

China's Political Economy and the UK Post-Brexit

Written by Kerry Brown

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KERRY BROWN, FEB 2 2021

In the years since the June 26, 2016 'Brexit' Referendum which resulted in the decision to withdraw from the EU, the language of the May and then Johnson governments had been to stress that Britain was entering into a new era of global activism. On January 17, 2017, Theresa May declared that her vision was 'a truly Global Britain – the best friend and neighbour to our European partners, but a country that reaches beyond the borders of Europe too. A country that goes out into the world to build relationships with old friends and new allies alike' (May 2017). Johnson was even more grandiloquent. Speaking in parliament on June 16, 2020, he declared the merging of the British Foreign and Commonwealth Office with the Department for International Development into one 'super department' stating that this would support the promotion 'of British values, following in the great tradition of the country that ended the slave trade and resisted totalitarianism. And it is precisely that ambition, vision and expertise that will now be at the heart of a new department, taking forward the work of UK Aid to reduce poverty, and that will remain central to our mission' (Johnson 2020).

After all the talk, finally, in 2021, Global Britain's time has arrived. Reality can replace rhetoric. For any viable Global Britain vision, finding trading and investment partners outside the EU area would make sense. One part of this idea was to build closer links with the US. Under Trump, warm words had been uttered. But as a salutary lesson that the one constant in diplomacy is perpetual change, Biden's success in the 2020 election meant a leader with a very different view of globalisation and Brexit was now in charge. The hoped-for bilateral trade deal with the UK became far less likely.

The People's Republic of China (PRC) in 2021 is a fifth of the global economy. The impact of COVID-19, with European and American economies shrinking in 2020, while the IMF predicts China's likely to expand by 8 per cent (IMF 2021), seems likely to serve to accelerate the era when China supplants the US to be the world's largest economy. The fact that for the UK at the moment, China does not figure as a significant investment and trading partner, accounting for only 4.4 per cent of British exports and 6.8 per cent of imports in 2019 (UK Parliament, 2020) and not figuring in the 2018 list of top Foreign Direct Investors into the UK (Department for International Trade 2020; 72) would imply that were Global Britain as a vision to be realised, this would be one of the key places to achieve that.

Political Divergence

In 2015, during the first state visit by a Chinese leader to the UK for a decade, Xi Jinping after all had heralded in a 'golden age' in the bilateral relations. The groundwork for becoming closer therefore seemed already to be established. In the era when investment and trade protocols were largely run through EU channels, the UK had limited strategic autonomy. Brexit cleared away a space to address this. The UK once out of the EU could start to discuss a free trade agreement and work on making China a far greater factor in its own economic development. One of the emerging problems with this however is the fact that with the Trump administration, and because of the impact of COVID-19 and its origination in the PRC, the global environment towards China became considerably chillier from 2019 onwards, at the precise moment that the reality of Brexit became clearer. This was compounded by rising international unease over the issue of Xinjiang and the evidence of widespread repression of Uyghurs, and the introduction of an invasive National Security Law in Hong Kong, which the UK declared was in violation of the One Country, Two Systems rubric introduced to the city on its restoration to Chinese sovereignty in 1997.

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Dominic Raab, British Foreign Secretary, speaking in January 2021 expressed these new sentiments clearly. 'The mass arrest of politicians and activists in Hong Kong is a grievous attack on Hong Kong's rights and freedoms as protected under the Joint Declaration,' he said. 'These arrests demonstrate that the Hong Kong and Chinese authorities deliberately misled the world about the true purpose of the National Security Law, which is being used to crush dissent and opposing political views' (Raab, 2021). The response of the Chinese government was equally categorical: 'The statement by UK Foreign Secretary Dominic Raab ... contains irresponsible remarks on the national security legislation for the Hong Kong SAR and constitutes a flagrant interference in Hong Kong affairs, which are China's internal affairs. China expresses grave concern and strong opposition' (Chinese Embassy, UK 2020). This did not sound like the kind of language used by two parties about to get closer to each other.

One of the issues was the clash of languages and attitudes towards China, not just within the UK, but within the ruling Conservative Party. While the Prime Minister, Johnson, declared in June 2020 that he was 'a Sinophile and I believe that we must continue to work with this great and rising power', there were plenty of others who were willing to speak far more sharply from within his own party. Tom Tugendhat, influential chair of the Parliamentary Foreign Affairs Committee, established with a number of other fellow MPs a China Research Group. Their remit according to their website was to 'to promote understanding, leading to fresh thinking about issues raised by the rise of China, and provide a trustworthy source of news and informed knowledge on China issues.' They were 'not anti-China and will also explore opportunities to engage with and work with the Chinese people, companies and government' (ibid). However, their members were often heard in media and debate adopting a far harder tone. In one interview Tugendhat himself stated that '[China] is a country run by security forces and a very large surveillance state... those who work for the Chinese state are "to a certain extent the guards of a very large prison."'.

Amongst this new kind of excited language about the problems China faced, there were a number of complex different factors. One was the desire, at least during the Trump administration, for the UK to demonstrate strategic closeness to the US. There, the harder line on China had been present for some years. Huawei, a company with almost totemic significance for American critics of China, had been allowed to operate with a moderate level of freedom in Britain. There had even been consideration of it playing a role in the development of 5G. In 2020, however, the British government issued a clear statement that this was no longer an option, showing its closeness to America. Huawei needed to stop installing equipment from September that year and remove all of the company's existing equipment by 2028. This too attracted fierce criticism from Chinese officials.

Another was the ways in which the impact of COVID-19 from early 2020 in the UK raised the issue of Chinese influence in Britain in ways which had never been apparent before. For most British people until then, China was not a significant issue in their lives. The fact that there were over 110,000 Chinese students in British universities, or that Britain was the largest destination for Chinese investment (mostly into real estate) were not issues that figured very greatly in British news. Surveys showed that while British people did not actively dislike China, but nor did their attitudes have much warmth. The immense impact of the pandemic on social and economic life meant that suddenly, for one very specific reason, China had a much stronger and tangible link to the UK, albeit a very negative and unfortunate one.

There were certainly British public figures who were unable to resist the nastier side to this. Agitator for Brexit and populist politician, Nigel Farage, stated that China should now be a target for action after having dealt with the EU's involvement in British life. Others were less inflammatory, but the shift in public mood meant that issues which had been important and concerning before, such as Xinjiang and Hong Kong, started to fit into a narrative emerging in the UK where China figured as an ominous, almost sinister presence. This played an important role in the writings of Australian academic Clive Hamilton, whose 'Hidden Hand: Exposing How China's Communist Party is Reshaping the World' (One World Publications, London, 2020) co-authored with Mareike Ohlberg, serialised in the Daily Mail as it was published, contained a number of claimed exposes of the Chinese state influencing politicians and other figures in, amongst other places, Britain.

In the era of the realisation of Brexit, therefore, the situation is simply one of Global Britain being rolled out in a world where the UK is seeking greater international partnerships with countries it does not enjoy these with at the moment, and where China ranks amongst the most important, if not the most important in terms of potential, but where its

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ruling party is seemingly increasing split on the posture to take towards the PRC, the public seem to regard this new partner with a mixture of wariness and distaste, and the dialogue between London and Beijing has seldom before been so intemperate and ill tempered.

Britain's Need for Realism

It is very likely that for anyone who cast a cold, appraising, eye over Sino-British relations as they stand in 2021 would need to acknowledge some harsh truths. Never before has the difference between British and Chinese economic and geopolitical power been so great, to the clear disadvantage of the former. Britain has historically largely been the more powerful partner in this relationship. But in the last two decades, that has dramatically reversed. The change has been so quick that it is clear many people speaking about China in the UK, at least in the political realm, seem not to have readjusted their world view. Their assumption is that for trade, technology and a host of other things, China needs the UK more than the other way around. That is simply not the case anymore.

On top of this is the issue of how leaving the EU may have given Britain more scope to speak out on its own on issues around China, but it has also left it far more exposed. As part of the EU, the UK was in a bloc that as a market, technology partner, and investment area did have enough size to matter for China. As the UK, while still significant, it is far less of a priority. China can increasingly easily live without the UK. Lamentable as it is, the evidence shows that absolutely nothing that Britain on its own has said about Hong Kong, an issue it feels it has a particular historic right to speak about, has made any difference to the situation unfolding in the city. Only when the UK works in concert with America, Australia, Canada, or others does it seem to have some weight. So much therefore for Britain being able to exercise its own free agency on these issues.

The British choice could be to adopt a far harder line towards China. The issue with that is that as never before there will be tangible costs to this. It may be morally right for the British government to say that China poses such serious issues that there has to be a process of widespread disengagement. But in that case, there also needs to be honesty about the costs of not having access to China's emerging markets and opportunities. After all, to look after one's own people is also a moral responsibility.

These matter because they have been things that the UK has invested in for many years. It has wanted to see opportunities emerge in the financial services sector and in supplying Chinese middle class, urban living consumers with more goods. Trade delegations from the 1990s onwards, right up to the time of Cameron and May, went to China with this idea in mind. It figured as a key government objective. It even came through in the Brexit campaign as a thing that the UK could finally do, allowing London to become a financial centre for Chinese companies, and getting Chinese investment into infrastructure like the high-speed rail link planned from London to the north of Britain, in ways which had not been so easy while Britain was part of the Union. It is tragic and ironic therefore that at the time in which, at least in administrative terms, Britain can now seek the returns on the investment of this effort, it may need to walk away. Politicians will also need to be honest in saying that therefore Global Britain will only include 80 per cent of the globe, and in fact will need to recognise that even of this reduced proportion, almost half is the EU and America where there are already pretty well-developed markets. Global Britain risks looking very much like the Britain it was meant to replace.

The Strategic Quandary

Britain is clearly in a very sharp strategic quandary with China. It seems to be pursuing wholly incompatible things: closer economic ties with a country it is also increasingly at political odds with. The unwritten laws of political economic theory would usually assert that one cannot have optimal trading relations with a partner who one is also opposed to in terms of security, values and geopolitics. For a start, it is very hard to do a large amount when there are so many issues that create distrust and misunderstanding – two things antithetical to healthy, growing levels of trade. For the UK at the moment, the sole comfort is that its quandary is shared by many others. In the Asia Pacific region, and through Europe and Northern America, the square circle that China policy presents remains a constant – trying to balance how to have a large, and often growing, trade and investment relations which delivers clear benefits with a country that is also increasingly seen as a threat in the security arena.

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Britain's quandary is made more complicated by the fact that a natural remedy for this predicament would be to work closely with the many other countries sharing its dilemma. There may be separate issues between these countries causing problems, but China prompts far larger and more urgent issues. That should serve as the basis for natural co-operation and co-ordination of a response. With Brexit, however, and as the escalating arguments over COVID-19 vaccines between Britain and the EU have shown in the early part of 2021, the UK has set clear space between itself and its closest and most natural series of allies. Strategically, this is illogical. If China were a far more compatible and compelling partner, it would be worth eschewing current relationships for. But that is clearly not the case. Britain is therefore confronting what was already an intensifying predicament in what looks to be an even more isolated and vulnerable position.

This does not mean that the UK cannot work with a new coalition of partners, many of them outside the EU, on common problems arising from China. But it does mean this is moving into new diplomatic territory and should be aware that this is fraught with risk and will not be easy. British politicians, as shown in the material above, are talking boldly about issues over Hong Kong and Xinjiang now, and have promised to offer a form of citizenship to Hong Kong residents wishing to leave the city to settle elsewhere. But while this kind of language and action carries memories of the situation the UK used to be in, of a larger economy and more powerful geopolitical actor than China, the risk is that this only exposes the current somewhat harsher reality – that Britain is smaller, and weaker, than China, and may need to adjust its mindset to recognise this. The real danger is that for all its loud words, the only thing they result in are feelings of self-validation back home with zero impact on the place they are meant to bring about change in – the PRC.

Britain in 2021 has a national leader who seems to believe that words can craft reality rather than the other way around. The approach by Boris Johnson to Brexit dismayed his critics because of its assertion of rhetoric over everything else. Global Britain was one of the most powerful tropes in all of this. A brutal 10 per cent contraction of GDP in 2020 because of the pandemic, with unemployment rising, and the costs of leaving the EU starting to show tangible signs, shows that his almost messianic belief in the primacy of sovereignty over everything else might prove to be a costly move not only politically but economically. COVID-19 may well prove to be the only teacher that might work in the UK – a harsh and unbending one! Politicians are unlikely to spell this out. But the situation is already becoming clearer: It is likely that in years ahead, the calculation of the costs of taking issue with China will rise, along with the necessity to seek partners and markets for growth. One issue will be a very divided debate in the UK about where the priority should be – the former or the latter. This proves that for all the excited talk about China's 'hidden hand' coming to interfere with others, more often than not its influence is pretty clear and open: just in posing the kind of sharp challenges that it currently does by simply being itself, it has a huge impact. For everyone, but particularly for the UK at the moment, the choice is stark and clear: you can have your values, but if China disagrees with you, it can walk away. In the post-Covid economic landscape that looks like a cost that may well keep rising.

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