

Call for Evidence: The UK Government's China Audit

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The China Audit

1. Successes and Challenges of the China Audit

- a. There were sound arguments to support the decision of the incoming Government to conduct a China Audit, not least of all because considerable gaps remained in the UK's capabilities and the implementation of the whole-of-government approach to addressing a systemic challenge.
- b. There were also evident risks, particularly in terms of managing public perceptions about its purpose. Several policy, rhetorical and diplomatic choices were taken by the Government following the launch of the Audit, which together created confusion as to whether it intended to strengthen the UK's security posture towards China, or to provide a roadmap to soften it.
- c. The most striking of these choices was the decision to pursue high-level engagement with China concomitantly during the Audit process. Having publicly asserted that the UK's existing China approach needed improvement, it would seem preferable to first conduct the Audit intending to identify and respond to these deficiencies, prior to commencing engagement with a sophisticated actor ready to capitalise on the change in personnel and the pressure for growth.
- d. A rapid Audit conducted in the four months between the General Election and the US Presidential elections could have provided this grounding and projected reassurance, without compromising the ambition to subsequently establish dialogue.
- e. It is also reasonable to query the decision to base the China Audit in the FCDO instead of the Cabinet Office, given the very function of an Audit suggests a whole-of-government exercise. Moreover, the centrality of the Government's growth agenda meant that the Treasury was always inclined to play a large role in influencing the Audit outcomes, and a team like the National Security Secretariat has established expertise in managing these priorities.
- f. There is no doubt that it will be essential for Government to provide greater clarity to a wide range of stakeholders on its approach to China. An integrated and effective approach to resilience requires all pillars of British society to understand their role in the nation's defence.
- g. However, it is possible to provide this clarity without the need to publish a specific public strategic document focused on China. It simply requires a more systematic approach to external engagement, and, most importantly, the consistent application of defined sets of Government decision-making principles.
- h. The task of a China Audit, should therefore be to determine these principles, map the practical scenarios through which they will be tested, and identify the best means by which to communicate these choices and priorities across Whitehall.
- i. These principles should be clearly reinforced by all members of Government in their public rhetoric, and the Government's posture fully aligned with the expertise and assessments of the intelligence and military communities.

- j. The result of such an approach would be that when a senior member of Government chooses, for example, to visit Beijing for a dialogue with their Chinese counterparts, the parameters under which they pursue engagement in the national interest are clearly understood.
- k. The capacity to withhold a dedicated public China strategy is certainly made more plausible through the existence of a robust public-facing national security and strategic framework.
- l. It would therefore be prudent to reinstate the rolling Integrated Review process and its public documents, which provide the context and clarity on the UK Government's decision-making hierarchy and assessments, without the need to specifically focus in great depth on the relationship with China in an unclassified setting.

2. Improving China Capabilities

- a. For the past several years, the UK Government has recognised that there are significant deficiencies in China literacy and capability within the civil service and has made some efforts to increase the provision of training, for example, via the Great Britain China Centre.
- b. This training should be expanded following the China Audit to also include more sessions focused on policy decision-making and the assessments of trade-offs and competing interests. This will help civil servants and policy-makers to practically apply their knowledge of risk to the daily business of Government.
- c. In addition, there should be greater provision of wargaming and red-teaming of strategic, security, and economic scenarios related to China for both civil servants and Parliamentarians. These exercises will help to shift what is too often seen to be an abstract threat to a more clearly understood structural challenge affecting many areas of domestic and international policy.
- d. The launch of the Audit must also be understood as part of the incoming Labour Government's efforts to empower the expertise within the civil service and to 'depoliticise' the UK's China policy. The challenge is that, even with a robust decision-making framework in place, a large portion of decisions that will need to be taken on China are indeed political, and civil servants are not in a position to take these on behalf of Ministers.
- e. There is therefore a sound argument to be made for, in addition to improving civil service capabilities, bringing in greater expertise on China and strategic competition to the relevant political offices, so that they can make astute judgements on the advice of civil servants, but grounded in a political context.
- f. The China Audit must also address the health of the China-watching community outside of Government as a strategic instrument of the national interest, as there are significant challenges of funding sustainability driving many capable analysts to leave the field.
- g. The UK Government invests considerably less than many of our peers in directly funding independent think tanks and external researchers to conduct research and devise policy solutions on security, defence and foreign policy matters, in the national interest.
- h. The China Audit should establish a China Research Fund, affording structured grants to commission researchers to produce both anticipatory and responsive policy papers on issues of importance to the UK's national interest.

The UK Government's Approach to China

In the interests of brevity, this section addresses three of the most pertinent areas of consideration for the Audit, namely economic engagement, net-zero cooperation, and the US-China relationship.

3. China and the Growth Agenda

- a. One of the primary drivers of the Government's efforts to resume diplomatic dialogue with Beijing has been to promote trade and investment opportunities. It is perfectly reasonable for the UK Government to engage with China economically and to re-establish dialogue channels, but this endeavour must be undertaken from a position of confidence and a sophisticated understanding of our interests.
- b. The first consideration must be an accurate assessment of China's evolving value as a trade and investment partner. China's genuine economic slowdown, driven by structural domestic problems, has prompted a recalibration of its international strategy towards the promotion of exports and the cultivation of new supply chain dependencies among global partners.
- c. China's outbound Foreign Direct Investment has become more concentrated on Asia, Africa and the Middle East, at the expense of the United States and Europe. China's appetite for investment in the UK is therefore likely to be subdued, and Beijing will seek to extract higher concessions for its direction towards a Western market.
- d. The risks of economic engagement with China remain profound and complex. It is no longer possible to contain certain sectors within a 'small yard, high fence' strategy, given the interdependence of functional areas and the centrality of high-value capabilities to geopolitical and economic competitiveness.
- e. Intellectual property theft and technology transfer remain significant issues. There has been a tendency to believe that the peak of this practice has passed, and/or that the areas most vulnerable to such intrusions can be specified and restricted. This retrospective approach has left Britain and its allies exposed to new vanguards of value extraction.
- f. The capacity to project and anticipate areas of perceived value to the Chinese state is therefore an essential foundation from which the UK's national security must be defended.
- g. The Government must pursue an expansive and creative approach towards the definition of 'critical infrastructure', acknowledging that coercion is not always expressed in a linear fashion and that China has consistently proved more effective at anticipating our own future dependencies.
- h. There is clear evidence from our allies of China's capacity to exert trade and investment coercion in response to geopolitical and diplomatic disputes, and also that such actions have cultivated greater hesitancy in nations' public diplomacy towards China. These challenges become even more pronounced if one considers the need for the potential future application of sanctions, in which groups of allies would need to respond collectively to condemn egregious violations of international norms.
- i. The China Audit must therefore confront the question as to how to maximise the UK's future geopolitical optionality, mapping economic exposure and the impacts of potential retaliatory measures across several domains.
- j. It must also consider the likely responses of Britain's core allies in the Euro-Atlantic and Indo-Pacific to conceivable international scenarios (including economic and military) involving China,

and the implications of these conclusions about allies' behaviour about the capacity of forums such as the G7 to function effectively.

- k. In its focus on economic engagement, the Audit should also address the private sector as a major actor in cultivating both leverage and vulnerability for the national interest. Without clear guidance and instruction from Government, firm will take their own decisions, which may create exposure with geopolitical implications, or alternatively reduce the leverage that Government has to inflict costs on its competitor.
- l. There have been some efforts to improve the private sector literacy of the UK's geopolitical policy functions over recent years, but considerably more could be done to embed greater expertise and private sector conduit functions in the FCDO and Cabinet Office, and to support more formalised external consultation.

4. China, Climate Change and Net-Zero

- a. For a decade, climate change has been cited by the UK Government and its allies as the epicentre of 'safe' cooperation with China. This is understandable, due to the global and collective nature of the issue, and the need to balance the 'compete' and 'challenge' functions of the relationship.
- b. China has in fact pursued a distinct approach to net-zero, focusing on securing complete control over large-scale supply chains for net-zero technologies, rather than expeditiously pursuing a reduction in its own emissions.
- c. President Xi understood that China's ownership of the industrial pipeline would afford it the power to lower prices in the global marketplace, and provide cover for the nation's continued reliance on fossil fuels. The position we find ourselves in, needing to choose between expeditiously achieving net-zero targets, and the security risks and geopolitical implications of supply chain dependence on China, profoundly serves Beijing's interests.
- d. The West has lost the competition on net-zero technology. This poses challenges for the domestic settlements in the UK and its allies. The considerable degree of public support for net-zero has in part been motivated by citizens' belief in the advantages of achieving first-mover advantage in the economic marketplace of net-zero.
- e. Awareness that China has effectively secured dominance in this field essentially removes this incentive and is likely to further contribute to populations' growing caution to the short-term financial costs of the green transition.
- f. Chinese-made green technology also carries both security risks and ethical challenges. For example, the presence of foreign components in energy infrastructure may provide backdoors for malign cyber operations, and inverters (involved in solar installations) could be manipulated to collect sensitive information. As energy systems are highly interconnected, vulnerabilities in one area can cause disruptions in others.
- g. Even if the Government feels confident that these dependencies, vulnerabilities, and values-based challenges can be mitigated, which would warrant scepticism, it must recognise that net-zero and climate is no longer an issue in UK-China relations which can be quarantined from geostrategic and geo-economic consideration.

5. UK-China Relations and the United States

- a. President Trump's approach to China is grounded in competition, as he regards President Xi as a worthy opponent to American raw power. He will act first and foremost in the direct American national interest, which he conceives as entirely separate to and dominant towards the idea of a 'higher' collective interest.
- b. One question for Britain is the extent of the leadership role we wish to play in supporting the functioning of the G7 and other key institutions like NATO, where the United States will no longer necessarily be the centrifugal force driving allied consensus.
- c. What's more, the degree to which we will continue to support these forums focusing on China, recognising the role this could play in securing continued buy-in from the United States.
- d. A central component of the UK's relationship with both the United States and China moving forward will be the AUKUS pact, which is likely to be the one meaningful allied co-creation project that survives under the Trump administration.
- e. While the pact has struggled with some elements of pace and delivery, there is much about AUKUS which can gain purchase amongst the new administration and indeed, a 'reset' under President Trump could reinvigorate the pact into a more ambitious posture.
- f. Successful delivery in AUKUS will become an important precedent from which to cultivate trust and institutional buy-in towards other allied initiatives – and reinstate the proof of concept that cooperation with allies is the best foundation on which American can and should engage in its existential competition with China.
- g. It is likely that the Trump administration will expect some degree of alignment from the UK on China security policy as a price for its continued engagement with AUKUS and the pursuit of a UK-US technology cooperation agreement. These demands may extend to target the wider ecosystem of potential vulnerabilities relevant to innovation capability.
- h. It is also possible that the United States will seek to frame AUKUS more explicitly as a China-focused initiative, which has hitherto been stepped around in public rhetoric regarding the pact from all three partners.
- i. Ultimately, the UK is not simply a bystander to US-China strategic competition. We hold a vested interest in maintaining an international order that supports American economic and security hegemony, and this must remain our goal.
- j. In turn, we must make the case to Washington that allied alignment towards China is in America's direct national interest, and must be actively cultivated through its investment in initiatives that support allies' own immediate prosperity and security.
- k. However, the UK Government must avoid regarding our relationship with China solely through the lens of its competition with the United States. There is no shortage of reasons for Britain to be independently, profoundly concerned by China's geopolitical intentions and actions.
- l. Not least of all, its material support for Russia's war of aggression against Ukraine, its perpetration of malicious cyberattacks against British civilian and military targets, its engagement in espionage and malign interference in British democracy, its undermining of foundational global norms and institutions, its use of economic coercion and dependence as strategic instruments, its theft and appropriation of British technology and expertise, and its appalling crackdown on democracy in Hong Kong, in violation of the Joint Declaration to which we are signatories.
- m. A UK-China policy grounded in sovereign, national interests must recognise the seriousness and expansiveness of the threats posed by this authoritarian superstate, and the degradation to our

economic and vital security that would transpire if it is successful in its intention to divide Western allies and precipitate a truly multipolar global order.

6. The Future State of the UK-China Relationship

- a. The ideal future state of the UK-China relationship is as much about domestic institutional reform as the interactions between the two nations. The UK Government must invest significantly more in capabilities, planning, foresight, and the machinery-of-government required to remain competitive and resilient towards China.
- b. Government must have absolute clarity in its understanding of what national interests will be prioritised when trade-offs emerge, and the process by which such decisions will be taken. This will reduce the risk of errors in judgement, and also provide strategic clarity to both Beijing and the relevant British stakeholder groups.
- c. There must also be an acceptance that tensions will naturally emerge at various points with China, and the British system must be able to accommodate these disputes and conflicts with a pragmatic, patient, and resolute spirit. This will prevent panicked responses and avoid Beijing becoming emboldened to pursue coercive threats to seek discrete outcomes.
- d. The existence of frameworks such as 'Challenge, Compete and Cooperate' has been important for both conceptual clarity, diplomatic strategy, and rhetorical simplicity. The framework itself, however, should only be retained if it is understood to convey a hierarchy of our interests.
- e. Moreover, that the objective to cooperate with China must always be determined by the opportunities that serve our national and higher interests, and not the pursuit of cooperation for its own sake.
- f. This is essential because the UK has proven itself to be particularly blind to anticipating the future constraints and dependencies cultivated within seemingly benign cooperation initiatives. It is vital that the UK moves to a more active posture and earns the right to engage from a position of confidence.