¹¹ As the UK's diaspora populations continue to grow, the UK Government must become more attuned to these communities and their role in our foreign policy ecosystem.

Conclusion

The United Kingdom has undertaken a fundamental rethink of its China engagement strategy, and the assessment presented in the Integrated Review is miles apart from the status quo that had prevailed before the coronavirus pandemic. It is clear: the Golden Era is over. Yet, it is also apparent that the UK Government wishes to pursue a 'balanced' approach, and the substance of this strategy – necessarily forged on a series of continuous decisions on a case-by-case basis – may not always be consistent nor transparent. In part, this reflects a difficult political equation. The British people remain sceptical of engagement with China, and economic engagement – the single greatest driver behind the 'balanced' approach – is especially unpopular, seen as a fundamental risk that leaves us vulnerable to potential coercion. There is a challenge to persuade the British people of the strategic value of the UK-China partnership beyond employing a more confrontational tone on human rights transgressions.

It is also true that the 'balanced' approach may feel ambiguous because it will, by its very nature, constantly test the new instruments we are embedding to safeguard British interests. We are establishing a framework that will in fact require a far greater investment of political time and diplomatic resources. This is the price of security, and of pursuing a truly global approach to

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climate diplomacy. Some may dismiss the notion of a balanced relationship as 'cake-ism', but it is certainly the case that this captures the approach even our most outspoken allies on China's geopolitical and human rights choices are also pursuing. There is a tendency, of course, to cast an especially critical eye across Britain's choices, while failing to acknowledge the realities of our global partners' decisions.

Where we do need to be especially vigilant is to ensure that this awakening we have experienced on China is not seen as having any particular end point. Drawing a line in the sand does not mean that the process of securitisation is 'complete'. There are, in fact, many areas of our national interest that remain without any cohesive strategic safeguards, including aspects of higher education and agriculture, and it is also the case that new areas of potential vulnerability will continue to emerge over time. We must build systems that are capable of being expansive and flexible, with coordinated central oversight, able to adapt to new areas of influence, interference and strategic priority.

On a more social level, there is an urgent need to rethink the UK Government's approach to diaspora relations in times of great geopolitical inflection points. In the UK, there is a thriving diaspora relatively recently arrived from China which holds the potential to both act as a bridge and inhibitor to UK-China diplomatic and political relations. These individuals are integrated into our communities and are an important component of Britain's greater engagement with China, hitherto given scarce attention within our foreign policy ecosystem. The UK Government must consider how to develop long-term channels of communication and engagement with these communities, being sensitive to their particular needs and protecting them from the social expression of diplomatic tensions. This will be especially important in light of the decision to welcome thousands of BNO passport holders from Hong Kong, whose integration will need to be carefully coordinated, and their relations with mainland Chinese communities taken into account.

In China, we have lost a substantial soft power instrument through the CCP's decision to ban the BBC World TV's broadcast licence – even if in practical terms, the broadcaster was only reaching a select elite. We must conduct an audit of our remaining assets of influence – including the UK diaspora in China – and more enthusiastically embrace the projection of our values, culture and strategic priorities in the Chinese media, business and diplomatic spheres. At the same time, we will need to be working closely with our allies in identifying common interests and developing a consensus on the monitoring and response to negative aspects of China's behaviour that risk undermining the liberal world order. Ultimately, the UK-China relationship, though carrying its own unique qualities, will never be purely bilateral, and will in many ways capture the broader choices we make about our international relationships and our role in the world.

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United States-China Relations

One of the most significant geopolitical developments in the past 12 months has been the election of President Joe Biden and the transfer of power following his inauguration in January 2021. There is no doubt that President Biden's approach to governance represents a considerable step-change from his predecessor in both tone and substance. On US-China engagement, however, there has been a striking degree of continuity on some of the fundamentals. The most tangible shifts have been found within the domestic narratives the Biden administration employs to frame its relationship with China, and the collaborative and often indirect approach being pursued with global partners and institutions to challenge China's growing presence on the world stage.

In terms of the former, President Biden has moved beyond the Trump administration's language of victimhood and heightened emotions to frame China as a serious, if not dangerous, competitor. He has promoted domestic renewal as an essential underpinning of America's competitiveness against China and compelled the American people and American industry to rise to the existential challenge authoritarianism poses to the liberal democratic world. Along with international partners, the United States has sought to help drive a new foundational consensus on the risks posed by China and strengthen cooperation on joint responses to perceived transgressions. It has also committed to reforming global institutions that have struggled to maintain their original purpose and function as a result of China's unwillingness to adhere to recognised frameworks of global governance, and – along with the United Kingdom – sought to drive conversations about possible new democratic alliances.

Nonetheless, some prominent policy approaches of the Trump administration have been maintained within the transition. Before leaving office in January 2021, then-President Donald Trump issued a memorandum declaring the US Government's responsibility to protect the country's research from malign interference, and the White House Office of Science and Technology Policy published new security guidelines for universities and funding agencies because of concerns about research and intellectual property theft by China.¹¹² Despite criticising former President Trump for imposing tariffs on China during the height of trading tensions between the two superpowers, President Biden has left them in place. He is also said to be considering the future of the Phase 1 trade deal struck between the United States and China,¹¹³ despite China remaining well adrift from its commitments.¹¹⁴

Economic conflicts with China can be costly business in the short term. Part of the Phase 1 deal includes a Chinese commitment to purchase an additional US\$200 billion more of American goods by the end of 2021.¹¹⁵ At its peak, the US-China trade war cost almost a quarter of a million American jobs, and a study by Oxford Economics points to an 'escalation scenario', which could decrease overall GDP in the US by US\$1.6 trillion over the next five years.¹¹⁶ However, the President appears to have made the calculation that phasing out economic dependence on China is an important long-term national security ambition and therefore continues to deepen the scrutiny given to Chinese investments. In February 2021, President Biden announced a Government review of supply chains in a number of areas identified as vulnerable following the Covid-19 pandemic.

The four industries under review include computer chips, pharmaceuticals, large-capacity electric vehicle batteries and critical minerals in electronics, all said to have been strongly negatively impacted due to the pandemic. Most notably, computer chips (semiconductors), were levelled with a double impact as the US is over-reliant on imports from China, which were affected when China went into lockdown, and further hit from the ongoing trade war, leading to US companies questioning their strategy.¹¹⁷ As a result, producers and distributors will be required to conduct 100-day reviews in the industries outlined above with the aim of strengthening global supply

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chains. Despite the fraught US-China trade relations, in May 2021, US trade representative Katherine Tai said she is expecting to meet her Chinese counterpart soon to assess the implementation of the Phase 1 deal, signalling the potential resumption of trade conversations, after previous deadlines for talks were missed on both sides.¹¹⁸

One of the clearest breaks that President Biden has made with the Trump era in his approach to China relations is to emphasise human rights as a lens through which to challenge China's behaviour. In his first call with President Xi Jinping, held in February 2021, President Biden raised the issue of the Uighur community, the clampdown in Hong Kong and tensions with Taiwan.¹¹⁹ Biden's Secretary of State, Antony Blinken described the Chinese crackdown on Uighur Muslims and other minorities in the Western Xinjiang region a 'genocide'. After challenging China's top diplomat, Yang Jiechi, on these human rights abuses during their official meeting, Blinken traded barbs with Yang, who denounced Washington as a bully, racist, and hypocritical.¹²⁰

Public opinion research shows that the majority of the American public (70%) believes the United States should try to promote human rights in China, even if it harms economic relations, and just 26% believe the US should prioritise economic relations.¹²¹ Nevertheless, despite a strong stance on China, Secretary of State Blinken rejected the claim that the United States is entering a Cold War with China and stated that they are not asking countries to choose between the two, in meetings held ahead of the G7 Summit.¹²² Blinken has been careful in his language towards China, seeking simultaneously both to toughen the US stance and de-escalate from the potential dangerous state of relations that had been developing under his predecessor. He is, in part, motivated by a desire to build a degree of consistency and stability into the relationship, away from a volatile situation prone to unexpected flare-ups. In doing so, he will be aiming to build a degree of strategic capacity into US-China relations and buy more time for the US to reinstate its important allied relationships after a period of acute disruption.

One of the central tenets of President Joe Biden's election campaign was the rebuilding of the United States' international relationships, many of which were hampered by former President Trump's aversion to multilateralism and decision to leave a number of multilateral organisations.¹²³ President Biden has attempted to restore these relationships with a renewed US commitment to multilateralism evidenced by signing the Paris Climate Agreement on his first day in office, increasing resources for the WHO, endorsing COVAX, his climate leaders' summit and his commitment to host an annual Summit for Democracy.¹²⁴ Former President Trump withdrew from the Trans-Pacific Partnership early into his term; President Biden is now placing more emphasis on trade in the Indo-Pacific region, with an increasing degree of urgency as the RCEP – of which China is a member – has become the world's largest trading bloc.¹²⁵

As well as focusing on the Transatlantic and European regions, President Biden has also sought to rebuild some of America's relationships in Asia, as a means of balancing China's influence. In April 2021, he hosted Japanese Prime Minister Yoshihide Suga to discuss US-Japanese cooperation over China's confrontational stances, including in Hong Kong, the Taiwan Strait and on human rights abuses in the Xinjiang region. The two leaders released a joint statement of unity and their "ironclad" support for a US-Japanese alliance.¹²⁶ America also joined Japan and South Korea for a meeting at the end of April 2021 in London with their foreign ministers to commit to future cooperation on North Korea.¹²⁷

President Biden and his administration have also sought to strengthen US-Taiwan relations with three former senior US officials visiting Taipei in efforts to show their commitment to the island and its democracy. The United States and China are at increasingly greater odds over the status of Taiwan. China is employing intensified language on the need for reunification with the island, and while the United States has largely kept its position ambiguous, it has given clear indications that it considers the maintenance of Taiwan's autonomy a central strategic goal – even though it does not support Taiwan's fundamental independence. Former US Senator Chris Dodd said the US-Taiwan partnership is "stronger than ever" and trade talks are likely to resume in the future.¹²⁸ The US administration is also looking to strengthen ties

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with India, the India-US 2+2 dialogue and the signing of the Basic Exchange and Cooperation Agreement (BECA) is a positive step for the two nations as they aim to counter China's influence in the region through sharing sensitive satellite data.¹²⁹

Despite its increasing preference to engage with China through indirect means, the Biden administration recognises that climate action is an area warranting specific bilateral diplomacy. After all, as the world's two largest carbon emitters, cooperation between China and the United States is integral to successful action on climate change and this is an issue on which the two nations share something in common. President Xi did participate in President Biden's Leaders' Summit on Climate in April 2021, committing to joining the Kigali Agreement, to reducing China's coal consumption between 2026 and 2030, and to reaching peak carbon emissions by 2030. However, China also noted at the summit the disadvantaged position of developing economies compared to Western nations, which were able to advance industrially without the hindrance of climate change considerations.¹³⁰

The instability in America's democracy has created opportunities for the CCP to define America as an increasingly unreliable partner to other existing and potential allies. It has revelled in the opportunity to highlight areas of dysfunction and social unrest – a task particularly strengthened by the chaotic and disturbing scenes surrounding the 6 January 2021 insurrection at the United States Capitol. China recognises that the United States is in a process of recalibrating and renewing its democracy, but that its domestic atmosphere remains fragile. It therefore seeks to emphasise any areas of internal weakness as a fundamental challenge to its capacity to speak and act on the world stage, and aims to draw parallels and create a sense of equivalence between its moral failings and the accusations being made towards the CCP in terms of human rights violations. China has a long memory, and its assessment of America's morality is not simply constituted by its current leadership, but an examination of its past behaviour – which it tends to regard in cumulative terms. In such a view, the idea of wiping the slate clean under a new administration is depicted as wilfully naïve and disingenuous. Rather, China seeks to play to and exacerbate cynicism about America's fundamental goodness and challenge the notion that it ever held a kind of pre-ordained authority over other societies and cultures.

China's new Ambassador to the United States was appointed at the end of July 2021. Commenting on his appointment at his first Washington press conference, Ambassador Qin Gang spoke of China and America entering a new round of "mutual exploration, understanding and adaption". The appointment is considered somewhat unconventional as the Ambassador has never previously focused on the United States in his diplomatic career, and signals an intention to reset relations; although it is unclear whether that involves relations ultimately becoming more or less antagonistic. Certainly, as a former foreign ministry spokesperson, Qin has a long career of defending China's image and handling foreign media, and he is considered to have won the special trust of President Xi.¹³¹

Since President Biden assumed office, the United Kingdom and the United States have become more closely aligned around relations with China, both in terms of the rhetoric they employ and the concrete actions to which they have begun to commit themselves.¹³² Nonetheless, the United States will necessarily pursue a distinct relationship with China compared to that of the United Kingdom, or any of our allies for that matter. Despite President Biden's efforts to neutralise some of the most emotive aspects of the US-China diplomatic relationship, he is unequivocal in his assessment that China remains a singularly powerful competitor and a focus of outsized interest in both economic and geopolitical terms. The emergence of some middle ground between Britain and America is meaningful and should be a source of investment for both parties, but it is wise for both sides to appreciate the areas in which they will necessarily diverge. In part, this is constituted by their differing geographies – the United States is, after all, a Pacific nation by virtue of its location, while the United Kingdom's new interest in the Indo-Pacific must be balanced against its central role in the European neighbourhood.

The UK is likely to remain close to the United States on China issues in the next few years. The Biden administration is congenial towards the Johnson Government, and recognises the mutual

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benefit in working together on forging a baseline of consensus amongst Western allies about the collective relationship with China. It is also certainly the case that the UK and the EU, and her constituent member states, while remaining close partners in many practical respects, will likely experience some degree of intermittent tensions and instability over this same period. It is important for both American and British policy-makers to understand where they differ, as well as where they have similar interests, on matters relating to questions of security, economics and values relating to China. Britain's commitment to a military and security presence in Asia will be important to the United States, but it is important that it is coordinated with the other European and Indo-Pacific partners. President Biden does represent a significant break from his predecessor, but more fundamental questions about the stability of America's role at the central axis of the Western alliance mean it will be essential for Britain to also spend these years investing in other productive relationships.

The European Union

Like their partners in the United Kingdom and the United States, European nations have been in a state of evolution over the past year in responding and adjusting to a new awareness of the risks posed by China to various aspects of their national interest. Nonetheless, opinions continue to be varied, and divisions over relations with China remains a central obstacle to the capacity of the EU to achieve its ambitions to become a cohesive and coherent foreign policy actor.

The European Union and China concluded negotiations on a bilateral Comprehensive Agreement on Investment (CAI) in December 2020, following seven years and 35 rounds of EU-China negotiations. The new investment deal is not a Free Trade Agreement, but an investment pact resting on three pillars of market access, level playing field and sustainable development.¹³³ When the CAI was announced, many foreign policy actors in the UK, the United States and other key allies expressed concern and bafflement as to why the European Union would pursue an investment agreement just at the moment when international cooperation on addressing China's human rights transgressions was starting to gain traction. The point has been made, however, that this agreement simply codifies levels of market access already enjoyed by other Western partners, and is not dissimilar to the approach being pursued via the United States' own trade negotiations with China.¹³⁴

Progress on ratification of the CAI has been halted in recent months, as both China and the EU imposed sanctions on each other and tensions between the two nations escalated.¹³⁵ In March, after the EU levelled sanctions on Chinese officials accused of human rights abuses in Xinjiang, China retaliated by blacklisting five members of the European Parliament and its sub-committee, as well as other individuals active in research or advocacy around EU-China relations. The European Parliament subsequently cancelled its plan to discuss the CAI, and ratification of the deal is now looking increasingly unlikely. In May 2021, the European Commission admitted that political outreach over the deal had "in a sense suspended", and it is thought that it is unlikely that talks for the CAI deal will resume while sanctions still remain.¹³⁶

The European Commission has also now unveiled plans to reduce dependency on foreign suppliers in six strategic areas, and to limit the ability of companies supported by foreign subsidies to buy EU businesses – initiatives clearly designed, at least in part, to address specific concerns about Chinese economic influence.¹³⁷ The EU remains divided over the future of the CAI. German Chancellor Angela Merkel, who was integral to the agreement of the deal, affirmed it remains a "very important undertaking",¹³⁸ but the EU has abandoned plans to develop an 'Agenda 2025' roadmap for enhancing EU-China cooperation.¹³⁹

Germany, which has an outsized voice amongst EU member states, remains eager to maintain a constructive partnership with "complicated" China.¹⁴⁰ Germany has strong economic ties with China, with trade volume between the two nations reaching almost £148 billion in 2019 – making China, Germany's biggest trading partner. Germany has tended to believe that these economic relationships provide a forum through which to advocate on other geopolitical and values areas,

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and has used the phrase 'Wandel durch Handel' (change through trade) to guide its approach.¹⁴¹ Incoming CDU leader – and possible future German Chancellor – Armin Laschet, has also signalled a continuation of Merkel's approach, speaking out on China's alleged human rights abuses while ensuring that economic ties remain intact. The CDU leader has warned against a new Cold War with China and said it is in the EU's interest to cooperate with Beijing, posing the question 'do we need a new adversary?' in response to President Biden's stance on China.¹⁴²

Although relations between France and China have experienced some recent turbulence,¹⁴³ Chancellor Merkel and President Macron have remained broadly aligned in their views on the framework of EU-China engagement. President Macron urged the need for the EU to travel its own path with China, rather than subscribing to an American hegemony on China relations.¹⁴⁴ The approach President Macron has favoured on China is similar to his views on engagement with Russia, which essentially prioritises an ongoing dialogue and seeks to avoid conflict escalation. He recently joined Chancellor Merkel in a video conference with Xi Jinping on climate change, trade and the coronavirus pandemic, emphasising their shared belief in the importance of maintaining productive space for conversation. There had been some efforts to have President Macron join Chancellor Merkel on a last trip in office to Beijing this summer, with the aim of providing some degree of continuity on EU-China engagement after the German Chancellor steps down.¹⁴⁵

The critics of such an approach emphasise that China remains a disproportionate beneficiary of these diplomatic tactics, which undermine the seriousness with which the CCP will regard any efforts to hold it to account over other matters.¹⁴⁶ They also argue that enabling continued bilateral cooperation absolves China for its behaviour in subverting international institutions and norms. While wealthier, established democracies are able to build in safeguards that could safeguard against economic coercion, smaller and more fragile democracies are more vulnerable to compound influence operations.

China continues its charm offensive in Eastern Europe, committing to doubling Chinese imports from Eastern Europe in the next five years, and seeking to leverage vaccine diplomacy to make inroads amongst citizens. Nonetheless, just half of the national leaders invited to the '17+1' meeting between Central and Eastern European states with China in February 2021 ultimately attended the event,¹⁴⁷ and states such as Lithuania have urged others to withdraw from the initiative. For those well-versed in challenging malign influence and interference from Russia, China's efforts to gain a foothold in the region are raising alarm bells and there is frustration that some of the larger EU powers are proving obstacles to a greater level of EU-level coordination.

A significant development in recent months has been the breaking of the stalemate on the Nord Stream 2 pipeline, a controversial energy pipeline that will travel between Russia and Germany. The pipeline hits at the heart of the difficult calculations being made around the trade-offs between economic growth and national security, with businesses in both Russia and Germany heavily financially invested in the face of acute geopolitical and strategic anxieties. The United States has been opposed to the pipeline due to its potential to foster energy dependency on Russia and the implications for Ukraine, and had implemented sanctions blocking companies investing more than one million dollars in the Russian energy sector.

However, the stakes were raised further when it was suggested that China could step in to plug the financing gap,¹⁴⁸ and at the end of July 2021, the United States and Germany agreed to resolve their dispute over the pipeline. While President Biden continues to hold reservations about the merits of the project, its advanced stage and the need to maintain good relations within the Western alliance ultimately compelled the decision to waive the sanctions for the pipeline. In return, Germany pledged to impose its own sanctions on Russia, if its energy policies endangered the United States' regional allies, including Ukraine.¹⁴⁹ Once again, the complex and rapidly evolving geopolitical landscape, housing multiple, distinct and highly tactical strategic rivals, has enforced an uneasy compromise.

Australia-China Relations

Australia's relationship with China has evolved more drastically than any other Western nation over the past 12 months, which is especially significant because China remains unusually embedded in Australia's economic life. There has been a sharp, marked deterioration of relations as the Australian Commonwealth (Federal) Government has sought to impose control over state and territories' individual engagement with China, and implement much stronger safeguards around the intersection between economic entanglement and national security. Beyond its own shores, Australia has also been taking a more robust position on China's human rights transgressions and its behaviour within the international community.

In April 2020, the Australian Foreign Minister called for an inquiry into the origins of the coronavirus pandemic, a call which marked the beginning of a new era of public sparring between the two nations. In August, the deputy head of mission of China's Embassy in Australia, Wang Xinjing, said that Australia "was supposed to be a good friend of China" and that their call for inquiry was "shocking".¹⁵⁰ Despite the threats levelled by the CCP to disrupt the important economic and trading relationship, in September 2020, Prime Minister Scott Morrison reiterated these concerns at the virtual 75th annual UN General Assembly, claiming that an inquiry is integral to minimising the threat of another global pandemic.¹⁵¹

In November 2020, the Chinese Embassy in Australia produced a list of 14 incidents and grievances with Australia, ranging from the Huawei 5G technology ban to the blocking of Chinese investments.¹⁵² Ministers in Beijing subsequently threatened to stop picking up the phone from counterparts in Canberra unless they stopped treating China as a "strategic threat". In the same week, China's Foreign Ministry Spokesperson, Zhao Lijian, tweeted that he was "shocked by murder of Afghan civilians & prisoners by Australian soldiers", after the publication of the Brereton report. The tweet was accompanied by a graphic illustration of a child being held at knifepoint by a soldier. Prime Minister Morrison demanded an apology from China over the "inflammatory" tweet, although China refused to do so.¹⁵³

Both parties continue to insist that they wish to work towards more constructive relations but that the other is making this impossible. For example, the then-Secretary of the Department of Foreign Affairs and Trade, Frances Adamson, asserted in April 2021 that Australia wants a constructive relationship with China, in which both parties can discuss differences and also work together for mutual benefit, but that China expects Australia to compromise on their key national interests, in order to have such cooperation.¹⁵⁴ For their part, Chinese officials have asserted their eagerness to engage constructively, and have declared that "the problem is all caused by the Australian side", in reference to Chinese Ministers not communicating with Canberra.¹⁵⁵

Australian calls for an inquiry into the Covid-19 pandemic have had a particularly significant impact on economic relations, and have led to an escalating trade war between the two countries, with tariffs imposed by China on Australian barley, wine, beef and lobster, with tariffs on some wines set at over 200%.¹⁵⁶ As a result, Chinese investment in Australia decreased by 61% in 2020, with only 20 Chinese investments recorded, compared to 111 in 2016. These tariffs have disrupted exports worth up to £10.4 billion a year and a further £15.4 billion of service exports could be at risk if China successfully warns their citizens not to travel to Australia. So far, the sectors most negatively impacted by China's trade actions are travel, coal, education, beef, wine, cotton and barley.¹⁵⁷

In response, in December 2020, Australia appealed to the WTO over China's imposition of tariffs on Australian barley.¹⁵⁸ In April 2021, China then stated that their provisional tariffs on Australian wine that were initially imposed in November 2020 would remain for five years at a rate of up to 218%. The wine industry in Australia has suffered significantly as a result of these tariffs, as producers have struggled to diversify. China is Australia's largest wine export market, with a specific preference for red wine.¹⁵⁹ In an act of global solidarity, over 200 MPs from 19 different nations are calling on people to buy Australian wine in protest against China's tariffs, describing

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China's behaviour as 'authoritarian bullying'.¹⁶⁰ The United States has vowed to support Australia in the face of China's "unfair" trade practises, and the European Union has offered to join as a third party mediator if the dispute between Australia and China moves to the next stage at the WTO.¹⁶¹

Public opinion research in Australia shows that trust in China is currently at an historic low. An astonishing 94% of Australians support diversification of trade away from China.¹⁶² Australian attitudes have shifted in a striking manner from a calculation that prioritised an economic relationship to one that emphasises security risks,¹⁶³ upending the psychology of the 'Asian Century' and forging a new political settlement around an increasingly defensive frame. The Australian Government has moved from a situation of robust public consent towards a uniquely close economic relationship to a situation of similar consent towards a uniquely confrontational relationship, in just a matter of years. The economic and political consequences of this evolution are profound, and will bear down on the nation's foreign policy, fiscal and electoral calculations for some time.

Following the imposition of the new security law in Hong Kong, Australia issued a new travel advice warning in July 2020 that Australians may face 'arbitrary detention' if they go to mainland China. Australia also ended its extradition treaty with Hong Kong and extended visa rights for a number of Hong Kong citizens. China condemned this as "a gross interference in China's internal affairs".¹⁶⁴ In August 2020, Australia's fears came true when Chinese authorities confirmed that Australian citizen and high-profile host for China's English-language broadcaster CGTN, Cheng Lei, had been detained on suspicion of 'endangering national security'. In the following weeks, the last two correspondents working for Australian media in China were recommended to leave but both were visited by Chinese police officers the night before their departure and were prevented from leaving until they were questioned.¹⁶⁵

In another high-profile case, Australian writer Yang Hengjun was officially charged with espionage on the 7th of October 2020, and is now facing 10 or more years in jail, after already having been detained in China for almost two years. Yang is a former diplomat of China's Ministry of Foreign Affairs, but became an Australian citizen in 2002 and became a scholar, novelist, democratic activist and political commentator. Yang has claimed he has gone through over 300 interrogations but has repeatedly maintained his innocence, which is backed by the Australian Prime Minister.¹⁶⁶

The Secretary of the Department of Defence, Greg Moriarty, said in December 2020 that China is acting in a "disturbing" manner and that countries in the Indo-Pacific are increasingly concerned about the peace and stability of the region.¹⁶⁷ In April 2021, Australia's Defence Minister Peter Dutton said the Australian Government wants to work collaboratively with China to ensure peace in the Indo-Pacific; however he also made clear that Australia will not allow any country to exert influence through cyber-attacks or the militarisation of ports. Shortly after he called for tighter national security, warning that 'China is militarising ports across our region'.¹⁶⁸ Minister Dutton also confirmed a commitment to Taiwan's autonomy, and warned that conflict with China over Taiwan should not be discounted. China responded to this statement with a warning to "stop interfering", advising Australia not to send the "wrong signals".¹⁶⁹

In December 2020, the Australian Federal Government passed the Australian Foreign Relations Bill, which enables it to cancel agreements that state and territory governments, local councils and public universities strike with other nations deemed to undermine national security.¹⁷⁰ The powers were used for the first time in April 2021, with the Commonwealth Government cancelling four deals made by the state of Victoria with foreign nations, including two MOUs signed in 2018 and 2019 with China's national Development and Reform Commission on Chinese participation in infrastructure projects, under China's Belt and Road initiatives (BRI).¹⁷¹

Australia's Foreign Minister Marise Payne stated that the intervention was focused on ensuring consistency of foreign policy across all levels of government, and was not specifically aimed

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at a particular country.¹⁷² The Commonwealth Government was primarily concerned with the fact that, while the MOUs were not legally binding and did not commit the state to involvement in any specific projects, their existence undermined domestic consensus on the BRI and would impact Australia's attempts to warn other countries in the region against involvement in the BRI. The Chinese embassy in Australia described the move as "unreasonable and provocative", and stated that "it further shows that the Australian government has no sincerity in improving China-Australia relations".¹⁷³ Most recently, China has suspended all activity under the China-Australia Strategic Economic Dialogue indefinitely, as a Chinese state economic planner described Australia's actions as stemming from a "Cold War mindset and ideological discrimination".¹⁷⁴

The Port of Darwin is another area of tension between Australia and China, as Chinese company, Landbridge, owns a 99-year lease on the port brought in 2015. In May 2021 the company was subjected to a security review, which has sparked debate about where to draw the line between economic benefit and security risks.¹⁷⁵ Queensland MP George Christensen has backed the move to release the port from the Chinese company, to "protect Australian sovereignty", describing the Port as a "strategic asset" and calling for Government to sell it to an Australian company.¹⁷⁶ The logic behind this shift comes from the geostrategic location of the port, which is close to a US military base and is seen as an instrumental military asset for the Indo-Pacific region. The port also handles ammunition and equipment used by both the Australian Army and the US Marine Corps.¹⁷⁷ The decision to reassess the ownership of this critical infrastructure exemplifies the dramatic shift in thinking that has taken place in the space of just six years in Australia, and the ways in which broader geopolitical developments and the positions of allies are increasingly shaping the West towards more collective positions on China as a security threat.

It is difficult to see how the relationship between China and Australia can be steadied in the short-term, and there is significant potential for further deterioration. As ever with China, these circumstances will test not only Australia's future but the priorities of other 'like-minded' nations. There has been some dissatisfaction in Australia that other Western partners, including the United States and Canada, have been trading with China to supply goods, such as coal for steel production, which China now refuses to take from Australia.¹⁷⁸ It is expected that China may also in the future turn its attention to disrupting other aspects of its relationship with Australia, such as higher education, which is a very important aspect of the Australian economy. Should Chinese students be dissuaded from studying at Australian universities, other Western nations – including the United Kingdom – may find themselves the beneficiaries of this geopolitical moment and will need to consider how they wish to navigate such a development in light of the pressure to strengthen the cohesion amongst liberal nations about China relations.

Japan-China Relations

Military relations between Japan and China have worsened since the implementation of China's new coastguard law earlier in 2021, which allows the use of force by its coast guard in contested waters, and which Japan declared goes beyond the norms of the United Nations Convention on the Laws of the Sea.¹⁷⁹ In April 2021, Japan's annual foreign policy report also cited increasing concerns over China's military assertiveness in the East and South China. China has urged Japan to redact statements within the report that expressed grave concerns over China's military capabilities and maritime activities, however, the Japanese Government is supported by its citizens in taking a robust stance on both China's regional actions and its human rights agenda.¹⁸⁰

Japan has not always embraced confrontation with China over recent years, but it has made increasing investments in its regional security relationships and economic partnerships, to balance against China's presence in its neighbourhood. In March 2021, Japan and Indonesia committed to increased cooperation through facilitating transfers of defence equipment, technology and joint training of military forces.¹⁸¹ The Quad – a partnership between India, the United States, Australia and Japan – has also been reconstituted and reinvigorated – a development about which Japanese Prime Minister Suga said he felt "emotional".¹⁸²

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Nonetheless, economic ties between Japan and China remain relatively strong, and despite the Japanese people's hardening of foreign policy opinions towards China, they continue to recognise the value of commercial cooperation.¹⁸³ Japanese companies, too, remain committed to their presence in China¹⁸⁴ – despite the growing attention to security risks. In April 2021, approximately 200 Japanese companies and research organisations were subject to cyber-attacks believed to be linked to the Chinese military, including an attack on the Japanese Aerospace Exploration Agency.¹⁸⁵ For its part, the Japanese Government is seeking to implement a subsidy programme to encourage Japanese companies to shift manufacturing away from China,¹⁸⁶ mirroring the approach of many of its Western allies, reeling from the implications of the pandemic.

Japan's unique security and economic position with regards to China is well-recognised amongst Britain's allies. President Biden's first meeting with a world leader following his inauguration was with Japanese Prime Minister Suga, resulting in firm commitments from both Japan and the US to "oppose any attempts to change the status quo by force or coercion in the East and South China Seas and intimidation of others in the region", Prime Minister Suga also asserted "the importance of peace and stability of the Taiwan strait".¹⁸⁷ The United States and Japan have intensified their military cooperation, and have discussed contingency plans in case of a security breakdown or conflict emerging in the region – particularly around the question of Taiwan's independence.¹⁸⁸

Japan's annual Defence White Paper for 2021 caused a stir at home and abroad, demonstrating a considerably more robust approach to national security.¹⁸⁹ While the previous year's paper featured a front cover of cherry blossoms and Mount Fuji, this year's black and white image shows a 14th-century Samurai on the attack.¹⁹⁰ The document itself also clearly articulates the issue of Taiwan's stability and its importance for the peace and security of the Indo-Pacific region, accuses China of "unilateral attempts to change the status quo", and describes its security relationship with the United States as "of paramount importance". The publication of the Defence White Paper has also been accompanied by a commitment from Defence Minister Nobuo Kishi to increase Japan's military spending beyond the traditional cap of 1% of GDP.¹⁹¹

Japan has become an increasingly significant strategic ally for both the United States and the United Kingdom, and is beginning to lean more confidently into its position as an ally of particular importance for the West in the Indo-Pacific region. Japan's relations with its neighbours and its preferences around the formation of new alliances will play a considerable role in determining wider choices about the role that non-Pacific nations play in advancing agendas on free trade, security and values in the region, and Japan is likely to continue to position itself as a broker with the West.

India-China Relations

The shifting relations between two of the giants of the Indo-Pacific, India and China, are being carefully watched in Westminster and in Washington – not least of all because the UK's historical and contemporary relationship with India is central to the realisation of the Global Britain agenda, and India is considered a genuine competitor to China's dominance in the region. The most striking development has been the emergence of violent conflict in the border zones between the two nations, which began in the summer of 2020.

In June 2020, India claimed that Chinese forces had begun moving in on the disputed territory in Ladakh, a 3,440km-long border that both China and India believe to be their own, and which has been classified as 'undefined' since 1962. In response to this activity, India deployed tens of thousands more troops to the region and the two armies engaged in violence in the Galwan valley. The battle resulted in the death of 21 Indian soldiers, and China also admitted in February 2021 that four of its troops had died in the clash. Tensions remain a year on, with both nations continuing to maintain thousands of troops, despite eleven rounds of negotiations and an agreement towards military disengagement in early 2021.¹⁹²

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Until the emergence of the conflict in June 2020, India and China had largely sought to keep their economic relations separate to any political disputes; however, following the violence, India has begun to take strategic actions to challenge China's role in its domestic marketplace, including banning hundreds of Chinese mobile phone apps and choosing to exclude Huawei from its 5G integration plans.¹⁹³ While aggressive military action may be halted for now, the ramifications of the events in the region are likely to persist for some time. Not least of all, because the conflict has intensified India's participation in other international forums and its investments in its relationships both within and outside of the Indo-Pacific – in particular, the Quad compact between India, Japan, Australia and the United States.¹⁹⁴

Nonetheless, India's economic relationship with China remains relatively entangled. India is a fervent supporter of the Asian Infrastructure Investment Bank (AIIB), in which China's shares make up almost a third of the bank's resources and India remains the AIIB's biggest single recipient of the total value of loans.¹⁹⁵ The evolving security dynamic between China and India must therefore be considered against the realities of this economic relationship, which will necessarily dissuade India from pursuing economic instruments such as sanctions as retaliatory measures. The questions about India's choices with regards to its relationship with China remain, however, some of the most pertinent to the broader environment in the Indo-Pacific and especially central to Britain's potential involvement in the region.

Taiwan

Tensions between China and Taiwan continue to persist across multiple areas, and in some ways have heightened over the past year. China flew a record number of 380 jets across the Taiwan strait in 2020 and in August 2020, Taiwan accused China of being behind cyberattacks on ten government agencies.¹⁹⁶ Relations were especially strained in April 2021, when China began holding naval drills near Taiwan, claiming it was improving its ability to safeguard its national sovereignty. A few days later, it sent 25 warplanes into Taiwan's air defence identification zone.¹⁹⁷ In response, Taiwan's Foreign Minister asserted that "we will fight a war if we need to fight a war". Former Taiwanese Minister of Defence Michael Tsai, has also highlighted that China's ongoing efforts to prevent Taiwan receiving recognition in international institutions are ongoing, and has claimed that China is seeking to divide the Taiwanese population.¹⁹⁸

The United States continues to watch the situation in Taiwan closely. In September 2020, United States Undersecretary for Economic Affairs, Keith Krach, visited Taiwan – a decision to which China responded to by sending two anti-submarine aircraft towards the island.¹⁹⁹ In January 2021, President Biden invited the unofficial Taiwanese Ambassador to his inauguration, the first envoy to represent the island at an inauguration since 1979. In March 2021, the US Ambassador to the archipelago nation of Palau, John Hennessey-Niland, visited Taiwan, becoming the first sitting envoy to set foot on the island in an official capacity in 42 years. Also that month, Admiral Phil Davidson, the Head of US forces in the Pacific, warned Congress that China could invade Taiwan by 2027, years earlier than previous official estimates of 2035.²⁰⁰ American officials are concerned that conflict could arise under two scenarios – one being if Taiwan unilaterally declares independence and another if a humanitarian disaster (such as a typhoon) shakes Taiwan and opens a path for China to enter Taiwan through the pretext of humanitarian aid.²⁰¹

Support for action over Taiwan is also growing across Western nations. Following a meeting of G7 foreign ministers in May 2021, a statement was released endorsing the participation for Taiwan participating in WHO forums and the World Health Assembly, which China declared a "gross interference" in its affairs.²⁰² Despite this, Taiwan reported the largest incursion into their airspace as China sent at least 28 jets into Taiwan's air defence identification zone, and more ships entered the South China Sea on 15 June 2021. While China's spokesperson for Taiwan Affairs said that the activities were not in response to the G7 statement, and rather the result of the Taiwan Government,²⁰³ the timing seems more than coincidental.

The South China Sea

The South China Sea remains a fragile and contested security environment. In July 2020, Australian warships encountered the Chinese navy in disputed areas of the South China Sea.²⁰⁴ As a result, Australia and the US chose to set up a working group to counter false information across the Indo-Pacific region, and agreed to increased and systematised maritime cooperation between the two nations. Then-US Secretary of State, Mike Pompeo, also declared most of China's claims in the South China sea unlawful, stating that "the world will not allow Beijing to treat the South China Sea as its maritime empire".²⁰⁵ In August 2020, the United States blacklisted 24 Chinese companies and targeted individuals it believed were part of construction and military efforts in the South China Sea. In December 2020, China declared that it had expelled a US Navy destroyer after it 'trespassed' into Chinese territorial waters close to the Spratly islands.²⁰⁶

In January 2021, China authorised the 'Coast Guard Law', allowing the Chinese coast guard to use all necessary means, including firing on foreign vessels, to stop or prevent threats in what it regards as its territorial waters.²⁰⁷ One of the most notable recent developments has been the deterioration of relations between China and the Philippines, after China deployed 200 Chinese vessels manned by militia in March 2021 to a disputed reef in the Philippines' waters. The Philippines accused China of violating its maritime rights, while China claims that the ships were taking shelter from rough waters.²⁰⁸ Many of the ships are now spread across the Spratly islands, but many of the ships remain at the reef, despite calls by the Philippines for them to be removed, most recently in a statement at the end of May 2021 by the Ministry of Foreign Affairs.²⁰⁹

The vessels were clearly inside the limits of the Philippines' Exclusive Economic Zone (EEZ), and very close to a Vietnam-occupied reef. Despite President Duterte ordering his cabinet not to publicly discuss the South China Sea issues, ministers have made their views public, with Foreign Affairs Secretary tweeting expletives regarding the vessels in their EEZ.²¹⁰ Media coverage of the incident outside China has focused on the relationship between the fleet and the country's maritime militia, while China denies that the fleet 'belongs' to the militia and says that these are fishing vessels seeking shelter from the weather. The Whitsun Reef incident, as it is now known, is unprecedented in scale and notable for its duration.²¹¹ Meanwhile, Malaysia has also accused China of flying in 'tactical formation' in Malaysian airspace off the Borneo coast at the end of May 2021, in response Malaysia have summoned the Chinese ambassador despite China's claims they 'strictly abided' by international law.²¹²

China's actions in their periphery are becoming increasingly confrontational, with tensions heightening with both Australia and Taiwan. Despite some efforts by China to engage in vaccine diplomacy in the region, China has shown that it is far less tolerant of being challenged on its choices than in previous years. In forming a cohesive approach to China, the UK will need to carefully navigate its relationship with different allies in both the West and in Asia, which will compel the investment of significant diplomatic resources.

III: China's Evolving Priorities

Many aspects of China's domestic and international policy have visibly changed over the past year. On a domestic level, China has largely been able to bring the pandemic under control, but its vaccines have proven to be less effective thus far than Western alternatives, and the CCP still needs to vaccinate significant proportions of the population. A new five-year plan has been unveiled, with objectives to simultaneously boost domestic consumption and to maintain China as a major exporter. China's politics have been largely focused on the 1 July 2021 centenary of the founding of the Chinese Communist Party, but much of the attention from the West is still focused on issues that spill out from the intersection of the domestic and the international, including the situation in Hong Kong, Xinjiang, and the South China Sea. Overall, China in 2021 is both bolder and more defiant in the face of external challenges and increasingly risk-tolerant, while also remaining nervous about the prospect of internal dissent and subversion.

Chinese Communist Party Centenary

This year, 2021, marks the centenary of a crucial event – the founding of the Chinese Communist Party. The CCP has used it as an opportunity to show the strength and resilience of the party, captured in the slogan, 'Follow the Party Forever'. Ahead of the 1 July anniversary date, the CCP has held a series of celebrations, from releasing patriotic films and documentaries, to history lessons and even conducting mass weddings (the city of Nanjing is offering free weddings with all costs covered in June for 100 couples). Other areas likely to be stressed are the CCP's commitment to 'scientific development,' creating a future-oriented narrative, with the landing of a rover on Mars by China's space agency showing their growing capabilities in space.²¹³

However, the key aim is to 'forge absolute loyalty' to both the CCP and the President. As such, the Ministry of Civil Affairs is leading a nationwide campaign to crackdown on unauthorised non-profit organisations, citing the importance of ensuring a 'good environment' for the centenary and warning of the consequences of any attempt to 'distort' or 'defame' the party.²¹⁴ Particular anger is reserved for 'historical nihilism'; that is, any version of the CCP's history that does not support the idea of a century of inexorable progress toward the present moment. In this version of history, there is extensive discussion of the CCP's era of economic reform since 1978, but the deaths and turbulence of the Cultural Revolution that preceded it are mentioned only briefly.

There are signs that attempts to raise domestic interest in the CCP anniversary have had some success. President Xi's comments urging the 92 million party members to study the CCP history and "draw strength from it" has led to a rise in 'red' tourism.²¹⁵ The North-western city of Yan'an, the end point of the famous Long March of the Red Army in 1935, terms itself as a 'Red Holy Land' and has seen an immense increase in tourists leading up to the centenary. On the day of the celebrations, 'outstanding' party members received a July 1 Medal at a grand ceremony, with the film '1921' being released on the same day as part of a wider propaganda drive.²¹⁶

Xi has also been visiting China's top universities ahead of the celebrations, in an attempt to inculcate a spirit of loyalty to the Party among students. When visiting Tsinghua University in Beijing he told students to be "both red and professional", a phrase from the Mao Zedong era, and also told them to be faithful believers and practitioners of "socialism with Chinese characteristics".²¹⁷ This marks an important development away from the intellectual atmosphere during the era of Deng Xiaoping, when scientific and some social science and humanities-focused academic research was permitted to operate separately from the party's dictates, so as to avoid compromising objectivity. It is now being made clear that China's educational and research institutions are expected to operate in tandem with the desires of the Party, rather than to hold an independent relationship with the Party's objectives.

President Xi's Address to the Nation

At a highly choreographed ceremony to mark the CCP's centenary in July 2021, President Xi delivered a defiant and provocative speech in Tiananmen Square. Focused on a domestic audience but with an eye abroad, President Xi warned that foreign states which try to "bully" China will "will get their heads bashed" – although a less confrontational version of this phrase was given in the official translation. The speech was notable for a number of reasons, including the fact that the President declared that the first of its centenary objectives – the creation of a moderately prosperous society for all and the eradication of poverty in China – had been achieved. This opens the stage for a new phase of Chinese development, focused on accelerating the nation's modernity and deepening its nationalistic qualities.

It is likely that the speech's economic elements went down well with the wider population. For some years now, China's domestic agenda has been shaped around the idea of China as a *xiaokang* ("moderately prosperous") society, and the discussion of the progress that China has made in reducing poverty is likely to have resonated with a public more concerned with their own personal circumstances than abstract questions of foreign affairs. Calling for the total devotion of the Chinese people to this cause, President Xi hailed the dawn of a "new world" and pledged to "root out any elements who would harm the party's purity" – a message that was well received by the tens of thousands of CCP members present. Advancing the CCP's military-civilian fusion doctrine, he highlighted the role of citizens in forming a kind of human wall against external interference – a reference to the "Great Wall" that has been part of Chinese history for centuries.

The forthright nature of President Xi's speech has caused alarm outside China, particularly the commitment to growing the Chinese military to "world-class standards" to safeguard its sovereignty, security and development. The President also pledged to "restore stability" to Hong Kong and reaffirmed his support for the existing formulations of Beijing's one-China principle, calling on "all sons and daughters of China" to work together in "smashing any Taiwanese independence plots".

Taiwanese Vice-President Lai Ching-te countered the speech with a denial that Taiwan is part of Chinese territory, declaring that "the future of Taiwan is determined by the Taiwanese people". Taiwan's China policy-making Mainland Affairs Council also responded by emphasising that Taiwan's people have rejected the one-China principle, calling for Beijing to abandon its military intimidation and engage with Taipei on an equal footing. In Hong Kong, the response was notably muted, in large part by a strong police presence, with 10,000 officers, one third of the city's force, being deployed, warning that any attempt to protest would be met with arrest. Just four protestors were present, peacefully holding a banner near the official reception to call for the release of political prisoners, an image that stands in stark contrast to the rallies and protests which have traditionally filled the streets of Hong Kong on the anniversary of its handover.

China's Three-Child Policy

At the end of May 2021, Xi Jinping lifted the cap on the number of children families are permitted, to allow three children per married couple. This family planning policy has been introduced in an attempt to temper the effects of China's ageing population as it experiences a 'demographic crisis,' with almost 19% of the population aged over 60. The previous policy, which limited children to one per family or two children since 2015, caused huge emotional and physical distress for mothers and families, and led to the widespread femicide of baby girls, who, in some parts of China, were considered less valuable socially and to household interests.

The Chinese Academy of Social Science expects that the urban pension fund will become insolvent somewhere in the next 10-15 years, and therefore there is a significant economic impetus to encourage a higher birth rate. While ageing populations are increasingly becoming a global challenge, the challenge is greater for China given its stage of economic development and the size of its overall population. The policy is unlikely to drastically shift the balance any

III: China's Evolving Priorities

time soon, given that many families cannot afford to have more children, casting doubt onto the long-term viability of China's strategy of increasing its middle class.²¹⁸

A more speculative possibility in years to come would be for China to allow targeted immigration, for instance, from Southeast Asia, to provide younger workers for employment in the social care sector. However, this would mark one of the most profound changes in China's attitude toward foreign workers in the entire reform era. In the medium term, there is likely to be a significant degree of attention and investment afforded to developing technology that may provide relief for families who need to look after elders, a concept Japan is also exploring with great focus.

China's International Soft Power

China's leaders have repeatedly stated over the past year that China needs to improve the way it tells stories about itself to the world, and develop a stronger 'international voice.'²¹⁹ This comes after a year when China's international image has been badly damaged by its behaviour in the early stages of the pandemic, and the clumsy interventions and confrontational language from Chinese diplomats around the world – a tendency nicknamed 'wolf warrior' diplomacy after a popular Chinese film from 2015. Much of China's diplomatic messaging toward the Global North during the pandemic year has been more oriented toward a domestic audience, which appreciates a strongly nationalistic message, than toward its ostensible targets in Washington, London, Paris, or Canberra.

However, this has impeded its traditional diplomacy, which depends on more measured and restrained discussion. The backlash against confrontational language may well have fuelled Xi's speech in June 2021, suggesting that China should be more 'lovable' and 'humble' in the world. However, the overall tenor of China's attempts to tell its story remains very monolithic, with a top-down approach that stresses the role of the party above all other aspects of the country, and portrays all developments in a relentlessly and near-uncritically positive tone.

The 2021 CCP centenary comes at a time when China's relationships with its neighbours are in a state of flux. There have been high-profile confrontations, notably the clash in Galwan between Chinese and Indian troops in August 2020, which resulted in deaths in the border area for the first time in decades. China has also continued to build up its naval presence in the South China Sea, where it is in dispute with several other countries, and has increased the size of its navy.

China is keen to use economic leverage as its major strategy in the region. However, the experience of Australia has made other nations more wary about overextending their relations with China. As discussed in Section II of the report, Australia has been subjected to a form of undeclared boycott, with China imposing tariffs and restrictions on a large range of Australian goods, including wine, barley and coal and suspending all activities under the framework of the China-Australia Strategic Economic Dialogue.²²⁰ Since Australia was one of the first countries to sign a formal trade deal with China (the CHAFTA in 2015), the breakdown of the relationship is being carefully watched. China's behaviour suggests that such an agreement does not necessarily provide protection against Chinese willingness to use trade to litigate non-trade issues – in this case, PM Scott Morrison's call for a transparent COVID-19 enquiry – which has heightened concerns about China's capacity to adhere to international norms and standards.

China's strength has meant that some of China's wary neighbours have declined publicly to endorse Western statements condemning China's behaviour, let alone sanctions against China on Hong Kong and Xinjiang. Beijing has publicly warned Japan and South Korea not to interfere on these issues, and the two nations have traditionally been less vocal on human rights issues relating to China, as opposed to territorial violations. Major Southeast Asian nations also prefer not to be asked to choose between the US and China, since the former is key to regional security and the latter to its economics. The pandemic has also introduced another dimension into the equation: nations such as Malaysia have relied heavily on Chinese COVID vaccines, despite public spats over issues such as Belt and Road Initiative funding.

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Overall, China's experience in 2020-21 reproduces its longer-term difficulties in projecting soft power in the Western world: the use of material incentives, such as gifts and loans, does not translate easily into a greater sense of favourability toward China, because of the sense that such contributions are transactional. In contrast, some parts of Southeast Asia, notably Malaysia and Singapore, have seen a genuine boost in support for China in the past few months, centred more on Chinese food and music as being attractive and stylish, rather than any great improvement in the perceptions of the Chinese party-state itself. Vaccine diplomacy has helped; there were reports in June 2021 of Singaporeans rushing for the Sinovac jab even before it had gone through official approval.²²¹ However, this may not be a reliable indicator; in July 2021, Indonesia has seen death rates increase even among professionals who have had a full double dose, sparking new concerns about the efficacy of the vaccine.²²² Overall, the dynamic of China's soft power remains heterogenous and deeply tied to events of the day.

There will be more opportunities in 2022 for China to present itself to the world – notably through the 2022 Winter Olympics. However, the global atmosphere around the Games is likely to be much more muted than for the 2008 Summer Olympics, which were characterised by a dogged hope that they would symbolise China's integration into the liberal world order. Many of the nation's most prominent in winter sports have tense relations with China, such as Canada and the Scandinavian countries, so it is reasonable to expect that politics will bleed into discussions about the Games' legitimacy. There have been calls in both the UK and Europe for political boycotts and while these may not come to bear, it appears likely that many senior political figures will refrain from attending.²²³ Moreover, the ongoing pandemic situation means that few supporters are likely to be allowed to enter the country, making it easier for China to control coverage, but also dramatically diluting the CCP's capacity to leverage the event as an opportunity to win hearts and minds.

China has also been going through a period of internal debate around its confrontational foreign policy style. The 'wolf warrior' diplomacy is exemplified by the employment of violent metaphors about 'shotguns', or gonzo gestures such as one Chinese Ambassador refusing to accede to a request to present himself at a Foreign Ministry because he had 'scheduling conflicts'.²²⁴ Much of the activity that takes place under the aegis of 'wolf warrior' diplomacy is in fact aimed at a domestic social media audience, with little concern and even pride about its negative effects on an overseas audience. In recent months, the term has become controversial in China itself, with some Chinese social media voices embracing it, and others declaring it offensive.

The CCP's 14th Five-Year Plan

Since 1953, China has regularly released five-year plans, outlining the nation's pathway for social and economic development for the forthcoming half decade. In March 2021, the Chinese government unveiled their 14th five-year plan, setting out their socioeconomic and political priorities for the next five years, and their longer-term goals towards 2035. While the plan includes some ambitious targets for China's future, this iteration demonstrates a slightly more cautious approach to its economic growth than many would have estimated.

For example, for the first time since China began to issue five-year plans, the 2021 plan did not include a growth target, despite financial analysts predicting that China would have had a growth target of at least 8%.²²⁵ This is likely driven by both China's difficulties meeting its 13th five-year plan 2016-20 target, and due its shift in focus from high-speed growth to 'high-quality growth'²²⁶ – focusing on supply chain resilience, becoming more self-reliant in technology and manufacturing and to shifting to a low carbon economy. Other goals include achieving 'common prosperity', liberalising the business environment and increasing China's global leadership role. Longer strategic goals expressed in the plan for 2035 include completing the building of a modernised economy, major breakthroughs in core technologies, for China to become a global leader in innovation, to strengthen China's 'cultural soft power', to raise China's per capita GDP to the level of 'moderately developed countries, and to modernise China's military.²²⁷

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The plan has been developed with a view to reducing China's economic vulnerabilities, which have increased as economic tensions with the United States have risen.²²⁸ The plan articulates a series of 'frontier' technology sectors in which China is aiming to cultivate its domestic capabilities for both economic and national security reasons. These include new generation artificial intelligence, quantum information, semi-conductors, neuroscience and brain-inspired research, genetics and biotechnology, clinical medicine and health, and deep sea, deep space and polar explorations.²²⁹ Despite President Biden loosening some restrictions on less-advanced forms of Chinese technology, there is still an understanding in China that suggests China-US advanced technological competition will continue, resulting in a strongly technologically-focused plan. In particular, China imported US\$350 billion worth of semi-conductors in 2020, and the strong focus on increasing semi-conductor production evident in the plan is a clear reflection of a desire to shift away from reliance on the United States.²³⁰ This, of course, perfectly mirrors the approach being taken in the United States and other nations to reduce their supply chain vulnerabilities towards China.

The 2021 five-year plan was the first to shift its rhetoric from purely focusing on the economy, to also focusing on engaging with global issues, including 'promot(ing) the global governance system to become more just and reasonable', with a particular focus on developing nations. The plan seems to be more conscious of a world evolving around and outside of China, and includes ambitions to strengthen cultural industries domestically, and to promote Chinese cultural soft power in the world.²³¹

While President Biden himself has not commented on the plan, the US Congress has collectively outlined four key areas of focus for the United States in response to the plan. These include: examining China's complex structuring of government industrial subsidies, which make it difficult to determine the state's role in underpinning key industries; responding to China's unconventional use of antitrust, IP and standards tools; interrogating the implication of China's access to American open-source technology and basic research; and considering how trade policy might enhance supply chain security and collaboration among US allies and partners.²³²

China's Dual Circulation Strategy

China has been using the term 'Dual Circulation Strategy' (DCS) for some time. However, the actual meaning of this was left up to interpretation. Following the publication of the 14th five-year plan, the strategy has finally taken on a new degree of clarity. While economic in nature, the DCS has political implications, and signals a further shift away from global economic integration towards an emphasis on 'internal circulation' – namely, the domestic cycle of production, distribution and consumption, which is merely supported by 'external circulation'.²³³ The core aim of this strategy is to address China's multifaceted economic problem – which many outside observers have not always recognised nor appreciated because China's growth rate has appeared to remain so robust. The challenge, however, is three pronged: falling global demand for Chinese goods, the dominance of the US dollar stifling monetary sovereignty, and the fact that China is currently over-reliant on certain aspects of Western technologies.²³⁴

Specifically, the five-year plan sets out China's ambitions for becoming '70% self-sufficient' by 2025 and achieving global dominance by 2049. The DCS will be supported by the CCP's 'Made in China 2025' policy,²³⁵ which seeks to onshore China's manufacturing capabilities. Through credit subsidies, IP acquisition and public sector enterprises, China hopes that it can boost domestic spending through the expansion of its middle class. Questions have been raised, however, as to whether this extremely export-oriented nation can truly bolster internal consumption and spending power to the degree it seeks to achieve.²³⁶ One of the biggest obstacles to judging the success of the DCS is the fact that the broader geopolitical and global economic environment is extremely unstable, and therefore China also to some extent faces the same challenges as other nations in predicting outcomes. What this strategy does is seek to tip the balance of its economic model more firmly into China's direct control – a development the CCP regards as addressing an existential risk to its political contract, forged on a specific commitment to its citizens' financial security.

China's Technological Ambitions

China has made significant strides in certain key areas of technological development, including Artificial Intelligence (AI) and quantum computing, and in the development of coronavirus vaccines development in the last year. State investment has been central to these advances and in 2020, China spent a record US\$33 billion on subsidies in key sectors.²³⁷ China's Ministry of Industry and Information Technology is developing a three-year action plan to develop the nation's cyber-security industry, which is being projected to possibly reach 38.6 billion yuan in value by 2023.²³⁸

As mentioned above, there has been a particular emphasis on the development of semiconductors, which are vital components for all major technology systems, and therefore integral to the resilience of China's supply chains. Currently, China imports more than US\$300 billion worth of semiconductors annually, the majority of which are produced by American companies. As relations with the United States continue to remain tense, domestic production of semiconductor chips has therefore become a top national priority. In the first three months of 2021, US\$2.64 billion was invested in semiconductor companies, of which 70% went to Chinese companies. China's leading chipmaker, Semiconductor Manufacturing International, is currently building a US\$2.35 billion plant with support from the city of Shenzhen. Notably, many of the most active investors in venture capital-backed semiconductor companies have direct links with the Chinese government, including Shenzhen Capital Group and CAS Investment Management.²³⁹

The Chinese state has also implemented a significant antitrust drive against Chinese-owned 'Big Tech'. The most visible aspect of this has been the public rebuke of former Alibaba CEO Jack Ma, ahead of his planned launch of ANT Financial; however other major players have also been warned that they are vulnerable. The crackdown has at least two elements. Firstly, there is a genuine fear that oligopolies in key areas, such as the universally used Alipay e-payment system, create a concentration of power with particular companies and a loss of economic efficiency. Secondly, the CCP is also concerned that major tech leaders, who are among the few Chinese figures recognised globally, should not think of themselves as bigger than the Party.

China is taking a distinct path in its use of technology. It intends to become the world's most innovative producer of digital tools, but also to make sure that as much of the design and production supply chain of that technology is indigenised, owned and manufactured within China. It also plans to use technology to transform society, with norms on the use of big data and artificial intelligence and machine learning very different from those in liberal societies. Above all, the party-state and private companies will have a deep and symbiotic relationship in China: the tech sector is simply too valuable to the CCP's vision of the future to be allowed to go its own way. For this reason, the West must pay careful attention to securitising its own technology pipelines, and also to ensuring that the governance frameworks around areas such as AI are forged through liberal ideals.

While the United States continues to be the global leader in AI innovation, Stanford University's AI Index Report 2021 shows that China overtook the US in AI journal citations over the course of 2020.²⁴⁰ The US National Security Commission on Artificial Intelligence has stated that if the United States does not act now, it is likely to lose its leadership position to China in the next decade, which would increase American vulnerability to AI-enabled threats.²⁴¹ This has partly driven the swift approval of a bipartisan piece of legislation in the US Congress, focusing on boosting America's research and innovation capabilities.

In China, the embedding of AI into business and social life continues to grow. A BCG/MIT AI 2020 study showed that 76% of Chinese companies in non-technology sectors had incorporated AI into their business processes by the end of 2020, and 29% had reported a transformational impact from such incorporation. These figures are compared to 45% adoption rate in Europe and 40% in the US, with 14% in Europe citing transformational impact, and 13% in the US.²⁴² A distinctive advantage for China's AI enterprises comes from the access to large quantities

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of data needed to train computer algorithms, combined with the fact that the Chinese Government has fewer privacy restrictions on how companies use this data than is the case in advanced liberal democracies - in part, because of the established quid pro quo between state and market, which sees major corporations sharing data with state authorities.²⁴³

The CCP has adopted a 'whole of government' approach towards AI, incorporating technology into every field of government and making AI a central part of the 'Made in China 2025' policy. China's Government heavily supports 'national champion' firms, including Huawei, Baidu, Alibaba, Tencent, IFlytek and SenseTime, to incentivise innovation and development for commercial purposes, but also to advance state-directed priorities that have military and security applications. The Chinese military is reported to be developing AI for 'intelligentised war' including reconnaissance, electromagnetic countermeasures and coordinated firepower strikes.²⁴⁴ On a domestic level, China's use of AI technology for 'predictive policing' as part of a wider programme of social control has been documented in the use of identification and detention of Uighurs, in which high-tech surveillance tracks, analyses and records movement and communications.²⁴⁵ The CCP also continues to develop a 'social credit' system which tracks people's financial and behavioural records to reward them or deny them access to services.²⁴⁶ In this respect, AI is increasingly embedded as a tool of international influence, economic excellence and social coercion, and is being readily embraced by China's leaders as a tool of potential advantage both at home and abroad.

China is also investing heavily in its capabilities in space, recognising that satellite technology and space governance will be one of the most significant areas of geopolitical negotiation in the coming decades. In May 2021, China's space agency landed the Zhurong rover on Mars. Whereas previously China had had to rely on Russian equipment, the successful Mars mission drew on China's ability to build its own heavy-lift rockets, sending a signal that China now stands alongside the US and Russia as a space power. Astronauts at China's new space station recently conducted their first spacewalk, and China is also currently planning a 'mega-constellation' of satellites to match Elon Musk's Starlink internet system.²⁴⁷

China's advances in space have spurred further international debates over regulation of exploration. Days after the landing, the United States said it was tracking the uncontrolled entry of the 22-tonne Long March 5B Chinese Y2 Rocket into the Earth's atmosphere, citing a small risk that the shell could have hit a populated area of the Earth's surface. There is concern about a growing risk of space debris as nations roll out space programmes and explore new frontiers, such as the Moon's South Pole, without a centralised governance system and clearly established norms.²⁴⁸ China has sought to counter suspicions of its space programme by inviting foreign scientists to study their newly acquired lunar samples. CNSA and Russia's Roscosmos have also said that other nations are invited to participate in their plans to begin building an International Lunar Research Station from around 2026.

Another area of particular technology and innovation focus for the CCP this year has been the Chinese biotech sector, which has had to develop not only COVID-19 vaccines for China's immense population, but also provide supplies for China's vaccine diplomacy efforts. China has allowed a range of private-sector operators to trial vaccines, with the Sinopharm and Sinovac brands currently dominant, and other brands, such as CanSino, moving through trial stages. It was inevitable that China would go alone in seeking to produce its own vaccine, as a matter of principle, pride and political necessity. Its early efforts to produce a coronavirus vaccine in a timely manner appeared to be successful; however, its vaccine programme has subsequently experienced a range of setbacks.

In April 2021, Gao Fu, the head of China's Centre for Disease Control, suggested that the effectiveness rate of Chinese vaccines was lower than that of the Western market leaders, and some countries that have made extensive use of these vaccines have had high recurrence rates of the virus, for example, in the Seychelles.²⁴⁹ Full clinical data for these vaccines is less transparent than for major Western equivalents, and real-world outcomes appear to be extremely mixed. It seems reasonable to assume that Chinese vaccines will improve, and that

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for many developing nations, the relative failures in efficacy are easily outweighed by the capacity to access vaccines with greater speed and in greater quantities than through many of the Western-led international efforts, such as COVAX. Meanwhile domestically, China's own vaccine rollout continues at a steady pace, although most projections suggest that the first round will not be complete until 2022.²⁵⁰ To some degree, this reflects the sheer scale of the logistical operation in one of the world's most populous states. It also highlights the easy wins that China has pursued through its vaccine diplomacy, with even small shipments often gratefully received by poorer nations without their own production capabilities.

The blurred lines between China's state and market mean the nation's expansion into health technology and consumer medical products is worthy of closer examination. Chinese-owned gene company BGI Group, for example, is selling prenatal tests developed in collaboration with the Chinese military around the world. The Chinese state's interest in surveillance and its weak individual data privacy record have raised concerns about the use of the information produced within the tests.²⁵¹ It is valuable for Western nations to closely observe the technologies and issues that Chinese companies are seeking to address, as they provide important signals about not only the Chinese state but Chinese society, and should compel thinking about new frontiers of global regulation. China has forged a unique model that it believes provides the perfect conditions under which to unleash innovation, while also ensuring the benefits and dividends of these new products and technologies are directed back to the state. Although Western nations will instinctively bristle at many aspects of this model, there is still something to learn by familiarising ourselves with its logic and considering not only the safeguards it may require for our own citizens, but the areas of innovation for which it is likely to provide China with a competitive advantage.

China's Defensive Capacities

The UK's growing security interests in the Indo-Pacific comes at a moment when the People's Liberation Army Navy (PLAN) is now the largest in the world, with around 350 vessels. Towards the end of April 2021, China added three new vessels to its South Sea Fleet, which is responsible for operations around Taiwan and the South China Sea. One vessel is a sea-based nuclear deterrent, one is an advanced destroyer, and the other is a warship that can carry aircraft, watercraft and Marine infantry for amphibious assault operations. President Xi Jinping attended the commissioning, which the prominent nationalist Chinese newspaper, *The Global Times*, described as a 'powerful deterrent' message to the US and Taiwan.²⁵²

The PLAN does not release public reports on future shipbuilding; however, it is estimated that China is on track to reach 425 battle force ships by 2030. The PLAN conducted its annual 'high sea joint training formation' over Chinese New Year 2021, focusing on sea control and air defence. Analysts have suggested that the PLAN's choice to spread the exercises across a wider region may be intended to demonstrate the long-range attack capability of the Marine Corps. However, their training formation lacked anti-submarine exercises, leading to speculation that they may be less confident in this arena. Certainly, it is the case that China remains less well-equipped in many core defensive areas than its rivals, holding just two aircraft carriers – the same as the United Kingdom – compared to America's 11 carriers.²⁵³

While other Pacific powers are closely watching China's defensive expansion, the CCP is focused on the growing presence of regional challenges. The Chinese Defence Ministry has declared that, since the inauguration of President Biden in January 2021, activity by US military ships has increased by 20%, and planes in Chinese-claimed areas have increased by 40%. China has repeatedly complained about US Navy ships getting close to islands in the South China Sea, and its recently conducted aircraft carrier drills in the region are couched as a response to US actions.²⁵⁴ The PLA announced in April 2021 that they will conduct exercise drills near Taiwan more regularly, with aims to 'enhance its capability to safeguard national sovereignty, safety and development interests'.²⁵⁵ In June 2021, ahead of the CCP's centenary, PLA aircraft repeatedly entered the airspace around Taiwan.

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China's primary goals in its defence policy are to create a military that is capable of projecting power in the concentric circles which mark China's areas of greatest concern. In China's immediate East Asian sphere of influence, it seeks to be the most powerful actor and eventually to remove the security presence of the United States in its immediate neighbourhood. In the next circle of influence, China seeks a form of power projection that would be in competition with other actors – for instance, in the Indian Ocean, where it cannot expect dominance but will increasingly assert a presence. Beyond that, such as in the Atlantic, China is still unlikely to project a major role, but will seek opportunities where it can, such as in defining itself as a 'near-Arctic state'. There is no doubt that China is investing in rendering its military and defensive capabilities more sophisticated, robust and capable of mobilisation. The more central question, however, is how it seeks to apply these resources outside of the areas which it deems to be central to its territorial integrity.

China's increasing strength as a global nuclear power is causing some alarm. At the end of June 2021, it was reported that China is now building more than 100 nuclear missile silos in a desert in Gansu province.²⁵⁶ Another field was discovered in late July, in which a further 110 silos for launching nuclear missiles are deemed to be under construction, making this is the most significant expansion of the Chinese nuclear arsenal in history.²⁵⁷ These developments are seen to reflect a concerted move away from China's 'minimal deterrence' policy towards a more confrontational show of strength in its capabilities.²⁵⁸

Similar shifts can also be observed in China's proactive cyber-intelligence operations, which are becoming more confident and sophisticated. The UK, Australia, Canada, the US, Japan, New Zealand, the EU and NATO have accused China of being responsible for the major breach of Microsoft systems that took place earlier this year, which affected a quarter of a million servers.²⁵⁹ The Director General of the Australian Signals Directorate has said that China, via a state-backed hacking group called Hafnium, "propped the doors open" for criminals in the attack, which transgressed 'acceptable' boundaries for such state-led activities.²⁶⁰ The UK's National Cyber Security Centre found that maritime industries and naval defence contractors were affected by the breaches into various government and security sectors, revealing the vulnerability of many aspects of Western critical infrastructure.²⁶¹

In response to the condemnation, China has denied involvement and said accusations are "fabricated" with Foreign Ministry spokesperson Zhao Lijian claiming the US had co-opted allies into making "unreasonable criticisms" against China.²⁶² He has also countered accusations by stating that the US is involved in the largest number of cyberattacks annually, in an attempt to divert attention away from China.²⁶³ Nonetheless, the Microsoft hack reveals something significant about China's approach to cyber-operations and particularly the distinction between China and Russia's tactics. While Russia has tended to target specific individuals, campaigns or systems with an end-to-end mission in view, China appears to be more exploratory – testing its capacity to enter secure systems without necessarily holding a specific outcome in mind. This may of course change in the future, but it emphasises the need for constant vigilance and the drawbacks of applying a one-size-fits-all security framework to each of our strategic rivals.

Hong Kong

An area of major contention between the UK and China has been the National Security Law imposed on Hong Kong on 1 July 2020. In the year since then, its effects have become very clear: in terms of political liberties, Hong Kong has shifted from a place where most political activities were allowed unless specifically forbidden, to one where every potentially politically controversial action must be considered – and possibly rejected – in case it breaches a law that is both wide and vaguely-defined.

The National Security Law's 66 articles were only published after it was passed; the clauses criminalise secession, subversion, terrorism and collusion. Engaging in such criminal activity could be punishable by a maximum sentence of life imprisonment. Alongside these laws,

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China set up a new security office in Hong Kong with its own law enforcement in which the office has the power to send cases to be tried in mainland China.²⁶⁴ The threats which 'endanger national security' have been broadly defined in the Law, and could range from activity such as vandalism to academic research. National security laws have, so far, been extensively used against journalists and pro-democracy politicians. They have also been cited as possible for reasons for the censorship of films and art exhibitions. Further restrictions on freedoms of expression, defined as possible or actual breaches of national security, have occurred on a regular basis throughout 2020 and 2021.²⁶⁵

The commemoration of the Tiananmen Square killings of 1989, which had been marked with a public vigil every year since then, were forbidden in 2020 and 2021 ostensibly on COVID-19 grounds, despite a range of other non-political public gatherings being permitted in Hong Kong since spring 2021. The aim of the law appears to create a new atmosphere, with clear rules for business and highly restricted political freedoms. In recent years, Hong Kong remained the last place within Beijing's own territory where engaged and informed criticism of China's political system remains possible. The freedoms in Hong Kong are not wholly gone, and are wider than in the mainland, but they are an immensely reduced version of what existed before the law was passed in 2020.

Opposition politics is not formally banned, unlike in China itself, but candidates for election at all levels, ranging from District Councils to the Legislative Council, will be forced to gain endorsements from a range of public bodies which are unlikely to support candidates who are politically problematic. The Democratic Party of Hong Kong, the main liberal party, has been subjected to immense pressures, and its leader Lo Kin-hei is currently questioning whether to participate and give legitimacy to the new, highly-constrained democratic process, or boycott the process entirely. Chinese security bodies also now hold powers to investigate and disqualify all potential election candidates in Hong Kong which is likely to further side-line pro-democracy opposition.²⁶⁶

English-language media in Hong Kong remain less under immediate pressure than Chinese-language equivalents; there is still significant commentary critical of China in the *South China Morning Post* and websites such as the Hong Kong Free Press. But the only major Chinese-language print outlet critical of China, *Apple Daily*, was forced to close at the end of June 2021 when its assets were frozen and its CEO Jimmy Lai has been jailed for unauthorised assembly. Government-run channel Radio Television Hong Kong has cancelled landmark Cantonese-language programmes such as the Headliner satire show, as well as the relay of BBC World Service, which had remained on local radio across the 1997 divide. Academic freedom is recognisable for now, but there are indications that some topics of research might become sensitive; as Hong Kong has China's only universities that have truly international faculty, attacks on their academic freedom could have a more damaging effect even than the clear crackdown on university freedoms in China itself. Schools and universities are under much more pressure when it comes to curricula, many of which have been hastily amended or cancelled because of concerns about potential breaches of the National Security Law.

The law is regarded as the last area where Hong Kong's freedoms might be protected. Baroness Hale, former president of the UK Supreme Court, has indicated that she will not extend her period as a foreign judge on the HK Court of Final Appeal, leading to speculation as to whether other judges from liberal jurisdictions will be able to continue in the same role or whether the NSL makes this too difficult. Lady Hale has stated that "the jury is out on how they will operate the new national security law".²⁶⁷ However, juries may not get the chance to come back in; the first trials under the NSL began in June 2021, and global attention will be focused on the fairness of the process, which will take place with hand-picked judges deciding the verdict rather than juries.

The situation continues to develop at pace. The Chinese Government is now preparing to impose new anti-sanction laws in Hong Kong and Macau, which could ban foreign entities and individuals in the cities from complying with sanctions against China, potentially causing

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problems for companies operating in these regions.²⁶⁸ President Biden has warned American companies of the risk involved in operating in Hong Kong, as China moves forward to implement further restrictions.²⁶⁹ On the ground, the implications of the new political environment is becoming more evident. One of Hong Kong's largest pro-democracy groups has halved in size, and arrests have been made around the distribution of materials seen to be undermining the integrity of the regime.²⁷⁰ The first person was found guilty of breaching the new National Security Law at the end of July 2021, receiving a sentence of nine years in prison at a trial without a jury.²⁷¹

China's position is that since sovereignty was handed over to China on 1 July 1997, the Sino-British Joint Agreement of 1984 counts only as a historical document. China's strategy rests on the integration of Hong Kong into the Greater Bay Area in South China, rather than maintaining its role as a foreign-facing city – the slogan 'Asia's world city,' widely used in the early 2000s, is no longer heard. This means that threats to Hong Kong's international standing, while of concern to Beijing, are not as threatening to China as they were at the time of the handover.²⁷² While previous Chinese leaders were more willing to tolerate Hong Kong's autonomy as its links to global finance and trade benefitted China's economy, the National Security Law indicates that the CCP is now more willing to sacrifice these benefits to prevent threats to its power.

Xinjiang

Over the past year, there has been growing global concern about the Chinese policy of establishing what the CCP describe as 're-education camps' to hold ethnic Uighur citizens in the Western region of Xinjiang. Access to the camps in anything but highly controlled conditions is near-impossible, but Western media organisations have been able to report the construction of large detention camps in the region, and the disappearance of large numbers of Uighurs of all ages.²⁷³ There have been numerous reports of the forced sterilisation of Uighur women, the separation of children from their parents, suppression of the use of the Uighur language in favour of Mandarin, and forced labour in the camps and in workplaces outside.

The Chinese reaction to Western scrutiny has changed over time. It began with flat-out denial, but then moved towards a justification of the camps as an anti-terrorism measure.²⁷⁴ It argues that there has been a steady rise in terrorism in Xinjiang over the past few years and that these tactics counter this menace at its roots. Chinese representatives have also argued that the scheme is a plan for modernisation, re-skilling Uighurs for modern jobs and away from traditional ideas of religion and large families. The CCP has also frequently sought to change the emphasis of the subject, highlighting historical abuses in Western societies, including the genocide of indigenous people in both the United States and Australia.²⁷⁵

There has also been very little criticism from Muslim-majority countries regarding the treatment of the Uighurs. President Erdogan of Turkey initially made some harsh comments but quickly retracted them in the face of Chinese pressure. Leaders such as Imran Khan of Pakistan have generally avoided the question of Chinese policy toward the Uighurs when pressed about it by international media. This has allowed China to argue that countries which might be expected to show solidarity with fellow Muslims do not in fact choose to do so, and that Western criticism is purely an anti-Chinese measure.²⁷⁶

The evolution of the CCP public relations approach to the Uighur persecution, coinciding with the intensified coordination in the West and at the UN on human rights, has fostered a sense in the West that there is a kind of linear trajectory leading toward holding the Chinese government to account. In reality, there is little to suggest that the CCP intends to alter its policies under global pressure, not least of all because the treatment of the Uighurs is regarded internally as both a response to and reflection of the delicacy of the CCP's domestic mandate. However, it is also clear that liberal governments in the West will increasingly be seen by their citizens as abandoning core values by not speaking out about China's policy toward the Uighurs.

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It should also be noted that Chinese President Xi Jinping recently visited Tibet for the first time since become President, which was also the first time a Chinese President has arrived in the region in the past 30 years. Since his last trip as Vice-President in 2011, the Chinese state has increased its oversight in Tibet, tightening controls over the promotion of Buddhist culture and expanding education in the Chinese language. At the same time, spending on infrastructure and other elements of modernisation has been increased. Chinese state media only reported on the visit after it had concluded, and campaigners and activists for Tibetan independence reported increased surveillance in the lead-up to the trip.²⁷⁷ The decision to visit Tibet signals China's intent to solidify its authority over troubled regions and contested territories, and the degree to which these remain top of mind as potential areas of vulnerability for the Chinese state.

Sanctions

On 22 March 2021, a coordinated move between the US, the UK, Canada, and the EU placed sanctions on a range of mid-level Chinese officials connected to policy relating to the Uighurs in Xinjiang. These include figures such as Chen Mingguo, the director of the Xinjiang Public Security Bureau, Wang Mingshan, a member of Xinjiang's Communist Party standing committee, Wang Junzheng, Party Secretary of the Xinjiang Production and Construction Corps – a state-owned business and security organisation – the former deputy Communist Party head in Xinjiang, Zhu Hailun, and the Xinjiang Production and Construction Corps Public Security Bureau, which is thought to be in charge of the detention centres housing the Uighur population.

China immediately responded by placing sanctions on 10 Western figures along with four organisations that it claimed, "severely harm China's sovereignty and interests and maliciously spread lies and disinformation." Those affected by China's sanctions are barred from entering the country or doing business with China. The political figures sanctioned by China generally saw the decision as a badge of pride, symbolising their commitment to upholding human rights principles, and were little inclined to pursue any kinds of dealings with China in any case. As such, the decision to target those who are most politically active in exposing atrocities was an ineffective choice by the CCP, as it simply emboldened the cause of those with the least to individually lose from being sanctioned. In this respect, the sanctions process was imbalanced, and it remains to be seen as to whether China will seek to retaliate in future against others more exposed to Chinese trade and access. Alternatively, it is possible that China deliberately chose political targets who, in practice, they would be unlikely to come into contact with – rather in the same manner as the joint Western sanctions did not target top-level officials in China.

The think-tank and academic scholars in the EU, UK and elsewhere targeted by sanctions do have more immediately to lose than the politicians, and the sanctions were clearly aimed at preventing them gaining from access to China. However, the approach that China has taken is also highly counter-productive, since it targets one of the few sections of society in the West deeply expert on China. Hence, by making it harder for researchers to access China, and alienating the professions which have an interest in a more balanced conversation on China, the CCP has contributed to the phenomenon that it so frequently complains about: namely, that the Western world fails to understand its country.

Sanctions have not traditionally been a tool of the Chinese Government and it remains unclear whether they are likely to be used more widely because they are unwieldy tools to serve China's interests. There is, therefore, a degree of unevenness to the development of liberal nations coming together around sanctions, and China experimenting with them, which will necessarily render the process of their future imposition more unpredictable. As China is not wedded to the sanctions mechanism, it may choose to retaliate through the use of other measures in the future.

Foreign Media under Pressure in China

The growing global concern about aspects of China's behaviour in the international community has also seen unprecedented pressure placed on foreign reporters in China. There have been repeated official statements criticising international media for being "anti-China", and the Foreign Correspondents' Club of Beijing annual report published in March 2021 declared that 2020 had been the third year in a row that conditions had worsened for reporting in China.²⁷⁸

In late-2020, the Australian ABC (national broadcaster) correspondent Bill Birtles and *Australian Financial Review* reporter Michael Smith were held for questioning in connection with a national security case brought against Australian citizen Cheng Lei, a reporter for the Chinese CGTN network, who was arrested in August 2020. The BBC's China reporter Jon Sudworth left for Taipei in April 2021, after threats of legal action over his reporting on Xinjiang.²⁷⁹ Many correspondents who do remain in China have found it difficult or impossible to renew their visas, and have been constrained by COVID-19 regulations from undertaking regular reporting.

It is hard to see the CCP liberalising its policies towards the international media in the near future, and therefore those reporters and outlets with remaining footholds exist in a state of acute precariousness. We tend to only recognise the value of our influence when it is taken away, and the lessening of the media presence in China is very significant for the United Kingdom, having previously had one of the largest collective media presences in China. As these journalists on the ground in China become scarcer, their reporting becomes even more important to the West.

Overall, reporting from China will continue to be very difficult, and it is likely that COVID-19 will be used as a reason to forbid foreign journalists from gaining greater access to China in the short term. The creation of a negative feedback loop is unfortunately likely as the Chinese public accepts the CCP narrative that Western media is inherently biased against China, and therefore there is little support for that media presence within China itself. As a result of obstacles placed by China in the path of Western reporters, media outlets focused on China are increasingly undertaking more of their work from other centres – particularly in Taipei – further lessening the ability of Western audiences to access information directly from within China itself. The deterioration of the media connectivity between China and the West is concerning and risks entrenching balkanised perspectives on both sides.

China's Climate Strategy

There have been some indications that, despite the confrontational nature of US-China relations, there is a more cooperative attitude between the two nations on climate change issues. In February 2021, China reinstated Xie Zhenhua as Climate envoy; Xie is a respected climate expert and broker of the Paris Agreement who has strong relations with US Climate Envoy John Kerry. This decision is notable given that he is 71, 11 years older than the usual retirement age for Chinese bureaucrats.²⁸⁰ Soon after the appointment, Kerry called Xie Zhenhua a "leader and a believer", citing their 20-year history of working together.²⁸¹ Li Shuo from Greenpeace East Asia said the appointment "is clearly a tailored move towards the United States, an effort to ensure the diplomatic channels are maintained. With his experience and contacts, Xie's appointment will at least help reduce the transactional cost in China's climate diplomacy.

John Kerry visited China in April 2021, becoming the first senior Biden administration official to visit China.²⁸² He told CNN before the trip, "Yes, we have big disagreements with China on some key issues, absolutely. But climate has to stand alone". However, following this comment, a spokesperson from the Chinese Foreign Ministry warned that cooperation with the US on climate change cannot be separated from their broader bilateral relations and that China hopes the United States will create "favourable conditions for coordination and cooperation with China in major areas".²⁸³

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On his visit, the two Climate Envoys discussed China-US climate change cooperation and COP26. The two nations released a joint statement following the meeting in which they stated that they are “committed to cooperating [on climate]...which must be addressed with the seriousness and urgency that it demands”. The two nations committed to collaborating in multilateral processes, such as the UN Framework Convention on Climate Change and the Paris Agreement, boosting investment in green energy in developing nations, phasing out the use of hydrofluorocarbons, and developing long-term strategies to become carbon neutral ahead of COP26.²⁸⁴ Former Chief Climate Negotiator for Former President Obama, Todd Stern, said “this kind of very constant, often difficult but engaged dialogue between the two countries, is what helped form the Paris agreement in the first place”.²⁸⁵

However, despite some success at the meeting, the situation remains delicate. In an effort to challenge possible accusations of naivety, John Kerry confirmed that the United States will be verifying that China is achieving these commitments rather than simply accepting Chinese assurances, declaring that “we have massive capacity with satellites to know exactly what’s being produced where”.²⁸⁶ Shortly after Kerry’s visit, Deputy Chinese Foreign Minister Le Yucheng indicated the limits of discussion, stating “some countries are asking China to do more on climate change. I am afraid this is not very realistic”.²⁸⁷

The Belt and Road Initiatives

China’s BRI has developed in significant new directions in the past year. Discussions of the BRI in the West have tended toward sweeping interpretations that it was either the largest infrastructure plan since the Marshall Plan, or that it was largely a debt trap that enabled China to charge high interests on assets which would then be seized when debtors could not pay. Overall, however, the BRI story has many more complex and less apocalyptic interpretations. While there is a high level of coordination from actors in China in certain sectors, overall, the CCP’s record on the BRI is one of hits and misses. In some cases, China has, wisely or not, invested in projects that have struggled to attract investment, largely because they are not sound prospects.

China’s BRI continues to be a source of alarm for the West, as it continues to make inroads into the developing world – with a particular focus on areas vulnerable to conflict, corruption and instability. For example, following the withdrawal of troops in Afghanistan, in September 2020 China let an offer be known to build a road network for the Taliban in exchange for peace in the region, and in the wake of the allied troops’ departure, China has said it is preparing to invest \$62 billion via the BRI. China’s Foreign Minister recently met a Taliban delegation and denounced America’s 20-year involvement in the region a “failure”.²⁸⁸ It is not clear that the West has any alternative comprehensive plan for upholding stability in Afghanistan,²⁸⁹ and indeed, US Secretary of State Tony Blinken has said that China-Afghanistan cooperation could – counter-intuitively – be regarded as a “positive thing”, with the capacity to deter a civil war in the region.²⁹⁰ In part due to its geography, China holds both economic and strategic interests in Afghanistan, and is particularly watchful of any developments that could flow into its Xinjiang region and affect the Uighur community, such as the activities of insurgent Islamic groups. China has joined many of the Western governments in seeking to pursue a ‘pragmatic’ form of engagement with the Taliban, but it has also capitalised on the calamitous aspects of the withdrawal to denigrate America’s moral and tactical competence and make an example of the limitations of its ideological model.

China has had its sights set on the fragile democracy of Ukraine for some time, recognising the nation’s strategic importance in the European region. After the Ukrainian Government withdrew support for an investigation into human rights abuses in China, the Chinese Government has now agreed to a new investment deal with Ukraine covering road, bridge and rail projects.²⁹¹ China’s Foreign Minister Wang Yi also visited the Democratic Republic of Congo (DRC) during a five-nation tour in Africa in January 2021, signing a Memorandum of Understanding to bring the DRC into the BRI and providing debt relief worth an estimated

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US\$28 million.²⁹² China's choice of geostrategic locations in Africa, such as Kenya, Tanzania, Somalia along the Indian Ocean, and Djibouti and Ethiopia along the Mediterranean Sea, provide connectivity points to connect Africa, Asia and Europe.

Over the past year, there has been a strong move to redefine BRI along new pathways, including a Green Silk Road, Digital Silk Road, and Health Silk Road. These themes are significant, in that they correspond to issues that are of significance both to China's own five-year plan and to broader global interests. For example, the Digital Silk Road (DSR) is designed to promote digital integration through a single platform, and as such, rather than smart cities or ports, the DSR focuses on a digital regional trade ecosystem run via Chinese technological norms. The DSR hopes to bring advanced IT infrastructure to BRI nations, including e-commerce hubs and broadband. As ICT infrastructure is cheaper and easier to build than the physical BRI projects, China is increasingly focusing on building these ecosystems that underpin the foundations of society in terms of communications, finance and governance.²⁹³

One such focus has been the launch of China's global satellite system, BeiDou, on 23 June 2020. Pakistan, Laos, Brunei are among the Asian nations which have adopted the system, and usage is increasing in the Middle East and Africa. DSR projects have also been important in South-East Asian countries, notably Indonesia, Myanmar and Thailand, which have been largely untapped markets in digital services; for instance, in Myanmar, 4G penetration rate is less than 20%, and home broadband penetration rate is approximately 2%. China is also attempting to build up Huawei and ZTE 5G communications across the African continent, currently subsidising these networks.²⁹⁴ The reach of the DSR is growing quickly. At least 16 nations have signed Memorandums of Understanding with China on DSR projects; however, it is estimated that activity relating to the DSR is currently in 137 nations.²⁹⁵

The coronavirus pandemic has generated additional barriers to the BRI in all its forms. Caixin Online's index of BRI activity showed that in April 2020 it had reached levels of only half that of the previous year. The Director-General of the Chinese Foreign Ministry's international economic affairs department said that approximately 40% of BRI projects have been adversely affected by the pandemic, and a further 30-40% have been 'somewhat affected'.²⁹⁶ China is also finding itself outbid on various occasions, as the West begins to finally combine its efforts to challenge its dominance in infrastructure and technology projects. For example, in 2021, the tender for Ethiopia's 5G was awarded to a US-led consortium bid, despite China's efforts to win the project.²⁹⁷

These external challenges are also supporting China's ambitions to diversify the BRI into other policy areas and to correct its course on areas attracting negative attention. Following criticism about the environmental footprint of BRI projects in locations such as Pakistan, which encourage the generation of power from fossil fuels, China has begun to pull out of coal projects in Bangladesh, stating that "the Chinese side shall no longer consider projects with high pollution and high energy consumption, such as coal mining [and] coal-fired power stations", highlighting its growing commitment to climate action.²⁹⁸

In practice, overseas energy sector finance offered by the China Development Bank and the Export-Import Bank of China decreased from US\$8.1 billion in 2019, to US\$4.6 billion in 2020. Furthermore, while in Turkey, 88% of pre-approved coal projects from Chinese investors have been cancelled since 2010 and in Indonesia, 51% have been cancelled since 2015, nonetheless, over 70% of all coal plants built today are reliant on Chinese funding.²⁹⁹ However, despite China's actions on overseas energy financing not fully living up to its rhetoric, it has prompted G7 leaders to launch their own green infrastructure project to seek to rival the BRI in these areas.³⁰⁰

Another area of growing Chinese geopolitical interest in the past year has been in the Arctic, leading to the emergence of plans for a 'Polar Silk Road'. The CCP has set out ambitions to increase its presence in the Arctic region, declaring itself a de facto "near-Arctic" state and looking to develop "blue partnerships".³⁰¹ China's interests are partly strategic and partly

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economic, with competition for scarce resources in the Arctic intensifying interest from a number of different nations. The Arctic and Antarctic poles are also of interest to China for research and scientific development purposes, as China's 'Snow Dragon' icebreaking ships move into the region. China is also currently hoping to launch a satellite that will monitor Arctic shipping routes as ice caps melt due to climate change.³⁰²

Chinese interest in the polar regions has led to some pushback; in December 2020, Canada blocked the Chinese takeover of Nunavut gold mine after their national security review of investments.³⁰³ Finland's military also blocked a Chinese bid to buy an airport, citing security reasons. Denmark also countered Chinese policies in the Arctic in its 2020 intelligence risk assessment, and Sweden also did so in their recent Arctic strategy.³⁰⁴ In a similar vein, Greenland opposed the construction of the Kvanefjeld mine which would have been used to extract both rare earth elements and uranium, in a collaboration between Australian and Chinese companies.³⁰⁵

After a bruising period in the first phase of the pandemic, and with scrutiny of its role in the pandemic's origins steadily increasing, China has also sought to invest in a 'Health Silk Road' as it harnesses vaccine diplomacy with a particular focus in the Indo-Pacific region. Between March 2020 and April 2021, China's People's Liberation Army provided military medical assistance or donations to 56 countries; all of these nations, with two exceptions, are part of the Belt and Road Initiative.³⁰⁶ Although China has now joined COVAX, China has still promised priority access to vaccines to ASEAN and African countries, and provided bilateral vaccine aid to several nations of strategic importance. So far, this has included donating one million doses to Cambodia, and 300,000 to Myanmar and Laos, amongst others.³⁰⁷

In early January 2021, the Chinese Foreign Minister Wang Yi toured four Southeast Asian nations with stalled BRI projects and linked shipments of China's Sinovac vaccine with new loans and grants for infrastructure projects. For example, Wang promised the Philippines 500,000 vaccine doses, as well as \$1.34 billion in loan pledges for infrastructure and \$77 million in grants. Overall, China has announced that it will provide free vaccines to 69 countries across the developing world and commercially export to 28 others.³⁰⁸ This decision has come at the cost of its domestic vaccine programme, and it is estimated that China has exported around half of the 250 million vaccine doses it has produced – although it must be noted that China has sent more vaccine in exports than aid, with vaccine exports representing 100 times the volume of donations.³⁰⁹

The provision of vaccines is, so far, attracting varying levels of success in increasing support for China in the region. Indonesia has had one of the largest Covid-19 infection rates in Southeast Asia, and received 1.2 million doses of the Sinovac vaccine from China in December 2020, and another 15 million doses of Chinese Covid-19 vaccines. Indonesian President Joko Widodo was also the first major world leader to publicly have a Chinese Covid-19 vaccine dose, suggesting that the vaccines were received positively in Indonesia.³¹⁰ However, in the Philippines, top legal counsel Salvador Panelo has emphasised that the Philippines appreciated the "humanitarian gesture" of China's vaccinations but added they will not be blinded by "violation of international law and in derogation of our sovereign rights" as over 200 Chinese vessels came within the Philippines' EEZ causing maritime disputes.³¹¹ As crucial and coveted a resource the vaccines to tackle the coronavirus pandemic remain, China will continue to find that diplomacy is a multifaceted operation that requires careful and enduring efforts to convert towards success.

Conclusion

The China of 2021 is a more risk-tolerant nation and one which feels a sense of urgency and impetus around the securitisation of its domestic mandate. There is also little doubt that over the past year, China has adopted a much more confident and confrontational tone with the Western world. It sees itself as having done well in response to the pandemic, and has sought to maintain friendships in the Global South, which it sees as more amenable to Chinese

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influence than most of the West. However, despite its hardening rhetoric against the Global North, China still sees its relationship with the United States as its most important – whether in geopolitical or economic terms. For that reason, nations like the UK that have a close relationship with the US will always be of importance to China – as will nations like the UK which may take choices that diverge, even in small ways, from America's own.

Regardless of its frequent dismissals of the West and its liberal ideologies, China still cares greatly about its opinion. If it did not, it would not expend so much time, resources and rhetoric on criticising the West. At the same time, China is also explicit about its desire to play a global role, and powers that choose to play a significant role in the world must expect that their international and domestic behaviour will come under scrutiny. If China wants praise for the positive aspects of its model, it must also expect and acclimatise itself to criticism of the negative aspects of its behaviour. China will continue to wield enormous influence regionally and globally, and its particular size and nature mean it will be difficult for the West to apply historical frameworks to interpreting its activities and intentions. China's diplomacy may often fall short, but its leaders invest significant energies in monitoring and understanding the West – fostering a knowledge deficiency chasm that for now, continues to fall in China's favour.

Conclusions and Recommendations

The UK Government has made important progress in implementing new safeguards to address security vulnerabilities in its relationship with China, and is evidently pursuing a more robust strategy in its bilateral and collective response to China's choices on human rights and international norms. There is still much to be done to strengthen the UK's position and to ensure we can pursue China engagement – both through direct and indirect means – from a more confident position. The initiatives we outlined in our 2020 report remain a work in progress, and the sheer breadth of activities and developments captured within this report emphasise the need for systems to be established in a flexible and adaptive manner.

It remains inevitable that the UK will need to contest China's priorities, choices and actions, on a wide range of issues. A more consistent and considered approach to UK-China engagement, based on solid foundations of understanding, will be essential. The UK possesses a number of domestic strengths favourable to such a relationship, and there is much about British culture, industry and diplomacy that is admired by China's elites and amongst the Chinese people. This soft power, and our sectoral advantages, should be more effectively harnessed, and complemented by a profound investment in capabilities and literacy around China and its interests within the UK civil service, the business community and amongst society as a whole.

We recommend that all decisions about China should be seen through the "triad" model we have suggested at the beginning of the report:

- Does the decision concern the UK itself, issues outside China but not directly concerning the UK, or questions about issues that are purely within China's boundaries?
- Does the decision concern the three areas where China's interests in the UK are most substantial – namely, our security relations with the US, our role as a financial power, and as innovator in science and technology?
- Does the decision concern security, economics, or values, and in what balance between the three?

There will be considerable overlap between these domains, but there are distinct qualities to each of these frameworks which must guide decision-making, to prevent us from failing to see the forest for the trees and missing the essence of our strategic interest.

Our 2020 report, 'After the Golden Age: Resetting UK-China Relations', set out a range of priorities that we feel continue to be relevant, and we urge readers of this paper to also revisit those recommendations. Below, we outline a series of further recommendations and guiding principles specific to the current context, for taking forward the UK-China relationship and better securing the UK's long-term interests.

1. Deepen and enhance institutional knowledge about China at a granular level.

Britain remains under-powered on China expertise, which continually places us at a strategic disadvantage. The UK Government needs to deepen its understanding of China, not only in terms of its elites, but how the party honeycombs through society as a whole, and why, despite its authoritarian rule, the CCP enjoys a high degree of legitimacy among its citizens. Moreover, there must be a deeper understanding of the role that different actors – from middle-class professionals, to social media commentators – play in shaping Chinese society. China's domestic sense of its own history, and of its relationship with colonialism, is even stronger and more sensitive than Britain's, and is heavily shaped by the political requirements of the CCP. A better understanding of the shared history of China and Britain should not be an obscure cultural addendum to an understanding of its business environment, but rather should be central to providing a base of knowledge that enables us to understand China's contemporary nationalism. Businesses, citizens and civil servants need to be equipped with the language skills and strategic capacity to better anticipate and interpret China's historical, contemporary and future behaviour.

2. Economic engagement continues to present opportunities, and climate cooperation is essential, but we must be realistic about the nature of our negotiating positions and develop a similarly realistic set of expectations about what can be achieved.

The UK's status as a major international actor in fields such as financial and legal services provides opportunities for British businesses to expand into growing markets in China, and there is much about the UK's capabilities and production of genuine interest and admiration for China. But the UK's assessments of future opportunities must be based on a measured understanding of China's size and standing: the second-biggest economy in the world will be able to define many of its terms of trade in a way that was less true twenty or thirty years ago, and China will play an increasingly central role in the Indo-Pacific's economic markets. It is therefore essential that business and civil service literacy about China's priorities and financial objectives are enhanced, in order to enable the UK to undertake this engagement from a more confident basis.

On the issue of climate change, the Cop26 conference in November 2021 will provide an important opportunity for UK leadership on climate change, and will also provide an excellent platform for forging cooperation between key Western actors and China on an issue of mutual concern. Nonetheless, China recognises the centrality of this issue as a point of cooperation with the West and therefore the UK must prepare for China's leaders to seek to wield its climate action initiatives as a point of leverage, and that any commitments may be subject to change in the future. China will not respond well to efforts to demand its participation in global commitments, and the UK's diplomacy should rather focus on making a positive case for both nations' capabilities at the frontier of green technology, and our common interest in transforming our economies to be more sustainable. The CCP's compact with its citizens demands growth and therefore forging a 'green economy' will provide political dividends beyond the moral arguments for climate action.

3. Higher education will be an area of increasing focus in the bilateral relationship and must be sufficiently invested in, valued and protected.

Higher education is becoming increasingly significant as a gateway through which the UK and China will encounter each other during the years to come, particularly as the pandemic's after-effects mean borders will remain at least partially impeded. There is an immense economic and cultural value, and huge future opportunities for the UK, in attracting both Chinese students and researchers to the UK, and the immense benefits, both academic and financial, that derives from that engagement should be fully celebrated – not least as they emphasise the continuing attractiveness of the UK as an international leader in higher education. Of course, the benefits of this exchange can only be realised with the right measures in place, and must be guaranteed by firm measures to safeguard academic freedoms, avoiding collaborations that could endanger UK national security, and protecting UK intellectual property.

4. We must pursue a robust line on human rights with China, and ensure we uphold these standards at home and in our other partnerships.

The increasing attention we pay to China as an ideological challenge to the liberal world order should also inspire us to reaffirm the values we identify as fundamentally distinct to those promoted under its authoritarian regime. Diversity, dissent, the rule of law, and media freedoms continue to be central to our sense of identity and global purpose, and should be an integral aspect of our diplomatic efforts regarding Hong Kong and Xinjiang. But there can be no complacency about their application at home. After all, China's leaders derive great satisfaction in highlighting areas in which our legitimacy in upholding our values on a domestic level can be called into question. This will also need to be central to our considerations about working in new potential alliances with non-democratic nations which also hold a stake in China's behaviour: the central mission of the UK as a leading advocate of liberal democracy, and the prioritisation of liberal democratic partners, must not be diluted.

5. Even when the UK experiences geopolitical disputes or areas of tension with China, they must not be conflated with the Chinese people.

Whether the citizens of China, or the Chinese diaspora in the UK, it is crucial that political leaders visibly and powerfully convey the message that our concerns about China's behaviour as an international actor and disagreements with the ruling party's approach to governance do not constitute an attack on the Chinese people. Allowing xenophobia and fear about the intentions of the Chinese community to germinate will not reflect positively on Britain and would indeed erode some of the inherent strengths the UK holds through its advocacy of liberal values, including free speech and dissent. More broadly, there is much for the UK Government to gain in cultivating more formalised relationships with the Chinese diaspora in the UK, as well as better harnessing the influence of the UK diaspora in Beijing and other cities. People-to-people links remain a fundamentally under-addressed resource, risk and instrument in UK-China relations.

6. The UK Government must ensure that the decision to temporarily reduce our foreign aid spending does not create a vacuum that reduces our ability to influence development partners or identify appropriate areas of cooperation with China.

The practical integration of our development and foreign policy has been welcome, recognising the strategic, trade, diplomatic, and security benefits we can derive from our investments. While it is understandable that the economic situation precipitated by the coronavirus pandemic has compelled difficult choices around Government spending, it is impossible to ignore the opening that our withdrawal from many key development projects will present to China, which is actively seeking opportunities to leverage aid and investment to support its strategic interests. Our Overseas Development Assistance (ODA) spending must be restored at the earliest opportunity the balance sheet allows, to minimise the risk that these cuts become embedded and our development partners turn to other funding sources. More generally, better coordinating our ODA activities with our allies – while somewhat diluting the individual soft power gains – will also allow us to share the financial load and improve the collective reach and influence of liberal principles. In the past, ODA has also been an area where cooperation between the UK and China' has been possible, and this would continue to be a fruitful area to explore, particularly in the context of mitigation of climate change.

7. We must strengthen the process of securing our critical national infrastructure, and future-proof our definition of what will become valuable to us.

Some important strides have been taken in enhancing our capacity to identify, assess and mitigate against vulnerabilities in our economy and other key sectors, but much work remains to be done. Many key sectors vulnerable to influence or acquisition but outside the traditional framework of our critical national infrastructure, such as higher education, research commercialisation, health technology and agriculture, have not been sufficiently protected. Moreover, we must establish a process of anticipating new areas of emerging value to Britain and interest to China, for instance, those involving intellectual property capture or technological path dependency. Individual companies, products or industries may not on their own appear to represent a national security risk, but we must recognise the role they may play in wider supply chains, in our resource sovereignty, and in maintaining Western technological strength and resilience. The process of pursuing a 'balanced' relationship will involve regular points of tension and we must build systems capable of accommodating these in a principled and consistent fashion, rather than seeming surprised when they emerge.

8. Britain must lean into its special capabilities in designing the governance frameworks of the future, which will address many areas of growing importance to China.

The UK holds particular expertise in designing and establishing international governance frameworks, and we should seek to play an integral role in the new frontier of global regulations and standards – particularly addressing the issues of ethics in Artificial

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Intelligence, the open and global internet, and space regulation. It is crucial that we ensure that the new frameworks constructed around these increasingly important themes are forged on liberal principles, and there is potential for proactive cooperation with Chinese experts to support outcomes favourable to our interests and values. Our role in the creation of these new governance systems will be the most significant and tangible applications of our 'force for good' agenda.

9. While the UK-China bilateral relationship will remain unique, we must also build and maintain the foundations of a collective approach to China amongst liberal allies.

A combination of history, strategic interest, soft power, and the structure of our economy means Britain's relationship with China will, in some respects, be distinct from that of even our closest allies. While recognising that partners such as the United States will, to some degree, follow their own path, we must also ensure there is a collective baseline of both judgements and favoured responses to areas of common interest with China. The liberal position on human rights transgressions, and interference in contested territories is more powerful when delivered efficiently as a shared reflex amongst a group of nations confident in their identity. While the D-10 alliance of democracies concept has yet to come to fruition, the urgency remains for liberal nations to prioritise the development of commercial capabilities and technology infrastructure that can compete fairly with the competitive tenders of China-owned firms. This will involve the investment in relationships outside of the core Western alliance and could bring in new partners in the Indo-Pacific which share our interest in open economies and societies.

10. China provides a striking example of the urgent need to integrate our domestic and international resilience agendas.

Fusing together the Global Britain and Levelling Up agendas will be essential to advancing our global competitiveness and ensuring the success of each of these generation-defining projects. The breadth and nature of risks posed by a state such as China, which is deeply entangled in the global economy, and which practices integration on all levels of its proactive and defensive activities, demand a whole-of-society approach to our national security. Civilians, businesses, universities, the media and our democratic institutions are all potential points of influence and interference, and need to be sufficiently safeguarded in a whole-of-society approach to resilience. Whitehall may feel that it has experienced a reckoning on China, but our engagement with China is an ongoing process without any definitive 'end point' and which will require ongoing vigilance. Recognising potential vulnerabilities requires education, skills and a clear common purpose about our sovereignty.

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