

A NEW ERA FOR UK POLICYMAKING: AN ECONOMIC DENIAL STRATEGY IN THE INDO-PACIFIC

BY DR ROBERT SEELY MP and DARREN G. SPINCK



Published in 2022 by The Henry Jackson Society

The Henry Jackson Society
Millbank Tower
21-24 Millbank
London SW1P 4QP

Registered charity no. 1140489
Tel: +44 (0)20 7340 4520

www.henryjacksonsociety.org

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Title: "A NEW ERA FOR UK POLICYMAKING:
AN ECONOMIC DENIAL STRATEGY IN THE INDO-PACIFIC"
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ISBN: 978-1-909035-76-8

£9.95 where sold

Cover image: Container ship in the ocean at twilight, by Aun Photographer at Shutterstock (<https://www.shutterstock.com/image-photo/logistics-transportation-international-container-cargo-ship-538316056>).

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BY DR ROBERT SEELY MP and DARREN G. SPINCK



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Acknowledgements

Thank you to James Balzer, Earl Carr, Elbridge Colby, Rorry Daniels, Antun Dujmovic, Liam Gibson, Taras Kuzio, Stephen Nagy and Jason Pack for their valuable insight on transatlantic economic policy in the Indo-Pacific.

Valued suggestions were made by Evan Fowler, Thomas Kira, Chun-Yi Lee and Alan Mendoza during the review process.

I appreciate the efforts of Victoria Aarons and Iona Clark for their assistance in the research.

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About The Henry Jackson Society

The Henry Jackson Society is a think-tank and policy-shaping force that fights for the principles and alliances which keep societies free, working across borders and party lines to combat extremism, advance democracy and real human rights, and make a stand in an increasingly uncertain world.



About The Asia Studies Centre

The Asia Studies Centre is a research centre within the Henry Jackson Society that aims to educate the public about the structural shifts, regional complexities and historic tensions that exist alongside the economic and social growth that constitutes the “rise of Asia”. It also advocates a British role in the broader Indo-Pacific region, commensurate with Britain’s role as a custodian of the rule-based international system.

Report Overview

Former Chancellor of the Exchequer George Osborne famously called for a “golden decade for the UK-China relationship”, but the two-plus decades of China’s membership of the World Trade Organization (WTO) have illustrated the danger of economic dependence on the People’s Republic of China (PRC).¹ The PRC’s supply chain dominance has resulted in trade disruptions and inflation. Beijing’s sometime aggressive stance in the Taiwan Strait has further threatened air and sea trade routes. The Chinese Communist Party (CCP) is exporting its mercantilist-communist economic ideology, putting a free and open Indo-Pacific at risk and threatening the national interests of the United Kingdom and its partners.

Both free markets and human freedom itself are at risk when the CCP exerts its economic leverage on its trading partners.² Just as the “One Country, Two Systems” governance model was trampled upon in Hong Kong, the PRC continues to threaten forced reunification with Taiwan.

This Henry Jackson Society report offers UK policymakers recommendations on mitigating economic dependence on the CCP and deepening commercial ties with Indo-Pacific partners. Both objectives support a similar national interest strategy – to deny the CCP its ability to further its regional economic hegemony. This report will:

- Detail the economic rise of the People’s Republic of China since joining the World Trade Organization and the CCP’s efforts to export its mercantilist-communist economic ideology;
- Explain the risks of continued UK economic dependence on China;
- Illustrate how the UK can differentiate its economic model from the PRC’s, leading to deepened trade and investment ties with Indo-Pacific partners;
- Discuss the WTO’s failure to hold China accountable for the PRC’s most dangerous and damaging market distortions (intellectual property theft, forced technology transfers, hacking, dumping, subsidies, fentanyl exports and currency manipulation);
- Outline the benefits of private sector investment for international infrastructure initiatives to counter China’s Belt and Road Initiative and similar Beijing-funded development platforms;
- State why the UK’s Indo-Pacific tilt must focus on supply chain reform, namely increased economic ties with regional partners who best defend our values and interests (the Commonwealth and Japan);
- Propose that the Australia–United Kingdom–United States (AUKUS) trilateral defence understanding expands its efforts to include securing supplies of rare earths required by the defence sector;
- Suggest that the United Kingdom reform its investment restrictions regime to include reviews of PRC-linked purchases in the UK’s agricultural sector, any significant foreign control of a sector which could lead to cuts in supply or exacerbate inflation, or any industry which may provide the CCP with an opportunity to influence UK policymaking;

¹ George Osborne, ‘Chancellor: “Let’s create a golden decade for the UK-China relationship”’, HM Treasury, 22 September 2015, <https://www.gov.uk/government/speeches/chancellor-lets-create-a-golden-decade-for-the-uk-china-relationship>.

² Dean Russell, ‘Free Markets and Human Freedom’, Foundation for Economic Education, 1 March 1985, <https://fee.org/articles/free-markets-and-human-freedom/>.

- Provide export control policy recommendations for UK policymakers to consider which will lead to the diversification of Indo-Pacific supply chains, including in the rare earths and advanced surveillance technology sectors; and
- Analyse the limitations of existing sanctions policy as a deterrent and suggest the use of “strategic sanctions” to better exert leverage on the CCP, while simultaneously diversifying supply chains and helping prevent the forced reunification of Taiwan.

PART ONE:

Deepening the UK's Commercial Ties with the Indo-Pacific

1. Introduction

1.1 China's WTO Accession and Global Market Distortions

Western policymakers mistakenly assumed that the entry of the People's Republic of China (PRC) into the World Trade Organization (WTO) would ease the Middle Kingdom's economic rise and pivot the Chinese Communist Party (CCP) toward economic and political reform and eventual liberalisation. Two decades have passed since Beijing's WTO accession. The CCP has not demonstrated a propensity to shape China's economic policy within a rule-based trading system, nor, arguably, has the PRC become a "responsible stakeholder" as former US Deputy Secretary of State Robert Zoellick had envisioned.³ As the authors of the May 2020 Henry Jackson Society report "Breaking the China Supply Chain" warned, China has not become "like us" despite the West's best efforts.⁴

The United Kingdom and its transatlantic economic partners hoped normalised trade relations with China would lead to greater market access and job growth. Instead, CCP market distortions and an unbalanced level of exports from China to the United States resulted in a \$150 billion trade deficit and the loss of 3.7 million US jobs over the first 17 years of the PRC's WTO membership, according to a 2020 Economic Policy Institute report.⁵ One-sided UK-China trade favouring Beijing led to a £39.2 billion deficit in just the four quarters leading up to the end of Q1 2022, at a time when the United Kingdom's economy was nearing "stagnation" and manufacturing output was at the lowest levels since the start of the COVID-19 pandemic.⁶

As world-wide supply chains faced ongoing strains during the global pandemic, the CCP further distorted markets, introducing a "dual circulation" economic strategy in its 14th Five-Year Plan (2021-2025), which promotes PRC economic self-sufficiency through the insulation of China's domestic market from the rest of the world.⁷ The CCP's economic plan aims to produce "controllable" supply chains and eliminate any influence the West and its partners may have over the PRC by increasing foreign commercial dependency on Chinese markets.⁸ The strategy's focus on both reducing China's reliance on imports and "establishing the domestic

³ 'Robert Zoellick's Responsible Stakeholder Speech', National Committee on US-China Relations, <https://www.ncusr.org/fact/robert-zoellicks-responsible-stakeholder-speech/>.

⁴ James Rodgers, et al., 'Breaking the China Supply Chain: How the "Five Eyes" can Decouple From Strategic Dependency', *The Henry Jackson Society*, May 2020, <https://henryjacksonsociety.org/wp-content/uploads/2020/05/Breaking-the-China-Chain.pdf>, p.47.

⁵ Robert E. Scott and Zane Mokhiber, 'Growing China trade deficit cost 3.7 million American jobs between 2001 and 2018: Jobs lost in every U.S. state and congressional district', Economic Policy Institute, 30 January 2020, <https://www.politico.com/f/?id=0000017c-c802-d8e1-a57c-c9ff162c0000>, pp.1-2.

⁶ 'Trade & Investments Factsheets: China', Department for International Trade, 20 September 2022, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1104447/china-trade-and-investment-factsheet-2022-09-20.pdf, p.4; David Goodman, 'UK Economy Nears Stagnation as Companies Report Slower Demand', *Bloomberg News*, 23 August 2022, <https://www.bloomberg.com/news/articles/2022-08-23/uk-economy-nears-stagnation-as-companies-report-slower-demand?sref=p8neHW1G>; Larry Elliott, 'Factories bearing the brunt of UK economic slowdown', *The Guardian*, 23 August 2022, <https://www.theguardian.com/business/2022/aug/23/factories-bearing-the-brunt-of-uk-economic-slowdown>.

⁷ Alicia García-Herrero, 'What is behind China's Dual Circulation Strategy?', *Bruegel*, 7 September 2021, <https://www.bruegel.org/report/what-behind-chinas-dual-circulation-strategy>.

⁸ 'China's "dual-circulation" strategy means relying less on foreigners', *The Economist*, 5 November 2020, <https://www.economist.com/china/2020/11/05/chinas-dual-circulation-strategy-means-relying-less-on-foreigners>.

market as the primary driver of economic development” threatens to increase pressure on global supply chains and reduce the level of foreign market exports to the PRC as well.⁹

1.2 Beijing's Market Economy with CCP Characteristics

Why Western nations have remained naïve on the risks of China's mercantilist-communist economic model for so long is unclear. As Long Yongtu, China's chief negotiator for WTO accession, stated: “When we promised to adopt a market economy, we made it absolutely clear that it would be a socialist market economy.”¹⁰ Prior to the 20th National Congress of the Chinese Communist Party, CCP General Secretary Xi Jinping doubled down on the PRC pursuing its own economic ideological path, writing in the CCP Central Committee's bi-monthly journal *Qiushi*: “many developing countries look at China with envy and want to learn about our governance experience. Socialism with Chinese characteristics has become the standard-bearer of the 21st Century socialist development.”¹¹

1.3 Great Power Competition

American Enterprise Institute senior fellow Hal Brands has described great power competition, in this case between the West (Washington, London and Brussels) and the CCP, as a geopolitical struggle over power and influence. Brands writes: “although US officials long hoped that Washington could avoid competition with China, the Communist government has been pursuing its ‘Chinese Dream’ at America's [and the UK's] expense.”¹²

The CCP's economic pursuit of a “rejuvenation of the Chinese nation” sparked, in part, a trade war between the US and China during the Trump Administration, due to what a former White House adviser deemed China's “seven deadly sins” (intellectual property theft, forced technology transfers, currency manipulation, dumping, market distorting subsidies to state-owned enterprises [SOEs], hacking, and the export of fentanyl).¹³ In retaliation, Beijing increased economic coercion, aimed at preventing the PRC's other trading partners from crossing “red lines” on political and security policies.

1.4 Beijing's Use of Economic Power for Political Leverage

China is using its economic power for political leverage, changing the balance of power in the Pacific. As noted by Max J. Zenglein, chief economist at Mercator Institute for China Studies (MERICS), Beijing “forces foreign firms to tiptoe around sensitive issues by fuelling the perception that their business interests are contingent on ‘correct’ behaviour.”¹⁴ The CCP has increasingly used this trade leverage in the Indo-Pacific, shaping commercial ties into a cudgel to wield over the heads of its regional economic partners. It is increasingly difficult for the United Kingdom and its allies to counter the CCP's hegemonic ambitions in the Indo-

⁹ ‘Will the Dual Circulation Strategy Enable China to Compete in a Post-Pandemic World?’, *China Power*, 15 December 2021, <https://chinapower.csis.org/china-covid-dual-circulation-economic-strategy/>.

¹⁰ Zeng Ziyi, ‘China joined the WTO 20 years on: From the man who negotiated it’, *CGTN*, 15 May 2021, <https://news.cgtn.com/news/2021-05-15/China-joined-the-WTO-20-years-on-From-the-man-who-negotiated-it-10hKq3QMHD2/index.html>.

¹¹ William Zheng, ‘Xi Jinping article gives insight into China's direction ahead of Communist Party congress’, *South China Morning Post*, 16 September 2022, <https://www.scmp.com/news/china/politics/article/3192677/xi-article-gives-insight-chinas-direction-ahead-party-congress>.

¹² Hal Brands, ‘America's War for Global Order Is a Marathon’, *Foreign Policy*, 25 January 2019, <https://foreignpolicy.com/2022/01/25/americas-war-for-global-order-is-a-marathon/>.

¹³ Zack Budryk, ‘Top aide: China must end ‘Seven Deadly Sins’ to stop trade war’, *The Hill*, 4 August 2019, <https://thehill.com/homenews/sunday-talk-shows/456092-top-aide-names-seven-deadly-sins-china-must-end-to-stop-trade-war/>.

¹⁴ Aya Adachi, Alexander Brown and Max J. Zenglein, ‘Fasten your seatbelts: How to manage China's economic coercion’, MERICS, 25 August 2022, <https://merics.org/en/report/fasten-your-seatbelts-how-manage-chinas-economic-coercion#msdynttrid=A2V4AkdqJ0p71X4aAwddd1bHa8QrW0VQWYaycdw-O2Y>.

Pacific, especially when Beijing can influence regional policymaking through the economic dependence that its mercantilist-communist model engenders, either via threats of export trade bans or by withholding imports originating from Chinese supply chains.

For example, China retaliated against Lithuania when its government sought closer ties with Taipei by not only banning Lithuanian imports, but halting exports to the Baltic country as well.¹⁵ Australia was also targeted by China with punitive economic measures on its agricultural products after Canberra suggested an independent inquiry into the origin of COVID-19.¹⁶ Japan, South Korea and the Philippines have all faced economic retribution for crossing the CCP's redlines. Whether these aggressive actions achieve anything is unclear.¹⁷ However, they send a signal that the CCP's economic power will be used coercively. Whether that use of coercive power is successful is questionable.

Beijing also uses its regional military dominance to manipulate global trade. It is not only Beijing's economic partners in the Indo-Pacific, but the entire global trading system that is coerced by CCP threats to the region's free and open air/sea trade routes, the potential for supply chain disruptions resulting from PRC People's Liberation Army (PLA) naval blockades and the potential of the CCP projecting force past the region's first island chain.¹⁸ Establishing PRC pre-dominance of the Indo-Pacific would require PLA control of the shipping routes throughout the first island chain, which contains Taiwan as the mid-point, as well as the Japanese archipelago and northern Philippines.¹⁹ A senior Chinese state economist has even suggested that the PRC would seize the Taiwan Semiconductor Manufacturing Company (TSMC) if the United States pre-emptively sanctioned China to prevent a PLA invasion of Taiwan.²⁰

1.5 Breaking the UK's Economic Dependence on China

Despite China's coercive behaviour, previous supply chain delays and the significant inflationary shocks resulting from COVID-19 market distortions, the United Kingdom has not thus far attempted to minimise, mitigate or even question its economic dependence on China. The PRC is currently the UK's third-largest trading partner.²¹ Whilst international trade should rightly be seen as welcome in very many cases, it remains questionable how mutually beneficial UK-China economic cooperation is. Inward Foreign Direct Investment (FDI) from the PRC to the UK accounted for only 0.2 percent of the United Kingdom's total FDI. Instead of broader investments in the United Kingdom's economy, Beijing, it has been argued, has been focused on acquiring key strategic assets in the UK, such as semiconductor manufacturer Newport Wafer

¹⁵ Andrew Higgins, 'In an Uneven Fight With China, a Tiny Country's Brand Becomes Toxic', *The New York Times*, 21 February 2022, <https://www.nytimes.com/2022/02/21/world/europe/china-lithuania-taiwan-trade.html>.

¹⁶ 'China to Halt Key Australian Imports in Sweeping Retaliation', *Bloomberg News*, 3 November 2020, <https://www.bloomberg.com/news/articles/2020-11-03/china-to-halt-key-australian-commodity-imports-as-tensions-mount?sref=p8neHW1G&leadSource=uverify%20wall>.

¹⁷ Keith Bradsher, 'Amid Tension, China Blocks Vital Exports to Japan', *The New York Times*, 22 September 2010, <https://www.nytimes.com/2010/09/23/business/global/23rare.html>; Michael Holtz, 'China gets testier as South Korea advances its missile defence plans', *The Christian Science Monitor*, 8 February 2017, <https://www.csmonitor.com/World/Asia-Pacific/2017/0208/China-gets-testier-as-South-Korea-advances-its-missile-defense-plans>; Andrew Higgins, 'In Philippines, banana growers feel effect of South China Sea dispute', *The Washington Post*, 10 June 2012, https://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html.

¹⁸ Darren Spinck, 'Securing the Strait: Engaging Taiwan in the UK's Indo-Pacific Tilt', *The Henry Jackson Society*, 13 July 2022, <https://henryjacksonsociety.org/publications/securing-the-strait-engaging-taiwan-in-the-uks-indo-pacific-tilt/>, p.10.

¹⁹ Joshua Espana and Chelsea Bompig, 'The Taiwan Frontier and the Chinese Dominance for the Second Island Chain', *Australian Institute of International Affairs*, 13 August 2020, <https://www.internationalaffairs.org.au/australianoutlook/taiwan-frontier-chinese-dominance-for-second-island-chain/>.

²⁰ 'Top Economist Urges China to Seize TSMC If US Ramps Up Sanctions', *Bloomberg News*, 7 June 2022, <https://www.bloomberg.com/news/articles/2022-06-07/top-economist-urges-china-to-seize-tsmc-if-us-ramps-up-sanctions#xj4y7vzkg>.

²¹ 'Trade & Investments Factsheets: China', Department for International Trade.

Fab, vision sensing intellectual property technology from the University of Manchester, and electronic design company Pulsic.²² As former UK diplomat Charles Parton observed, “[China] doesn’t invest because it likes the colour of our eyes. It does it with very specific reasons [and] will continue to invest... our job is to see if that investment continues to suit our interests.”²³

There is little reason for optimism that the CCP will de-escalate its ideological competition with the West any time soon and either initiate necessary reforms to prevent market distortions which give the PRC an unfair advantage in global trade or stop weaponizing PRC economic policies. It is fair to say the Chinese Communist Party’s word has not been its bond; the ending of the “one country, two systems policy” in Hong Kong is evidence of that.²⁴ Most recently, the PRC’s “military operations” in the Taiwan Strait, which then Foreign Minister Liz Truss called “inflammatory”, risked an escalation of regional hostilities which could have caused chaos to global supply chains.²⁵

We suggest that the UK Government shape economic policy toward accepting a gradual economic decoupling with the PRC and work to attract Pacific and global trading partners with similar national interests, including fair trade, an emphasis on private sector economic growth and a desire for increased market access. Furthermore, UK economic policies should balance the need to re-shore supply chains and reinvigorate domestic manufacturing, while strengthening ties with Indo-Pacific partners to minimise the PRC’s ability to exert regional economic leverage which may then impact UK and Indo-Pacific national security interests.

Former Pentagon official Elbridge Colby developed a defence strategy aimed at denying China’s hegemonic objectives in the Indo-Pacific, primarily through military modernisation, a bold regional forward posture, and engaging US regional allies.²⁶ As the CCP’s hopes for hegemonic predominance in the Indo-Pacific are not only military and political, but trade and investment focused as well, Colby subsequently suggested an economic strategy was necessary to “sustain the anti-hegemonic coalition and frustrate China’s focused and sequential strategy”.²⁷ The UK’s economic policy in the Indo-Pacific should aim to deny China’s economic hegemony with regional partners sharing the same interests and economic objectives.

1.6 Geopolitical Realities and the UK’s Indo-Pacific Economic Policy

The UK’s Indo-Pacific economic policy must also take geopolitical concerns into consideration, including the ongoing war in Ukraine, the rising tensions in the Taiwan Strait, and the US mid-term elections, which may shape the strategy of transatlantic partners toward both Beijing and Moscow.

²² Jim Pickard, ‘Kwasi Kwarteng warned on China takeover of UK semiconductor plant’, *The Financial Times*, 18 May 2022, <https://www.ft.com/content/09b01ef4-d705-4978-a8e6-174b0b30dcb1>; *Reuters*, ‘UK Blocks Chinese Company From Acquiring Knowledge on Vision Sensing Technology’, *US News*, 20 July 2022, <https://www.usnews.com/news/technology/articles/2022-07-20/uk-blocks-chinese-company-from-acquiring-knowledge-on-vision-sensing-technology>; Joanna Partridge, ‘Kwarteng blocks takeover of Pulsic by Hong Kong rival over security concerns’, *The Guardian*, 18 August 2022, <https://www.theguardian.com/business/2022/aug/18/kwasi-kwarteng-blocks-takeover-of-pulsic-by-hong-kong-rival-over-security-concerns>.

²³ ‘New British Prime Minister Liz Truss brings tougher UK stance on China’, *Reuters/CNBC*, 6 September 2022, <https://www.cnbc.com/2022/09/07/new-british-prime-minister-liz-truss-brings-tougher-uk-stance-on-china.html>.

²⁴ ‘The end of one country, two systems in Hong Kong’, *The Financial Times*, 1 July 2020, <https://www.ft.com/content/5d3d7d2e-bba8-11ea-a05d-efc604854c3f>.

²⁵ Aubrey Allegretti, ‘Truss hits out at China’s “inflammatory” reaction to Pelosi’s Taiwan visit’, *The Guardian*, 3 August 2022, <https://www.theguardian.com/politics/2022/aug/03/liz-truss-china-nancy-pelosi-taiwan-visit>.

²⁶ Elbridge Colby and Walter Slocombe, ‘The state of (deterrence by) denial’, *War on the Rocks*, 22 March 2021, <https://warontherocks.com/2021/03/the-state-of-deterrence-by-denial/>.

²⁷ Elbridge Colby (@ElbridgeColby), *Twitter*, “You know what would be really useful? An economic analog to The Strategy of Denial”, 10 June 2022, 4.43pm, <https://twitter.com/ElbridgeColby/status/1535271326801440771>.

The US and UK will continue to value the “special relationship” and maintain solidarity on most geopolitical issues. However, winds of change resulting from shifting American voter sentiment and the results of the US elections to determine the control of the Senate and House of Representatives may impact decision-making at Whitehall.

There are clear indications that US voters are favouring policies that focus on improving America’s economy and are shifting their views on the importance of defending Ukraine and Taiwan. A September Morning Consult poll found 78 percent of American voters believe the economy is “very important” when voting in the 2022 mid-term elections.²⁸ Only 29 percent of those polled considered Russia’s invasion of Ukraine a “very important” issue, down from a high of 57 percent on March 26, one month after the Kremlin-ordered attack.

Meanwhile, a 2022 poll of likely US voters taken prior to Russia’s invasion of Ukraine found 58.1 percent believed the Biden Administration “should use US military assets to defend Taiwan if Taiwan is invaded by China”.²⁹ A separate poll of US adults in August 2022 reported 78 percent of those polled believed tensions between China and Taiwan were a very serious or somewhat serious problem for the United States.³⁰

Most pollsters project the Republicans will control the House of Representatives after election day, while Democrats are expected to maintain their leadership of the US Senate.³¹ As the US House of Representatives holds the “power of the purse” through taxation and government spending, the White House may be under pressure to rein in its domestic and foreign policy spending. The White House may therefore feel increasing pressure to limit funding in Ukraine, where US commitments total \$54 billion, should economic nationalist Republican House members reject further aid packages for Kyiv.³²

While the Biden Administration had hoped to re-establish US global leadership following America’s chaotic withdrawal from Afghanistan in 2021, economic and political considerations will make this increasingly difficult. A divided government following the US mid-term elections, in which the Republicans control one or both chambers of Congress, may pressure the Biden Administration to adopt more pragmatic economic policies to avoid a Republican sweep of both the White House and Congress in 2024.

The UK Government’s future China Strategy should address four key Indo-Pacific economic objectives. First, the Government should buttress itself better from China’s mercantilist-communist policies to minimise current and future economic dependence on Beijing. Second, London should do more to prevent the CCP from acquiring the strategic assets of the United Kingdom and its partners through forced technology transfer or intellectual property theft. Third, the United Kingdom should seek to increase economic ties with partners who share the UK’s economic and national security interests, through encouraging “friend-shoring” supply chains away from Beijing. Fourth, the Government should prioritise securing energy and rare earths supply chains and infrastructure, and ensure Beijing is unable to exert leverage on the United Kingdom or its partners and subsequently disrupt global markets in these key sectors.

²⁸ ‘The Top Issues Driving Voters’ Decisions for the 2022 Midterm Elections’, Midterm Tracker, *Morning Consult*, last updated 20 September 2022, <https://morningconsult.com/2022-midterm-elections-tracker/>.

²⁹ Sean Salai, ‘Poll: Most voters support U.S. military defense of Taiwan, but not Ukraine’, *The Washington Times*, 21 January 2022, <https://www.washingtontimes.com/news/2022/jan/21/poll-most-voters-support-us-military-defense-taiwa/>.

³⁰ Laura Silver, ‘Fast facts about Americans’ views of China-Taiwan tensions’, Pew Research Center, 1 August 2022, <https://www.pewresearch.org/fact-tank/2022/08/01/fast-facts-about-americans-views-of-china-taiwan-tensions/>.

³¹ ‘Republicans are *slightly favored* to win the House’, *FiveThirtyEight* 2022, 30 September 2022, <https://projects.fivethirtyeight.com/2022-election-forecast/house/>; ‘The Democrats are likely to keep their majority in the Senate’, *The Economist*, 30 September 2022, <https://www.economist.com/interactive/us-midterms-2022/forecast/senate>.

³² Bianca Pallaro and Alicia Parlapiano, ‘Four Ways to Understand the \$54 Billion in U.S. Spending on Ukraine’, *The New York Times*, 20 May 2022, <https://www.nytimes.com/interactive/2022/05/20/upshot/ukraine-us-aid-size.html>.

2. Fair Market Economic Policies

2.1 Beijing's Mercantilist-Communist Economic Model

The PRC's mercantilist-communist economic model helps it pursue both economic and political hegemony in the Indo-Pacific, in some part through market distorting policies. Through the social system that the CCP hopes to export throughout the Indo-Pacific and elsewhere, Beijing gains a technological advantage through forced technology transfers, intellectual property theft and the PRC's industrial policy. The CCP funds its industrial policy through lop-sided trade surpluses that favour Beijing, and subsidises state-owned enterprises (SEOs) and publicly financed infrastructure development initiatives which further maximise PRC economic power and create economic dependence from China's commercial partners. While the PRC's large and inexpensive labour force remains alluring to many, the United Kingdom should consider deepening commercial ties in the Indo-Pacific with other states by offering an alternative to the CCP and increasing "stakeholder capitalism" in the West.³³

2.2 Ideational Competition: Fair Market Economic Policies

First and foremost, an economic strategy to counter the CCP's hegemonic ambitions in the Indo-Pacific requires policies which strengthen the British economy.

In relation to the Indo-Pacific, these economic policies must make greater UK trade links more attractive for the United Kingdom's regional commercial partners. The Indo-Pacific accounts for 50 percent of global maritime trade and 63 percent of the world's GDP.³⁴ The UK's policy objectives should aim to make increased economic ties with the United Kingdom more attractive for Indo-Pacific partners, while limiting Beijing from using regional economic dependence as an economic weapon to wield over the region.

³³ Andrew Edgecliffe-Johnson, 'The war on "woke capitalism"', *The Financial Times*, 27 May 2022, <https://www.ft.com/content/e4a818e5-4039-46d9-abe0-b703f33d0f9b>.

³⁴ Soumya Bhowmick, 'The Indo-Pacific economics: Inextricable Chinese linkages and Indian challenges', Observer Research Foundation, 8 December 2021, <https://www.orfonline.org/expert-speak/the-indo-pacific-economics-inextricable-chinese-linkages-and-indian-challenges/>.

3. China's Seven Deadly Trade Sins

3.1 China and the WTO

Then Foreign Minister Truss stated during her April 2022 Mansion House speech, “Countries must play by the rules. And that includes China.”³⁵ If the United Kingdom, with its partners, hopes to reduce trade dependency between Beijing and its commercial partners in the Indo-Pacific and counter PRC hegemonic aspirations, UK officials need to be much clearer about those market distortions which give Beijing an unfair economic advantage.

First, the PRC should be held accountable by the WTO for these distortions. Remarkably, the WTO still classifies the PRC – the world’s second largest economy – as a developing nation. Classification of China as a developing nation allows the WTO to offer special provisions to the PRC, including longer time periods for implementing agreements, measures to increase trading with developed nations, provisions requiring developed nations to “safeguard” the trade interests of developing nations, and support to implement technical standards and handle disputes.³⁶

This has created a grossly uneven playing field which allows the PRC to gain a competitive advantage, even within the rule-based trading system. As noted in the “Breaking the China Supply Chain” report, “The WTO needs reform, and with it, a change in China’s role to that of a developed nation.”³⁷ The Secretary of State for International Trade should prioritise international trade regime reform related to China and form a working group with the other largest donors to the WTO secretariat: the United States, Japan, Germany and France.

3.2 Countering CCP Market Distortions: Analysis and Messaging

Immediately after the Conservative Party leadership contest concluded in September, the civil service announced it was hiring a “Hostile Activity and Investment Security Analyst” responsible for writing intelligence briefings for the Prime Minister and “tapping into the wider China Strategy approach”.³⁸ As part of its remit, the post should advise the Prime Minister and the trade minister on ongoing CCP economic distortions which impact not only the UK’s commercial interests, but those of the United Kingdom’s partners in the Indo-Pacific.

This special adviser should specifically focus the UK’s messaging strategy on highlighting the PRC’s inequitable trade practices. A model to fashion UK messaging on is the previous US White House’s branding of China’s trade distortions as the seven deadly sins: intellectual property theft, forced technology transfers, hacking, dumping, subsidies, fentanyl exports, and currency manipulation.³⁹

3.3.1 PRC Intellectual Property Theft

The cost of intellectual property theft in the United States, including stolen trade secrets, pirated software and counterfeiting, is estimated to be as high as \$600 billion annually, according to

³⁵ Andy Bruce, ‘Britain’s Truss tells China its rise depends on playing by the rules’, *Reuters*, 28 April 2022, <https://www.reuters.com/world/uks-truss-tells-china-its-rise-depends-playing-by-rules-2022-04-27/>.

³⁶ ‘Special and differential treatment provisions’, Development: Trade and Development Committee, WTO, https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm.

³⁷ Rodgers, et al., ‘Breaking the China Supply Chain’, p.48.

³⁸ Sam Hogg (@EditorBTB), ‘NEW The British Government’s Joint Intelligence Organisation is hiring a new China “Hostile Activity and Investment Security” analyst’, *Twitter*, 5 September 2022, 10.19am, <https://twitter.com/EditorBTB/status/1566702663533740038?s=20&t=34ON2MQCVa6uLlob0Yt-WQ>.

³⁹ Budryk, ‘China must end ‘Seven Deadly Sins’.

the Commission on the Theft of American Intellectual Property.⁴⁰ It is reported that 80 percent of US Department of Justice economic espionage prosecutions have a nexus to the PRC.⁴¹ According to Mark Cohen, a former senior counsel for the US Patent and Trademark Office, despite some limited progress on combatting intellectual property theft following the US-China Phase-One trade deal, the PRC still needs to focus greater effort on reforms to “antitrust enforcement, regulatory data protection for pharmaceuticals, and overall improvements to the civil IP system.”⁴²

3.3.2 Forced Technology Transfers

The US-China Economic and Security Review Commission details six methods the CCP facilitates to force technology transfers to the PRC. These are important to note as they apply to the UK as well.

First, China facilitates forced technology transfers through foreign direct investment (FDI) which provides China with control of the acquired company’s technology and intellectual property.⁴³ Second, Chinese venture capital investments focus on acquisitions of start-ups in Silicon Valley (and similar technology hubs), including dual-use technologies. Third, joint ventures are required for non-Chinese companies to invest in the PRC, giving the controlling Chinese partner access to the company’s intellectual property. Fourth, “licensing approval processes in China are often unclear and arduous, requiring companies to disclose sensitive information typically not required in other markets.”⁴⁴ Fifth, cyber espionage gives the PRC unauthorised access to trade secrets and technology and sixth, via talent acquisitions, when the PRC sends students and researchers abroad to study at universities and research institutions, including the UK.

3.3.3 Hacking

US and UK intelligence services are working cooperatively to combat Chinese hacking, with FBI director Christopher Wray warning, “[The CCP] identify key technologies needed to dominate markets, like the ones they highlight in their ‘Made in China 2025’ plan. Then, they throw every tool in their arsenal at stealing those technologies – causing deep, job-destroying damage across a wide range of industries...”⁴⁵ MI5 head Ken McCallum indicated that the US and UK are sharing intelligence with 37 countries.⁴⁶ These nations should be our partners in a global alliance of free-trading, fair trading states.

3.3.4 Dumping

Overcapacity in China has all too often resulted in the PRC dumping large quantities of products in foreign markets, particularly steel and aluminium. While tariffs and quotas

⁴⁰ ‘Update to the IP Commission Report: The Theft of American Intellectual Property: Reassessments of the Challenge and United States Policy’, on behalf of the Commission on the Theft of American Intellectual Property by The National Bureau of Asian Research, February 2017, https://www.nbr.org/wp-content/uploads/pdfs/publications/IP_Commission_Report_Update.pdf, p.1.

⁴¹ ‘America is struggling to counter China’s intellectual property theft’, *The Financial Times*, 18 April 2022, <https://www.ft.com/content/1d13ab71-bffd-4d63-a0bf-9e9bdfc33c39>.

⁴² Mark Cohen, ‘U.S.-China Intellectual Property Issues in a Post-Phase-One Era’, interviewed by Victoria Huang, National Bureau of Asian Research, 29 January 2022, <https://www.nbr.org/publication/u-s-china-intellectual-property-issues-in-a-post-phase-one-era/>.

⁴³ Sean O’Connor, ‘How Chinese Companies Facilitate Technology Transfer from the United States’, U.S.-China Economic and Security Review Commission, 6 May 2019, <https://www.uscc.gov/sites/default/files/Research/How%20Chinese%20Companies%20Facilitate%20Tech%20Transfer%20from%20the%20US.pdf>, p.1.

⁴⁴ Ibid.

⁴⁵ Max Colchester, ‘Heads of FBI, MI5 Issue Joint Warning on Chinese Spying’, *The Wall Street Journal*, 6 July 2022, <https://www.wsj.com/articles/heads-of-fbi-mi5-issue-joint-warning-on-chinese-spying-11657123280>.

⁴⁶ ‘FBI and MI5 leaders give unprecedented joint warning on Chinese spying’, *The Guardian*, 7 July 2022, <https://www.theguardian.com/world/2022/jul/06/fbi-mi5-china-spying-cyberattacks-business-economy/>; Ken McCallum and Chris Wray, ‘Joint Address by MI5 and FBI heads’, 6 July 2022, MI5, <https://www.mi5.gov.uk/news/speech-by-mi5-and-fbi>.

sometimes prevent China from flooding import markets with dumped goods, the United Kingdom has initiated anti-dumping measures on China for dumped steel. The UK's Trade Remedies Authority (TRA), which has enacted protective measures against Chinese steel since 2016, has proposed re-opening the UK market because the Ukraine war has created a global steel shortage.⁴⁷ Reimporting Chinese steel when the United Kingdom is pivoting toward policies which limit dependence on the PRC economy threatens to damage the UK's ability to implement a reformed economic strategy in the Indo-Pacific.

3.3.5 Subsidies

Subsidies to Chinese state-owned enterprises accounted for 1.7 percent of China's GDP in 2019.⁴⁸ While it should be assumed that the level of subsidies as a percentage of GDP has likely decreased since, due to the COVID-19 pandemic, the ensuing global economic crisis and a continued Zero-COVID policy in China, this percentage eclipsed the combined industrial spending (as a percentage of GDP) in 2019 of the United States (0.39 percent), South Korea (0.67 percent) and Japan (0.50 percent).⁴⁹

3.3.6 Fentanyl Exports

America's Office of National Drug Control Policy (ONDCP) estimates 100,000 Americans died due to fentanyl overdoses over the past year.⁵⁰ The US Drug Enforcement Administration (DEA) reported in 2020, "China remains the primary source of fentanyl and fentanyl-related substances trafficked through international mail and express consignment operations environment, as well as the main source for all fentanyl-related substances trafficked into the United States."⁵¹ Despite the scourge of China-originated fentanyl killing Americans, Beijing suspended all cooperation with the United States on combatting fentanyl trafficking following US Speaker of the House Nancy Pelosi's visit to Taiwan in August.⁵²

3.3.7 Currency Manipulation

During the trade war between China and the United States, the US Treasury Department officially designated the PRC a currency manipulator and levied additional tariffs on Chinese imports when Beijing allowed the renminbi to weaken to under seven to the dollar in 2019.⁵³ While the designation on China was removed at the end of the Trump Administration, the Biden Treasury Department noted that China is being closely monitored due to the PRC's "failure to publish foreign exchange intervention and broader lack of transparency around key features of its exchange rate mechanism."⁵⁴

⁴⁷ Alistair Smout, 'Britain proposes dropping anti-dumping measures against Chinese steel', *Reuters*, 13 July 2022, <https://www.reuters.com/markets/commodities/britain-proposes-dropping-anti-dumping-measures-against-chinese-steel-2022-07-12/>.

⁴⁸ Rob Garver, 'Report: China Spends Billions of Dollars to Subsidize Favored Companies', *VOA News*, 24 May 2022, <https://www.voanews.com/a/report-china-spends-billions-of-dollars-to-subsidize-favored-companies-/6587314.html>.

⁴⁹ Gerard DiPippo, Ilaria Mazzocco and Scott Kennedy, 'Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective', Center for Strategic & International Studies, May 2022, https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/220523_DiPippo_Red_Ink.pdf?LH8ILLKwz4o.bjrwNS7csuX_C04FyEre, p.30.

⁵⁰ Michael Martina, 'U.S. slams China's "unacceptable" disruption in countering fentanyl', *Reuters*, 8 August 2022, <https://www.reuters.com/world/asia-pacific/us-slams-chinas-unacceptable-disruption-countering-fentanyl-2022-08-08/>.

⁵¹ 'Fentanyl Flow to the United States', DEA Intelligence Report, U.S. Drug Enforcement Administration, January 2020, https://www.dea.gov/sites/default/files/2020-03/DEA_GOV_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States_0.pdf, p.2.

⁵² Martina, 'U.S. slams China's "unacceptable" disruption'.

⁵³ Demetri Sevastopulo and Colby Smith, 'US Treasury officially labels China a currency manipulator', *The Financial Times*, 6 August 2019, <https://www.ft.com/content/9d24c1ca-b7cd-11e9-96bd-8e884d3ea203>.

⁵⁴ 'Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States', Report to Congress, U.S. Department of the Treasury, June 2022, https://home.treasury.gov/system/files/136/FINAL_Spring_2022_FXR.pdf, p.5.

4. Industrial Policy

4.1 Adopting Industrial Policy to End Economic Dependence on China

A gradual diversification of supply chains and limiting economic dependence on China will require the United Kingdom to encourage both 're-shoring' and on-shoring its industrial and wider economic base. Diversifying supply chains and limiting economic dependence on China may also require the United Kingdom and its partners to consider implementing some industrial policies, including subsidies, research and development funding, trade protection, and tax credits to favoured commercial sectors.

4.2 Embracing Innovation through the ARIA

The United Kingdom could look to model its industrial policy – or take inspiration at least – on the success of the US Defense Advanced Research Projects Agency (DARPA), increasing funding for the UK's equivalent, the Advanced Research and Invention Agency (ARIA). An example of DARPA research and development (R&D) was a wave of US-based semiconductor innovation from 1987–1997 which used \$870 million in federal funds to support research by 14 US chipmakers. According to the Peterson Institute for International Economics (PIIE), DARPA funds for R&D led to a peak of 292,000 semiconductor jobs in 2001, following the ten years of DARPA funding, up from 210,000 in 1993.⁵⁵ The United States hopes to replicate past success in the US semiconductor industry with its recent \$52 billion re-investment in the US sector.⁵⁶

In addition to the success of DARPA, which has benefitted the US semiconductor sector as well as other industries (stealth technology, microelectronics, computing and communications, intelligence / surveillance / reconnaissance, position / navigation / timing, unmanned aerial vehicles, and infrared night imaging), PIIE reports that industrial policy has helped US industry (specifically automobile assembly, vaccination production, advanced technology vehicles and semiconductors) become more competitive, advance technologies and create jobs.⁵⁷

4.3 Funding R&D

Besides increasing ARIA funding for high-technology initiatives, some initiatives outlined in the 2017 Industrial Strategy, which was replaced in 2021 by Build Back Better, are worth revisiting. These include an ambitious increase in R&D, then proposed to match China's funding as a percentage of GDP (proposed 2.4 percent of GDP for the UK, compared to China's actual 2.44 percent of GDP in 2021).⁵⁸ Then business secretary Kwasi Kwarteng proposed public investment to £22 billion, although total allotments would need to be closer to £46 billion to

⁵⁵ Gary Clyde Hufbauer and Euijin Jung, 'DARPA made US chip industry more competitive and triggered an employment boom', Peterson Institute for International Economics, 11 November 2021, <https://www.piie.com/research/piie-charts/darpa-made-us-chip-industry-more-competitive-and-triggered-employment-boom>.

⁵⁶ Jane Lanhee Lee, 'U.S. Congress passage of subsidies prompts chip makers to move on projects', *Reuters*, 28 July 2022, <https://www.reuters.com/technology/us-congress-passage-subsidies-prompts-chip-makers-move-projects-2022-07-28/>.

⁵⁷ 'DARPA Accomplishments: Seminal Contributions to National Security', Distribution Statement A, DARPA, October 2015, <https://www.darpa.mil/attachments/DARPAAccomplishmentsSeminalContributionsToNationalSecurity.pdf>; Gary Clyde Hufbauer and Euijin Jung, 'Lessons learned from half a century of US industrial policy', Peterson Institute for International Economics, 29 November 2021, <https://www.piie.com/blogs/realtime-economic-issues-watch/lessons-learned-half-century-us-industrial-policy>.

⁵⁸ 'Industrial Strategy: the 5 foundations', Policy Paper, Department for Business, Energy & Industrial Strategy, GOV.UK, 27 November 2017, <https://www.gov.uk/government/publications/industrial-strategy-the-foundations/industrial-strategy-the-5-foundations>; 'China's spending on R&D reaches new high in 2021', The State Council, The People's Republic of China, ENGLISH.GOV.CN, last updated 26 January 2022, http://english.www.gov.cn/archive/statistics/202201/26/content_WS61f0de8cc6d09c94e48a44d1.html.

match China by percentage of GDP.⁵⁹ It is worth noting that the UK Government has been historically bad at picking so-called national champions.

Competing with the PRC will require an industrial policy which provides greater tax credits to UK corporations for R&D. The UK's tax credit for research and development has been 13 percent, up from 12 percent since 2020.⁶⁰ China, at 75 percent for small and medium enterprises and 100 percent for manufacturing companies, far surpasses the UK and US, which are below the Organisation for Economic Co-operation and Development (OECD) calculated median for R&D tax credits.⁶¹

Productive competition with China on the world stage, however, will require a far higher tax credit which will likely necessitate budgetary sacrifices elsewhere. Reshoring supply chains to the UK and breaking dependence on China will also require additional funding for retraining and education in STEM (science, technology, engineering and mathematics).

⁵⁹ 'UK Innovation Strategy: Leading the future by creating it', Department for Business, Energy, & Industrial Strategy, July 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009577/uk-innovation-strategy.pdf, p.6.

⁶⁰ 'Claiming Research and Development tax reliefs', HM Revenue & Customs, last updated 20 March 2020, <https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>.

⁶¹ 'R&D Tax Incentives: China, 2021', Directorate for Science, Technology and Innovation, OECD, 2021, <https://www.oecd.org/sti/rd-tax-stats-china.pdf>; 'R&D Tax Incentives: United States, 2021', Directorate for Science, Technology and Innovation, OECD, 2021, <https://www.oecd.org/sti/rd-tax-stats-united-states.pdf>.

5. International Infrastructure Development

5.1 G7 Partnership for Global Infrastructure and Investment

The G7's Partnership for Global Infrastructure and Investment is, theoretically, a potential counterbalance for China's Belt and Road Initiative (BRI) plans in the Indo-Pacific. Announced in June 2022, the G7's plan aims "to mobilize \$600 billion by 2027 in global infrastructure investments".⁶² However, questions have been raised over its viability as the \$600 billion G7 infrastructure plan will rely on public funding from financially strained G7 governments and seek additional funding from "like-minded partners, multilateral development banks, development finance institutions, sovereign wealth funds, and more".⁶³

5.2 Modelling International Infrastructure Development on the Blue Dot Network

An alternative model could be the Blue Dot Network (BDN), a collaboration founded in 2019, ostensibly to maintain then Japanese Prime Minister Shinzo Abe's vision of a free and open Indo-Pacific. Comprised of the US Development Finance Corporation (DFC), Australia's Department of Foreign Affairs and Trade (DFAT) and the Japanese Bank for International Cooperation (JBIC), BDN aims to certify infrastructure development projects as meeting "international quality standards" to attract private sources of funding.⁶⁴ BDN is collaborating with the OECD to develop certification standards based on the G20's Principles for Quality Infrastructure Investment, the G7 Charlevoix Commitment on Innovative Financing for Development, the Equator Principles, and the OECD Guidelines for Multinational Enterprises.⁶⁵

Whether via the G7 or another development finance platform, British International Investment (BII) should prioritize efforts to re-engage private investment for Indo-Pacific infrastructure initiatives.

As recommended by the Henry Jackson Society previously, the UK Government could also support options for funding international infrastructure development through other financial vehicles such as pension funds.⁶⁶ Just a two percent investment from the UK's £761 billion in private pension funds would equal 29 percent of Beijing's estimated 2021 US\$59.5 billion BRI budget.⁶⁷ Alternatively, the UK Government could work with partners in the Indo-Pacific with large foreign currency reserves and encourage investments into regional infrastructure. For example, Taiwan held US\$549 billion in foreign currency as of December 2021, the fifth largest reserve in the world.

5.3 Countering the CCP's Hegemonic Aspirations through Pragmatism

Finally, the G7's infrastructure initiative must be based on pragmatism. If the G7 is serious about competing for influence with China as a potential suitor for regional partners, it must

⁶² 'Fact Sheet: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment', The Briefing Room, The White House, 26 June 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/26/fact-sheet-president-biden-and-g7-leaders-formally-launch-the-partnership-for-global-infrastructure-and-investment/>.

⁶³ Ibid.

⁶⁴ 'Blue Dot Network', U.S. Department of State, <https://www.state.gov/blue-dot-network/>.

⁶⁵ 'OECD and Blue Dot Network', OECD, <https://www.oecd.org/corporate/oecd-and-the-blue-dot-network.htm>.

⁶⁶ Spinck, 'Securing the Strait'.

⁶⁷ 'Funded occupational pension schemes in the UK: July to September 2021', Office for National Statistics, 24 March 2022, <https://www.ons.gov.uk/economy/investmentpensionsandtrusts/bulletins/fundedoccupationalpensionschemesintheuk/july2021toseptember2021>; Christoph Nedopil Wang, 'Brief: China Belt and Road Initiative (BRI) Investment Report 2021', *Green Finance and Development Center*, 2 February 2022, <https://greenfdc.org/brief-china-belt-and-road-initiative-bri-investment-report-2021/>.

provide partners with hard infrastructure and energy solutions. This includes financing potential regional pipelines for natural gas, regasification for liquefied natural gas (LNG) imports, and tankers for shipping LNG.

The United Kingdom and its partners will compete not only with Beijing's BRI, but the PRC's Global Security Initiative (GSI) as well, which, while vaguely detailed, includes "maintaining security in traditional and non-traditional domains" amongst the platform's six pillars.⁶⁸ The GSI could, theoretically, include development for dual-use airports or ports, which would be attractive to Indo-Pacific partners for commercial use, but available to Beijing for military mobilisation if needed. As Beijing initially targeted the oft-forgotten region of Oceania with the GSI, this seems to signify the PRC's intention to significantly widen its military footprint.

⁶⁸ Carla Freeman and Alex Stephenson, 'How Should the U.S. Respond to China's "Global Security Initiative"?', United States Institute of Peace, 4 August 2022, <https://www.usip.org/publications/2022/08/how-should-us-respond-chinas-global-security-initiative>.

6. Supply Chain Reform

6.1 “Friend-Shoring” Supply Chains with Commonwealth Partners

As outlined, the new Government must prioritise policies aimed at lessening future economic dependence on the PRC.

The UK’s Indo-Pacific tilt will be significantly more likely to succeed through increasing economic ties with regional partners who share our values and interests, namely the Commonwealth, as well as Japan. In addition to the United Kingdom, seven Commonwealth members from the Indo-Pacific are amongst the world’s 50 largest economies. Cooperative decoupling amongst the United Kingdom and partners, or “friend-shoring”, must first determine which partners have the capacity to “re-shore” supply chains to end the existing economic dependency on China. The UK should determine which potential commercial partners have the capacity to act independently of China and analyse trends in certain countries, including many Commonwealth states, of growing Chinese economic dependency. There is also the ability of the CCP to shape public opinion in these states. Malaysia, a key ally, is in a precarious political position, with Chinese-language disinformation campaigns prevalent.⁶⁹ Here, cooperation with Taiwan would be welcome, sharing awareness and skills with Kuala Lumpur to push back against the CCP’s influence efforts.

Cooperating Commonwealth members and other Indo-Pacific partners with shared interests could then develop a framework to improve market access, reduce trade and investment barriers, reduce tariffs, and agree on subsidies. This economic cooperation pact would develop a plan to limit PRC investment, through review of each partner’s investment review mechanism.

6.2 AUKUS and Securing Rare Earth Reserves

The United Kingdom can also lead efforts to secure the defence sector’s rare earths supply chain through AUKUS. With 17 trilateral working groups (eight dedicated to advanced military capabilities other than nuclear-powered submarines), AUKUS members can work cooperatively with other Indo-Pacific partners to secure supplies of rare earths used by the defence sector, including beryllium, cerium, cobalt, dysprosium, erbium, europium, gadolinium, graphite, holmium, lanthanum, lithium, lutetium, manganese, neodymium, praseodymium, promethium, samarium, scandium, tantalum, terbium, tungsten, ytterbium, and yttrium.⁷⁰ US Senators Tom Cotton (R-AR) and Mark Kelly (D-AZ) have proposed creating a strategic reserve of rare-earth elements and requiring a country of origin disclosure for any rare earths used by defence contractors.⁷¹ The United Kingdom and Australia should cooperate with the US on developing an AUKUS strategic reserve and developing facilities for rare earth separation in the Indo-Pacific, as well as in Central and Eastern Europe where rare earth processing facilities would likely flourish and diversified commodities supply chains are needed.

6.3 Securing Emerging Technologies

There is more to be done to protect intellectual property for the “Essential Eight” emerging technologies (artificial intelligence, augmented reality, blockchain, drones, Internet of Things,

⁶⁹ BC Han and Benjamin Loh, ‘Beijing’s Global Media Influence 2022: Malaysia’, *Freedom House*, September 2022, <https://freedomhouse.org/country/malaysia/beijings-global-media-influence/2022>.

⁷⁰ U.S. Congress, Senate, *Restoring Essential Energy and Security Holdings Onshore for Rare Earths Act of 2022*, S. 3530. 117th Cong., 2nd sess., Introduced in Senate, 20 January 2022, <https://www.cotton.senate.gov/imo/media/doc/reeshore.pdf>.

⁷¹ ‘Cotton, Kelly Introduce Bill to End Reliance On China for Rare-Earth Elements’, Press Release, Tom Cotton: Senator for Arkansas, 14 January 2022, <https://www.cotton.senate.gov/news/press-releases/cotton-kelly-introduce-bill-to-end-reliance-on-china-for-rare-earth-elements>.

robotics, 3D printing and virtual reality), many of which are used by the UK's strategic competitors to advance military aggression and surveil political and human rights advocates.⁷² Furthermore, the UK and its trading partners and allies must ensure strategic sectors, such as semiconductors, are not used as leverage to force the West into unwanted geopolitical concessions. The US-initiated "Chip 4" alliance, consisting of America, Japan, South Korea and Taiwan, is a good theoretical model for developing policies to secure key supply chains.⁷³ However, South Korea has expressed concern to Washington officials that competitive balance amongst leading chip manufacturers is at risk since technology sharing is required.

As referenced in a May 2019 Henry Jackson Society report, "Defending our Data: Huawei, 5G and the Five Eyes", high-risk vendors must continue to be blocked from developing the UK's and its partners' advanced communications infrastructure.⁷⁴ In addition, the United Kingdom, along with Five Eyes partners Australia and New Zealand, must work on a risk assessment system for the Indo-Pacific which considers technical, societal and interference risks. This system can include certifying vendors for communications infrastructure throughout the region, and determining the level of risk based on ownership, legal environment and transparency.

An interest-based economic strategy does not entail turning a blind eye to human rights abuses. It is imperative that technology manufactured in the United Kingdom or by one of the UK's partners is not used to surveil, harass or wrongfully imprison.

Finally, diversifying supply chains not only helps limit the PRC's ability to use trade as leverage, but will help create new jobs domestically and for UK commercial partners, encourage more fair trade, and increase economic growth.

⁷² Scott Likens, 'Eight emerging technologies and six convergence themes you need to know about', *PWC*, 12 January 2022, <https://www.pwc.com/us/en/tech-effect/emerging-tech/essential-eight-technologies.html>.

⁷³ Christian Davies, et. al., 'US struggles to mobilise its East Asian "Chip 4" alliance', *The Financial Times*, 13 September 2022, <https://www.ft.com/content/98f22615-ee7e-4431-ab98-fb6e3f9de032>.

⁷⁴ Bob Seely, Peter Varnish and John Hemmings, 'Defending Our Data: Huawei, 5G and the Five Eyes', *The Henry Jackson Society*, May 2019, <https://henryjacksonsociety.org/wp-content/uploads/2019/05/HJS-Huawei-Report-A1.pdf>, p.52.

PART TWO:

Ending Economic Dependence on China

7. Investment Restrictions

7.1 Reforming the UK's Investment Control Regime

Reform to the UK's investment control regime is necessary to help ensure strategic competitors do not acquire assets which put the United Kingdom's national security interests or global supply chains at risk. Existing law does not adequately determine if foreign acquisitions of UK businesses give a non-British investor undue influence over global supply chains, instead focusing on the following sectors: advanced materials, advanced robotics, artificial intelligence, civil nuclear, communications, computing hardware, critical government suppliers, cryptographic authentication, data infrastructure, defence, energy, military and dual-use, quantum technologies, satellite and space technologies, emergency services suppliers, synthetic biology, and transport.⁷⁵

The UK's National Security and Investment Law, loosely influenced by America's Committee on Foreign Investment in the United States (CFIUS), must better account for CCP attempts to work around existing restrictions and coordinate with analysts from the Joint Intelligence Organisation, the Government's intelligence assessment division, to monitor foreign acquisition attempts which may risk the UK's commercial ties and economic interests in the Indo-Pacific and elsewhere.

Despite efforts by the United States, United Kingdom and other partners to restrict PRC foreign direct investment in strategic assets which pose a national security risk (emerging and advanced technologies, critical infrastructure, personal data collection, real estate, etc.), Chinese investors have sought out other sectors which could provide Beijing with potential economic leverage. In the United States, such investors have purchased large swathes of farmland, which begins to give the CCP potential influence over America's agricultural supply chain and hence global food security. From 2009–2016, PRC investments in US agriculture increased tenfold.⁷⁶ Does the UK Government know if the same is happening here?

7.2 CCP Investment in Agriculture Threatens Global Food Security

Pending US legislation seeks to prohibit the purchase of any US agricultural real estate by a PRC foreign national and includes the agricultural and biotechnology industries as CFIUS-reviewable critical infrastructure.⁷⁷ These US sectors would therefore fall under CFIUS jurisdiction for investment review, with the US Secretary of Agriculture added as a standing member of the CFIUS review process. There are also concerns in the United States over Chinese companies building agricultural processing facilities near US military bases. US Senator Mike Rounds (R-SD) stated, "I was alarmed when a Chinese company recently purchased farmland near an Air

⁷⁵ 'UK national security and investment control regime', *Ashurst*, 4 February 2022, <https://www.ashurst.com/en/news-and-insights/legal-updates/quickguide---uk-national-security-and-investment-control-regime/>.

⁷⁶ Fred Gale and Elizabeth Gooch, 'China's Agricultural Investment Abroad is Rising', U.S. Department of Agriculture: Economic Research Service, 24 April 2018, <https://www.ers.usda.gov/amber-waves/2018/april/china-s-agricultural-investment-abroad-is-rising/>.

⁷⁷ U.S. Congress, House, *Prohibition of Agricultural Land for the People's Republic of China Act*, H.R. 7892. 117th Cong., 2nd sess., introduced in House, 27 May 2022, <https://www.govinfo.gov/app/details/BILLS-117hr7892ih>; 'Stefanik, Crawford Introduce Agriculture Security Legislation, Legislation Protects U.S. Agriculture from Foreign Adversaries', Press Release, Elise Stefanik, 1 July 2022, <https://stefanik.house.gov/press-releases?ID=AD651334-B62A-4A15-886A-ABD579B303D5>.

Force base in North Dakota. This acquisition could threaten our national security by allowing the Chinese Communist Party to closely monitor the operations and communications at a very important military facility.”⁷⁸

Even seemingly innocuous PRC investments into the UK or with British commercial partners could have an ulterior motive. A majority, or even minority, control of any single sector may not initially appear to be a national security risk. But halting production of even one component of a larger supply chain could lead to market disruptions, cuts in supply and worsening inflation. The previous government was reluctant to “drive investment away because of ‘anti-China’ spirt””, which almost resulted in a PRC company acquiring the UK’s largest chip manufacturer.⁷⁹ Moving forward, The UK Government should take a “better safe than sorry” approach toward accepting PRC investment into the UK.

7.3 UK Coordination of Investment Control with Indo-Pacific Partners

FDI from China into the UK should not only be viewed by British regulators as a national security risk, i.e., Beijing acquiring technology or other assets. Analysts must also be trained to view the potential for investments to serve as a “kill switch”, either in times of war or as leverage during a “hot peace”, allowing the CCP to exert influence on British policymakers to shape decision-making in Beijing’s favour. Should the United Kingdom re-shore significant manufacturing and develop additional infrastructure for exports/imports to and from Indo-Pacific commercial partners, PRC control of key components of UK supply chains could still negatively impact the UK, Indo-Pacific and global economy.

Finally, diversification of supply chains away from the PRC will entail ensuring all UK commercial partners in the Indo-Pacific play by the same rules on investment restrictions. The Foreign and Commonwealth Office should lead efforts to coordinate investment restriction policies throughout the region, to ensure China does not retain excessive influence over any country maintaining close commercial ties with the United Kingdom. The UK should coordinate with Japan’s Ministry of Economy, Trade and Industry (METI), which has strengthened restrictions on foreign acquisition of dual-use and military technologies; Australia’s Cyber and Infrastructure Security Centre, which monitors sales of “electricity, water, ports, gas and carrier services”; and South Korea, which restricts the level of foreign ownership of water, thermal energy, media, and telecommunications services.⁸⁰

⁷⁸ Brad Matthews, ‘North Dakota residents fight Chinese company building corn mill near Air Force base’, *The Washington Times*, 26 August 2022, <https://www.washingtontimes.com/news/2022/aug/26/north-dakota-residents-fight-chinese-company-build/>.

⁷⁹ ‘Newport Wafer Fab: Chinese buyout of UK’s biggest chip plant to be reviewed’, *BBC News*, 25 May 2022, <https://www.bbc.co.uk/news/uk-wales-politics-61585926>.

⁸⁰ Satu Limaye and Rose Tenyotkin, ‘Maintaining the Technology Edge: Strengthening US and Indo-Pacific Alliances to Counter Chinese Technology Acquisition’, *CNA*, <https://www.cna.org/quick-looks/2021/indo-pacific-countries-chinese-economic-statecraft.pdf>.

8. Export Controls/Sanctions Policy

8.1 UK Influence on Indo-Pacific Export Control Policy

As outlined in a previous Henry Jackson Society report, the White House has attempted to shape export control policy, using three initiatives to counter China: the Export Control and Human Rights Initiative, which the UK has previously expressed support for but is not a member of; the US-EU Technology Council; and the US-Japan Competitiveness and Resilience (CoRe) Partnership.⁸¹ Washington also recently introduced unilateral restrictions on the PRC's ability to purchase advanced computing and semiconductor manufacturing items.⁸² The new US policy requires licenses for any high-performance chip exports to China and even prohibits the export of foreign made chips to the PRC if manufactured with US tools and software.⁸³

While all US-led initiatives aim to deprive China of targeted advanced and emerging technologies that would advance the CCP's hegemonic ambitions, none seem focused on the larger strategy of export controls designed to diversify Indo-Pacific technology supply chains.

The United Kingdom could drive forward a distinct export control policy via its role in the AUKUS trilateral defence pact, or work with AUKUS members Australia and the United States to develop such policies through the Quadrilateral Security Dialogue (Quad), along with Japan and India. As noted earlier, AUKUS can play a role in helping secure defence-related rare earths, which could include export controls on stockpiles aligned with the UK and its partners. The UK could also initiate the AUKUS Joint Steering Group on Advanced Capabilities to develop oversight for export control amongst G7 nations and ensure advanced surveillance technologies are not used by the PRC against the UK's Indo-Pacific partners, particularly Taiwan.

Regarding the Quad, Canadian Global Affairs Institute (CGAI) fellow Stephen Nagy has noted, "Critical and emerging technologies are those dual-use technologies that are a challenge to security within the region. Here the common statement and principles on critical technology supply chains will build more resilience into technology supply chains and likely accelerate the bifurcation of technology supply chains from one that is based on like-minded countries, such as the Quad partners, and the other that is based on China and its BRI partners..."⁸⁴

8.2 Sanctions Blowback

Sanctions against the PRC and CCP officials should not be viewed as the be-all and end-all of the UK's economic denial strategy toward the PRC in the Indo-Pacific. Nicholas Mulder, author of *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War*, believes

⁸¹ Spinck, 'Securing the Strait'; 'Joint Statement on the Export Controls and Human Rights Initiative', The Briefing Room, The White House, 10 December 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/12/10/joint-statement-on-the-export-controls-and-human-rights-initiative/>; 'U.S.-EU Trade and Technology Council', Bureau of European And Eurasian Affairs, U.S. Department of State, <https://www.state.gov/u-s-eu-trade-and-technology-council-ttc/>; 'Fact Sheet: The U.S.-Japan Competitiveness and Resilience (CoRe) Partnership', The Briefing Room, The White House, 23 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-the-u-s-japan-competitiveness-and-resilience-core-partnership/>.

⁸² 'Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to the People's Republic of China (PRC)', Bureau of Industry and Security, U.S. Department of Commerce, 7 October 2022, <https://www.bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/3158-2022-10-07-bis-press-release-advanced-computing-and-semiconductor-manufacturing-controls-final/file>.

⁸³ Arjun Kharpul, 'America's 'once unthinkable' chip export restrictions will hobble China's semiconductor ambitions', *CNBC*, 11 October 2022, <https://www.cnbc.com/2022/10/12/us-chip-export-restrictions-could-hobble-chinas-semiconductor-goals.html>.

⁸⁴ Stephen Nagy, 'Quad as problem solver or security mini-lateral? Bridging security and public goods provision', Lee Kuan Yew School of Public Policy, 17 June 2022, <https://lkyspp.nus.edu.sg/cag/publications/center-publications/publication-article/detail/quad-as-problem-solver-or-security-mini-lateral-bridging-security-and-public-goods-provision>.

the increasing use of sanctions by the United Kingdom and its partners faces two problems: effectiveness and blowback risk.⁸⁵ Between 2000 and 2021, the United States increased its use of sanctions an astonishing 933 percent.⁸⁶ With this increased use of sanctions as an economic weapon comes workarounds designed to skirt sanctions regimes.

When announcing punitive economic measures against Russia a month after the invasion of Ukraine, US President Joe Biden stated, “As a result of these unprecedented sanctions, the ruble almost is immediately reduced to rubble.”⁸⁷ Whilst sanctions led to a depreciation of the ruble by 40 percent in early March 2022, the Central Bank of the Russian Federation responded with interest rates as high as 20 percent and instituted capital controls to prevent the collapse of the Russian currency.

Moscow also shifted its trade partnerships away from Europe, toward China, which helped strengthen the currency as well.⁸⁸ Chinese exports to Russia rose 26.5 percent in August from the previous year, while Russian exports to China, mostly energy and agricultural, rose 59.3 percent.⁸⁹ Sanctions against Russia’s Yuzhno-Kirinskoye gas field did not prevent China from finalising a 30-year deal with the Kremlin for 50 billion cubic metres of gas annually.⁹⁰ The deal originally evaded US sanctions when both parties agreed to settle payments in euros, but Beijing and Moscow have since agreed to pay for Russian gas exports in yuan and rubles instead.⁹¹

In its July oil market report, the International Energy Agency (IEA) stated sanctions had “little impact” on Russian oil output, with total production falling less than three percent of pre-war levels.⁹² The IEA estimates that Russia’s oil sales totalled \$19 billion in July, since “Asian buyers have stepped in to take advantage of cheap crude.”⁹³

With the value of Russia’s currency hitting a seven-year high against the US dollar in June, trading at 52.3 RUB/USD, the PRC could interpret existing sanctions as an inconvenience for the elite, rather than an economic policy meant to cripple the economy into submission.⁹⁴

8.3 Shaping the United Kingdom’s Sanctions Policy in the UK’s National Interest

When considering the effectiveness of future sanctions against China to prevent the forced reunification of Taiwan, the UK must better determine how, and in which sectors, the United Kingdom has leverage over the PRC. Whilst sanctions can be highly valuable, their overuse risks consequences. As *The Economist* notes, “the sanctions weapon has flaws”, adding that one

⁸⁵ Nicholas Mulder, ‘How America Learned to Love (Ineffective) Sanctions’, *Foreign Policy*, 30 January 2022, <https://foreignpolicy.com/2022/01/30/us-sanctions-reliance-results/>.

⁸⁶ ‘The Treasury 2021 Sanctions Review’, U.S. Department of the Treasury, October 2021, <https://home.treasury.gov/system/files/136/Treasury-2021-sanctions-review.pdf>, p.2.

⁸⁷ Kate Davidson, ‘Biden turned the ruble into rubble. Then it quickly came back’, *Politico*, 31 March 2022, <https://www.politico.com/news/2022/03/31/ruble-recovery-russia-biden-sanctions-00021850>.

⁸⁸ Rob Garver, ‘Ruble’s Strength in Face of Sanctions May Be Illusory’, *VOA News*, 6 April 2022, <https://www.voanews.com/a/ruble-s-strength-in-face-of-sanctions-may-be-illusory/6516694.html>.

⁸⁹ ‘China’s trade with Russia picks up speed in August’, *Reuters*, 7 September 2022, <https://www.reuters.com/markets/europe/chinas-trade-with-russia-picks-up-speed-august-2022-09-07/>.

⁹⁰ Oksana Kobzeva and Olesya Astakhova, ‘Russia may use field hit by U.S. sanctions for gas exports to China’, *Reuters*, 8 February 2022, <https://www.reuters.com/business/energy/russia-may-use-field-hit-by-us-sanctions-gas-exports-china-2022-02-08/>; ‘U.S. adds Russian oil field to sanctions list’, *Reuters*, 7 August 2015, <https://www.reuters.com/article/usa-russia-sanctions/u-s-adds-russian-oil-field-to-sanctions-list-idUSL1N1011H120150807>.

⁹¹ Muyu Xu, ‘Russia’s Gazprom, CNPC agree to use rouble, yuan for gas payments – Gazprom’, *Reuters*, 7 September 2022, <https://www.reuters.com/business/energy/petrochina-signs-gas-agreement-with-russias-gazprom-2022-09-07/>.

⁹² Tom Wilson, ‘Western sanctions have had “limited impact” on Russian oil output, says IEA’, *The Financial Times*, 11 August 2022, <https://www.ft.com/content/b75d0b8e-fcd8-4722-9180-39a01279d3b4>.

⁹³ *Ibid.*

⁹⁴ Natasha Turak, ‘Russia’s ruble hit its strongest level in 7 years despite massive sanctions. Here’s why’, *CNBC*, 23 June 2022, <https://www.cnbc.com/2022/06/23/russias-ruble-is-at-strongest-level-in-7-years-despite-sanctions.html>.

“should therefore discard any illusions that sanctions offer the West a cheap and asymmetric way to counter China.”⁹⁵ “Strategic sanctions” will require diversifying the UK’s commercial ties in the Indo-Pacific so that, should the UK enact punitive economic measures against the PRC in the future, London can more easily decouple from China and apply sanctions on a specific commercial sector, thus minimising damage to the UK economy.

The UK Government should shape its sanctions policy in the UK’s national interest, ensure that sanctions are an effective deterrent and that they do not adversely impact the UK’s economic relations with other Indo-Pacific partners.

⁹⁵ ‘Are sanctions on Russia working?’, *The Economist*, 25 August 2022, <https://www.economist.com/leaders/2022/08/25/are-sanctions-working>.

9. Conclusion

As the Government nears redesignating the UK's official position of its relationship with the PRC as a "threat", Government Communications Headquarters (GCHQ) Director Sir Jeremy Fleming warned China exporting its ideologies and values is "against our national interests."⁹⁶ With CCP Secretary General Xi Jinping further cementing his hold on power at the 20th National Congress, perpetuating what former Australian Prime Minister Kevin Rudd has stated is a push of the PRC's "politics to the Leninist left, economics to the Marxist left, and foreign policy to the nationalist right," mitigating the UK's economic dependence on China is long overdue.⁹⁷

The risks of this dependence on the PRC's economy was clearly illustrated throughout the COVID-19 pandemic, as the world faced disruptions to global supply chains, leading to reduced supply and inflation. However, even if the United Kingdom diversifies its supply chains independently, UK trading partners overly dependent on the PRC can also adversely affect the British economy. This was illustrated recently in the example of global energy prices. The United Kingdom, despite not being overly dependent on Russian gas, remained so intertwined with the European Union energy grid, as columnist Tom Chivers notes, that the price of heating UK homes and businesses was dependent on the price of continental European energy prices.⁹⁸ Therefore, the overall impact of the overreliance of the UK's trading partners on Russian energy put British businesses at risk.⁹⁹ Higher energy costs naturally equate to higher transportation expenses, making exports from Europe costlier for consumers and further demonstrating the need to redirect some manufacturing supply chains domestically.

The resulting sanctions aimed at crippling Russia's energy market despite this overreliance have led to workarounds from the Kremlin and its partners, which will have the unintended consequence of possibly weakening the UK's largest trading partner, the United States, with the future of the US dollar as the world's reserve currency under pressure. Payments for Russia's estimated 15 bcm gas exports to China will settle in both yuan and ruble, lessening both countries' dependency on the US dollar and leading to the potential for de-dollarisation amongst the PRC and its partners.¹⁰⁰

Supply chain security may require industrial policy, which will necessitate subsidies and other policies that require the Government to pick winners and losers in the market. This is certainly not preferable for proponents of free market orthodoxy. But, as American Compass Executive Director Oren Cass notes, "conservatives are right to look sceptically at the ability of the government to supplant markets, but they must appreciate both what markets do well and what they will not do on their own and thus embrace the indispensable public role of channelling investment toward long-term national priorities." Cass notes investment in domestic industry would include sponsoring innovation and mandating "sourcing in critical supply chains".¹⁰¹

⁹⁶ Sir Jeremy Fleming, interview with Justin Webb, *Today Programme*, BBC Radio 4, 11 October 2022.

⁹⁷ Kevin Rudd, 'The World According to Xi Jinping', *Foreign Affairs*, November/December 2022, <https://www.foreignaffairs.com/china/world-according-xi-jinping-china-ideologue-kevin-rudd>.

⁹⁸ Tom Chivers, 'How the UK can break its dependence on Russian oil and gas within 2 years, and where it will come from instead', *iNews*, 10 March 2022, <https://inews.co.uk/news/uk-russian-oil-gas-how-break-dependence-where-explained-1507099>.

⁹⁹ Julian Harris, 'Six in 10 British Factories at Risk of Going Under as Bills Soar', *Bloomberg News*, 3 September 2022, <https://www.bloomberg.com/news/articles/2022-09-02/six-in-10-british-factories-at-risk-of-going-under-as-bills-soar?sref=p8neHWIG>.

¹⁰⁰ 'Gazprom to Shift Gas Sales to China to Rubles, Yuan from Euro', *Bloomberg News*, 6 September 2022, <https://www.bloomberg.com/news/articles/2022-09-06/gazprom-to-shift-gas-sales-to-china-to-rubles-yuan-from-euro#xj4y7vzkg>.

¹⁰¹ Oren Cass, 'A New Conservatism', *Foreign Affairs*, March/April 2021, <https://www.foreignaffairs.com/articles/united-states/2021-02-12/new-conservatism-free-market>.

Just as German Chancellor Olaf Scholz's *zeitenwende* ("turning point") speech led to Berlin ending its dependence on Russia for energy and shifting its policy on modernising its military following the invasion of Ukraine, the Prime Minister should present HM Government's China Strategy as a pivot away from the UK's business as usual approach vis-à-vis Beijing.¹⁰²

¹⁰² Angela Mehrer, 'Turn of phrase: Germany's Zeitenwende', European Council on Foreign Relations, 15 August 2022, <https://ecfr.eu/article/turn-of-phrase-germanys-zeitenwende/>.

10. Recommendations

The following policies are suggested to: a) Limit the UK's and its partners' economic dependence on the PRC; b) Allow the United Kingdom to use strengthened commercial ties with its Indo-Pacific partners to deny the CCP its hegemonic aspirations, by limiting PRC economic leverage over the region; and c) Strengthen the UK's economy and present the Indo-Pacific with a commercial and investment alternative to Beijing's mercantilist-communist system.

1. The Government should develop and implement a coherent, cross-Government United Kingdom China Strategy as a matter of priority.
2. The Prime Minister and Foreign Minister should clearly articulate to Beijing that future negotiations for any potential bilateral investment treaty between the United Kingdom and the People's Republic of China are dependent on the CCP demonstrating its intent to accelerate reforms aimed at combating intellectual property theft, currency manipulation, dumping, state-owned enterprise subsidies, exporting fentanyl, hacking and forced technology transfers.
3. Furthermore, the UK should align with like-minded partners in the Indo-Pacific to hold China accountable in the WTO for market distorting policies, and to campaign for China's WTO definition as a developing nation to end.
4. The UK Government should lead efforts through the Group of Seven (G7) to diversify the June 2022 \$600 billion infrastructure development initiative beyond its announced four sectoral categories: clean energy, health systems, gender equality, and information and communications. London should ensure government solutions for the G7 infrastructure initiative focus on certification of projects as sound investments and other technical support, and significantly minimise public funding efforts. The G7 initiative should expand beyond the Group of Seven leading industrial nations to include partners from the Indo-Pacific which share similar national interests with the United Kingdom, including India, South Korea, Australia and Taiwan, as well as leading economies in Central and Eastern Europe (CEE).
5. The UK Government should build upon the friend-shoring "Network of Liberty" concept to develop a coalition of partners throughout the Indo-Pacific and CEE which share similar national economic and security interests in ensuring their economies are not unduly economically dependent on maintaining commercial and investment ties with the CCP. This coalition, consisting primarily of Commonwealth members, should focus efforts on encouraging re-shoring strategic sectors from Beijing and coordinating economic policies to limit short-term economic damage and supply chain delays resulting from decoupling with China.
6. In conjunction with its Indo-Pacific partners, the UK should assertively use the UK National Security and Investment Act to prevent the CCP from acquiring key UK/partner industries. The UK Government should also determine which reforms to the UK's investment screening mechanism are needed to prevent the PRC from nearly acquiring key strategic sectors, as it almost did with Newport Wafer Fab, the British semiconductor manufacturer. Potential reforms should focus on flagging PRC-linked purchases in the UK's agricultural sector, as well as any significant control of a sector which could lead to cuts in supply or which could exacerbate inflation. In addition, London should lead discussions with partners in the Indo-Pacific to determine whether coordinated outbound investment restrictions are needed to ensure UK and

partnered funds are not used by the CCP to fuel military, political and economic ambitions.

7. The AUKUS trilateral defence pact should expand its current mandate to securing defence-related rare earth mineral supply chains in North America, Europe and the Indo-Pacific. This would include identifying the key rare earths required for defence production (including cerium, cobalt, copper, graphite, lithium, neodymium, nickel, platinum, tellurium and uranium); decoupling dependence on China for such minerals by identifying other sources for these elements and deregulating policies to expand mining; and creating processing facilities to ensure strategic competitors are unable to use economic or military leverage to influence supply chains in these regions.
8. The Chancellor of the Exchequer and HM Treasury's Office of Financial Sanctions Implementation should analyse the impact on the UK's economy of sanctions on Russia and China and determine the economic costs should London sanction Beijing for future actions, such as forced reunification of Taiwan or further human rights abuses in Xinjiang and/or Tibet.
9. The United Kingdom, working with others, should establish a coordinated export control policy in the Indo-Pacific to ensure UK trading partners do not contribute to the PRC's surveillance state or allow the CCP to reverse engineer Western dual-use technologies that are re-exported from these partners to Beijing.

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Title: "A NEW ERA FOR UK
POLICYMAKING: AN ECONOMIC DENIAL
STRATEGY IN THE INDO-PACIFIC"
By Dr Robert Seely MP and Darren G. Spinck

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