



## BRIEFING PAPER

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# The UK-China relationship

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## Summary

### **Deteriorating relationship**

In recent months the largely cordial relationship between the UK and China has deteriorated sharply.

This has happened after over two decades when, regardless of the political complexion of successive UK governments, the trend was towards closer engagement and cooperation.

The high-point of UK-China relations over the last two decades was during the 2015-17 Conservative Government, when there was talk on both sides of a “golden era”.

However, growing controversy in the UK over the involvement of the Chinese multinational company Huawei in the UK’s 5G mobile phone network, along with mounting concern about the erosion of the “one country, two systems” *status quo* in Hong Kong, has dramatically changed the atmosphere between the two countries.

Other important factors have been UK concern about Chinese secrecy over the origins of the Covid-19 pandemic and China’s human rights clamp-down against the Muslim Uighur population in the Western province of Xinjiang.

### **Re-set or breakdown?**

With the UK currently in the process of completing its departure from the European Union, and with a US administration which some view as an unreliable ally, critics have questioned whether the UK has chosen a good time to pick a fight with the world’s second largest economy and an emerging great power.

But others have argued that this seriously underestimates the UK’s ability to flourish post-Brexit and fails to understand that, in the end, a Communist Party-led China is more likely to be a strategic rival of the UK, than an ally. They also believe that, whatever short-term challenges there may be with the current US administration under President Donald Trump, the “special relationship” will endure.

The UK Government has been clear that, while the relationship with China may be undergoing a re-set, it wants to avoid complete breakdown.

It is too early to say with certainty what the future relationship between the UK and China will look like. It will depend as much on China’s response as on the UK’s recent actions.

So far, while China has expressed strong displeasure about recent UK actions—its Ambassador to the UK recently described relations as “seriously poisoned”—it has not fully revealed its hand. It too appears keen to avoid a serious breakdown.

### **The US factor**

The UK-China relationship will also depend greatly on the trajectory of the US-China relationship, on which—amid talk of a new “cold war”—the future contours of the global order rests.

Despite recent events, the UK Government still hopes to avoid a binary choice between the US and China. And there is no certainty that a potential future US administration led by Donald Trump’s challenger, Joe Biden, would take a significantly softer line on China.

### High stakes

Some take the view that so far China has got “far more” out of the growing bilateral trade and investment relationship than the UK. But most acknowledge that the UK also has a lot to lose from a “complete uncoupling”.

- In 2019, UK exports of goods and services to China were worth £30.7 billion, a record high, up from £23.4 billion in 2018. This is the fourth successive year on year increase in British exports to China.
- UK imports of goods and services from China in 2019 were £49.0 billion, also a record high. UK imports from China have now grown year on year every year since 1999.
- The UK’s trade deficit with China was -£18.3 billion in 2019. A surplus in services was more than offset by a deficit in goods.
- By 2019, China was the UK’s 6<sup>th</sup> largest export market and 4<sup>th</sup> largest source of imports.
- In 2018, the total stock of inward investment from China was £1.8 billion. This was equal to 0.1% of the UK’s total stock of inward Foreign Direct Investment (FDI). China was the 22<sup>nd</sup> largest holder of the UK’s stock of inward FDI.
- The total stock of UK investment in China was worth £16.0 billion – this was equal to 1% of the UK’s total stock of outward FDI. The stock of UK outward investment in China was the UK’s 14<sup>th</sup> largest stock.
- In addition to telecommunications, examples of major infrastructure assets in the UK where there is significant Chinese involvement include: the Hinckley Point C, Sizewell C and Bradwell nuclear power projects; Heathrow Airport; Thames Water; the National Grid; key North Sea oilfields; British Steel; South Western Trains; and Crossrail.
- British companies which have found China a fruitful investment destination have tended to be UK-based multinationals in the consumer, pharmaceutical and automotive sectors, as well as some financial services. They include AstraZeneca, Diageo, Unilever, Intercontinental Hotels Group (IHG), HSBC and Jaguar Land Rover.
- China sends more students to the UK than any other country – over 86,000 in 2018/19. The number of Chinese students in the UK has risen by 62% since 2011/12. The UK is the most popular education destination in the world for Chinese students, recently overtaking the US.

### How this briefing is organised

Section 1 of this briefing provides an analytical overview of the current crisis in the UK-China relationship. Section 2 describes those aspects of the UK-China relationship which have directly caused it to deteriorate in recent months. Section 3 surveys other dimensions of the UK-China relationship, any of which could be affected if the relationship gets worse.

**Note:** readers may also find another recently published Library briefing useful. See [UK-China relations: a timeline](#).

# 1. Analysis: tectonic shift or minor adjustment?

In recent months the largely cordial relationship between the UK and China has deteriorated sharply.

This has happened after over two decades when, regardless of the political complexion of successive UK governments, the trend was towards closer engagement and cooperation.

There have been numerous disagreements between the two countries over specific issues during this period but until recently there was little sign that there might be a significant reversal of this trend.

The high-point of UK-China relations over the last two decades was during the 2015-17 Conservative Government, when there was talk on both sides of a "[golden era](#)".

However, growing controversy in the UK over the involvement of the Chinese multinational company Huawei in the UK's 5G mobile phone network, along with mounting concern about the erosion of the "one country, two systems" *status quo* in Hong Kong, has dramatically changed the atmosphere between the two countries.

Other important factors have been UK concern about Chinese secrecy over the origins of the Covid-19 pandemic and China's human rights clamp-down against the Muslim Uighur population in the Western province of Xinjiang.

In July 2020, the phasing out of Huawei's role in 5G was announced by the UK Government. Some argue that the next front for UK critics of China could be the role of its firms in the UK's [civil nuclear power sector](#). State-owned China General Nuclear (CGN) currently owns a 33.5% stake in Hinkley C, has the option to take a 20% stake in Sizewell C, and has a majority stake to build its own reactor design at Bradwell. [UK politicians](#), academics, and [business leaders](#) have been debating the issue.

Both the [UK](#) and China have so far been publicly circumspect on the issue. However, it has been reported that [China's ambassador to the UK](#) has privately said that the Huawei decision could undermine plans for the involvement of Chinese companies in other areas of UK infrastructure, including nuclear power.

With the UK currently in the process of completing its departure from the EU, and with a US administration which some view as an unreliable ally, critics have questioned whether the UK has chosen a good time to pick a fight with the world's second largest economy and an emerging great power.

But others have argued that this seriously underestimates the UK's ability to flourish post-Brexit and fails to understand that, in the end, a Communist Party-led China is more likely to be a strategic rival of the UK, than an ally. They also believe that, whatever short-term challenges

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there may be with the current US administration under President Donald Trump, the “special relationship” will endure.

The UK Government has been clear that, while the relationship with China may be undergoing a re-set, it wants to avoid complete breakdown.

Its approach was summarised by the Secretary of State for Culture, Media and Sport, [Oliver Dowden](#), at the time of the July 5G announcement, when he said:

We want a modern and mature relationship with China based on mutual respect where we can speak frankly when we disagree, but also work side-by-side on the issues where our interests converge.

This approach was echoed by a [Foreign and Commonwealth Office](#) (FCO) press release following a telephone call between Foreign Secretary Dominic Raab and his Chinese counterpart at the end of July:

A Foreign Office spokesperson said:

The Foreign Secretary spoke to Chinese State Councillor and Minister for Foreign Affairs, Wang Yi, today (28 July) reiterating that the UK will work to maintain positive, constructive engagement with the Chinese Government and that both he and the Prime Minister were committed to co-operating with Beijing on shared and urgent challenges. He stressed the importance of China rebuilding trust with the international community by living up to its international responsibilities.

The Foreign Secretary said that the UK would be watching the Hong Kong Legislative Council elections in September closely, and urged China to uphold its international human rights obligations in Xinjiang in the face of credible evidence of egregious human rights violations against Uyghur Muslims.

The Foreign Ministers agreed that there are wide-ranging opportunities, from increasing trade to tackling climate change where the two countries can work productively and constructively together.

Shadow Foreign Secretary [Lisa Nandy](#) has called for the UK to adopt a more strategic approach to China and an end to the “naivety of the golden years”.

In the new context, human rights abuses in China could have greater salience for UK policy than perhaps they have done for most of the past two decades.

However, it is too early to say with any certainty what the future relationship between the UK and China will look like. It will depend as much on China’s response as on the UK’s recent actions. China has taken steps to penalise other countries for implementing measures it disliked (for example, the [US](#) and [Australia](#)), but these measures have been described as “[fairly toothless](#)”.

So far, while China has expressed strong displeasure about recent UK actions—its Ambassador to the UK, Liu Xiaoming, recently described relations as “[seriously poisoned](#)”—it has not fully revealed its hand. It too appears keen to avoid a serious breakdown.

Some take the view that so far China has got “[far more](#)” out of the growing bilateral trade and investment relationship than the UK. But they usually acknowledge that the UK also has plenty to lose from a “[complete uncoupling](#)”.

The UK-China relationship will also depend greatly on the trajectory of the US-China relationship, on which—amid talk of a new “[cold war](#)”—the future contours of the global order rests.

The Trump administration has been urging other Western countries, including the UK, to take a tougher stance on China and will very likely continue to do so as the November 2020 presidential election draws near.

A major US target is the Chinese-owned social media platform TikTok, which is reportedly in negotiations with the UK Government about [locating its international headquarters](#) in London. The US Administration has threatened to ban TikTok on the grounds that it is a [vehicle for surveillance](#) by the Chinese state.

Despite recent events, the UK Government hopes to avoid a binary choice between the US and China. But there is no certainty that a potential future US administration led by Donald Trump’s challenger, [Joe Biden](#), would take a softer line on China.

Analysts Verle Nouwens and Raffaello Pantucci [argued](#) in July 2020:

[...] a UK strategy on China must remain firm on matters of UK core interests, but be prepared to cooperate effectively in others. This is a phrase that will ring familiar in Beijing.

## 2. Recent flashpoints

This section describes those aspects of the UK-China relationship which have caused it to deteriorate over recent months.

### 2.1 Telecommunications

The Chinese multinational technology company Huawei has been involved in the UK's mobile telecommunications networks for many years. While it is a private corporation, critics argue that it enjoys undue state support, has links with the Communist authorities, and that it facilitates surveillance activities by the Chinese Government.

The 2010-15 Coalition Government was strongly positive about Huawei's role in the UK's mobile networks, encouraging it to grow. In 2012 Prime Minister David Cameron and Huawei founder Ren Zhengfei met to [confirm a £1.3 billion investment in Britain](#).

#### Developments since 2018

Security concerns about Huawei were [first voiced](#) in the UK in the late-2000s, but they have grown markedly since 2018. In that year, the GCHQ's National Cyber Security Centre (NCSC) said that it could provide only "[limited assurances](#) that all risks to UK national security from Huawei's involvement in the UK's critical networks have been sufficiently mitigated."

The NCSC also expressed longer-term concerns about the [next generation of mobile networks](#), known as 5G. In 2019, it said that Huawei posed "[long-term security risks](#)".

Nonetheless, the 2017-19 Conservative Government decided in 2018 to press ahead with the involvement of Huawei in 5G, expressing confidence that security mitigation strategies would be sufficient. This came in sharp contrast to the decision by the US, Australia and New Zealand to ban Huawei from its 5G networks.

Following the election victory of the Conservative Party under Boris Johnson, the 2018 decision was reviewed but only partly upheld. It was announced in January 2020 that Huawei would be allowed to own [up to 35%](#) of the less sensitive parts of the future 5G network. Once again, it was argued that the UK would be able to mitigate adequately against any security threat.

Then in May 2020, the US administration introduced [new sanctions](#) against Huawei, banning it from producing semiconductors derived from technology or software of US origin. This prompted a further review by the UK's NCSC.

In July 2020, the [UK Government announced](#) a new series of measures, including banning the purchase of new Huawei 5G equipment after the end of 2020 and ordering the removal of all existing Huawei equipment by the end of 2027.

In [a statement](#), the Government said that, while the decision would further delay the roll out of 5G, it was necessary to reflect the [new](#)



[security assessment](#) from the NCSC following the May 2020 US sanctions on Huawei. The NCSC said the US ban on Huawei producing US-origin microchips meant that the [security risks](#) could no longer be effectively mitigated.

Another factor in this policy reversal was lobbying by a group of Conservative MPs against the involvement of Huawei in the UK's critical national infrastructure. In April they established a "[China Research Group](#)" (CRG).

Throughout the Huawei controversy, Chinese officials argued that [security concerns were groundless](#) and that any move to ban the company from 5G would damage trust, suggesting that the UK did not have a foreign policy that was independent of the US. They warned that a ban on Huawei would have consequences, negatively affecting the UK's reputation as a business-friendly environment.

After the ban was announced, [Liu Xiaoming](#), Chinese Ambassador to the UK, said that it was clear that the UK "had succumbed to pressure from China hawks and bashers".

Beijing has said that it will take steps to protect the interests of Chinese companies. What this might involve has not yet been revealed. In the immediate term, Currently, China's attention appears focused on [preventing EU countries](#) from also banning Huawei from its 5G networks.

## 2.2 Hong Kong

Hong Kong has been the most difficult human rights issue between the two countries over the last decade.

The UK Government has on numerous occasions expressed its concern over the erosion of Hong Kong's autonomy and civil rights and the increased assertion of a "[mainland Chinese interpretation of civil and political freedoms](#)."

In doing so, it has called for China to respect the [1984 Sino-British Declaration](#), a legally binding treaty between the two countries which created the basis for the framework of "one country, two systems". This would apply in Hong Kong after the British colony was returned to China, which eventually took place in 1997.

There were tensions in 2014 when the pro-democracy [Umbrella protest movement](#) broke out. The Foreign Affairs Committee, which was conducting an inquiry on the issue, was [denied permission to visit](#) Hong Kong by the Chinese authorities. The UK Government condemned this action.

### Developments since 2019

In [2019 large-scale pro-democracy protests](#), initially triggered by proposed new legislation on extradition between Hong Kong and mainland China, broke out again. Prime Minister [Theresa May](#) said in July 2019: "it is vital that Hong Kong's high degree of autonomy and

the rights and freedoms set down in the Sino-British Joint Declaration are respected”.

In an April 2019 report, the Foreign Affairs Committee expressed concern that Hong Kong was moving towards “[one country, one-and-a-half systems](#)”.

The main conclusion of that report was that China today was a country of “order, but not liberal order”, which placed limits on how far the UK should seek a close relationship.

The extradition bill was eventually withdrawn from Hong Kong’s Legislative Assembly and abandoned. However, critics continue to argue that the UK was not doing enough [to stand up for Hong Kong](#).

The 1984 Joint Declaration is a legally binding treaty, but it contains no enforcement provisions. In June 2019 [UK Government said](#) on the issue:

If at some stage in the future we were to take the view that China had breached its obligations under the Joint Declaration, this would, under international law, be a bilateral matter between us and China and we would pursue it accordingly.

This moment arrived at the end of June 2020, when the Chinese Government introduced a [new national security law](#) in Hong Kong. This makes it easier to crack-down on protests and gives Beijing unprecedented powers to interfere in the life and politics of Hong Kong. It also included powers to extradite individuals to the mainland.

It was enacted by the National People’s Congress, China’s parliament, rather than by Hong Kong’s Legislative Assembly. Critics called the new law “[the end of Hong Kong](#)”.

The British Government declared it a breach of the Joint Declaration and on the day after the law was enacted [made an offer](#) of resettlement, and potential citizenship, in the UK to up to three million Hong Kong residents with [British National \(Overseas\)](#) status.<sup>1</sup>

On 22 July, Home Secretary Priti Patel announced the details of the [special visa scheme](#) for BNOs, which will come into operation in January 2021. The next day China responded by announcing that it may no longer consider a BN(O) passport as a [valid travel document](#), potentially blocking the future ability of holders to travel from Hong Kong to the UK.

In mid-July 2020, following the examples of Canada and Australia, UK Foreign Secretary Dominic Raab announced the [suspension of the UK’s extradition treaty with China](#). At the end of the month, China said that it had suspended the UK-China treaty.

At the end of July, the UK also joined with other countries in [condemning the disqualification](#) of 12 pro-democracy candidates from standing in Legislative Council elections. The elections have been postponed until September 2021.

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<sup>1</sup> BN(O) status was created for people who lost their British Dependent Territories Citizenship upon the handover of sovereignty of Hong Kong in 1997.

In mid-August, Dominic Raab joined with his Australian, New Zealand, Canadian and US counterparts in expressing deep concern about the “[erosion of rights](#)” in Hong Kong.

## Sanctions

In June 2019, the UK Government suspended future sales of [teargas and other crowd control equipment](#) to Hong Kong. In July 2020, the UK included Hong Kong in its long-standing [arms embargo](#) against China. In August, it emerged that [training programmes](#) of the Hong Kong police force by UK military personnel are to be re-evaluated.

There have been calls for Chinese officials – including Carrie Lam, Hong Kong’s Chief Executive – who have been implicated in the repression of pro-democracy protests in Hong Kong to be [subjected to sanctions](#) under the UK’s new [Magnitsky legislation](#). So far, the UK Government has given no indication that it intends to take this step. In August the US [imposed sanctions](#) against Carrie Lam and ten other Chinese officials.

## 2.3 The Uighurs

Successive UK governments have expressed concern about the human rights situation of the Uighurs in the far-western province of Xinjiang since 2009, when peaceful protests there were violently repressed.

Global concern has [increased markedly](#) since 2018, when reports emerged that China had interned about one million Uighurs in political education camps.

As UK-China relations have deteriorated in recent months, political pressure on the UK Government to give [greater priority](#) to human rights issues such as that of the Uighurs has grown.

This pressure has increased as new evidence has emerged about the alleged abuses which Uighurs are experiencing. These include the imposition of [sterilisation measures](#) on Uighur women.

At the end of June 2020, The UK joined with 26 other countries in [issuing a statement](#) at the UN Human Rights Council expressing deep concern about the situation in Xinjiang Province. The UK supports calls for UN human rights investigators to be allowed access to Xinjiang by the Chinese authorities.

In mid-July, Lisa Nandy, shadow foreign secretary, called on the Government to [introduce sanctions](#) against Chinese individuals responsible for human rights abuses against the Uighurs under the UK’s new Magnitsky legislation.

## 2.4 Covid-19

While the UK Government has not gone as far as the Trump administration in blaming China for the global Coronavirus pandemic, many UK politicians and large parts of the media have expressed concern that the Chinese authorities may have suppressed information

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about the virus when it first emerged there. The official persecution of "[whistleblower doctors](#)" in China has also been criticised.

In April 2020, Foreign Secretary Dominic Raab said that the [relationship could not go back to "business as usual"](#) once the pandemic was over.

The UK Government has strongly backed calls for an [independent investigation](#) into the international response to the pandemic. In May 2020, the member states of the World Health Organization (WHO) [unanimously passed a resolution](#) endorsing a WHO-led investigation once the worldwide pandemic has been brought under control.

## 3. Other dimensions of the relationship

This section surveys other dimensions of the UK-China relationship, any of which could be affected if the relationship gets worse. It is not comprehensive and, where aspects of the relationship have already been covered earlier in this briefing, they are not discussed in depth here.

### 3.1 Trade and investment

The growth in trade and investment between the two countries over the last decade has been encouraged by the ongoing bilateral [UK-China Economic and Financial Dialogue](#). The Dialogue was established in 2008 by the then Labour Government. The 10<sup>th</sup> Dialogue took place last year.

The Coalition Government (2010-15) also established a [UK-China Energy Dialogue](#) in 2010.

The [China-Britain Business Council](#), the UK's national business network promoting trade and investment with China, has also played an important role.

In 2015 the UK Government announced that it would become a founding member of the Beijing-backed [Asian Infrastructure Investment Bank](#). The US was displeased by the announcement and has not joined the bank.

#### Trade

In 2019, UK exports of goods and services to China were worth £30.7 billion, a record high, up from £23.4 billion in 2018. This is the fourth successive year on year increase in British exports to China.

UK imports of goods and services from China in 2019 were £49.0 billion, also a record high. UK imports from China have now grown year on year every year since 1999.

The UK's trade deficit with China was -£18.3 billion in 2019. A surplus in services was more than offset by a deficit in goods.

Overall, UK exports to China represented 4.4% of all UK exports. UK imports from China represented 6.8% of all UK imports.

UK trade with China, 2019 (£ billions)			
	Exports	Imports	Balance
Goods	25.1	46.9	-21.8
Services	5.5	2.1	3.5
<b>Total</b>	<b>30.7</b>	<b>49.0</b>	<b>-18.3</b>

Source: ONS

#### Trends, 1999 - 2019

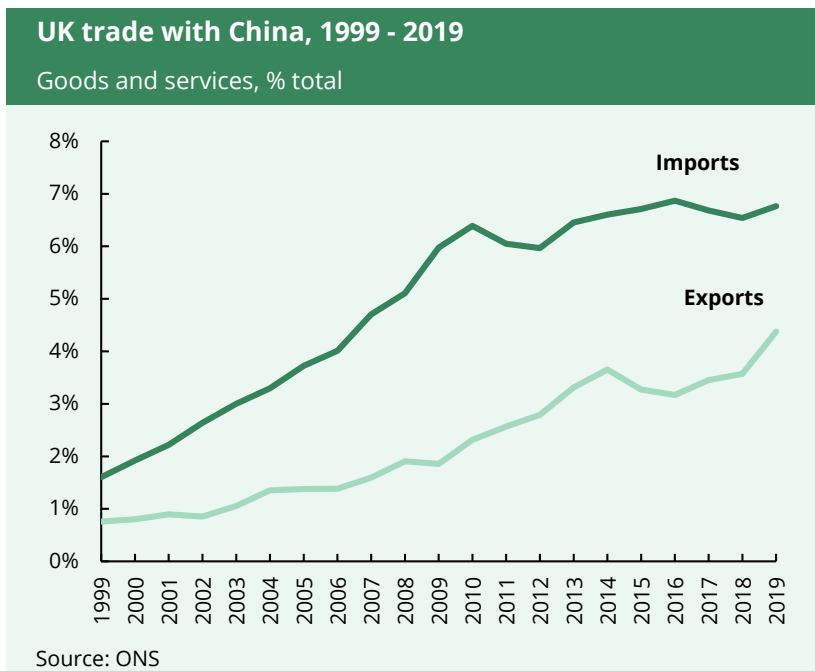
UK trade with China has increased rapidly since the turn of the century.

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In 1999, China was the UK's 26<sup>th</sup> largest export market and 15<sup>th</sup> largest source of imports, accounting for 0.8% of UK exports and 1.6% of imports.

By 2019, China was the UK's 6<sup>th</sup> largest export market and 4<sup>th</sup> largest source of imports.

It was the UK's second largest export market and source of imports outside the EU (after the US).



The UK has recorded a trade deficit with China every year since 1999. This peaked at -£23.2 billion in 2016. However, the size of the deficit has reduced every year since then.

This mainly is due to growth in the value of UK exports to China. In cash terms, the value of exports grew by 114% between 2016 and 2019. Over the same period the value of UK imports from China grew by 54%.

**UK trade with China, 1999 - 2019**  
Goods and services

	Exports		Imports		Balance
	£ billions	% of total	£ billions	% of total	£ billions
1999	1.9	0.8%	4.2	1.6%	-2.3
2000	2.2	0.8%	5.7	1.9%	-3.5
2001	2.6	0.9%	6.9	2.2%	-4.3
2002	2.4	0.9%	8.4	2.6%	-5.9
2003	3.2	1.1%	9.8	3.0%	-6.7
2004	4.2	1.4%	11.4	3.3%	-7.2
2005	4.8	1.4%	14.2	3.7%	-9.4
2006	5.5	1.4%	17.3	4.0%	-11.7
2007	6.2	1.6%	19.8	4.7%	-13.6
2008	8.2	1.9%	23.7	5.1%	-15.5
2009	7.6	1.9%	25.9	6.0%	-18.3
2010	10.5	2.3%	31.0	6.4%	-20.5
2011	13.1	2.6%	31.7	6.0%	-18.6
2012	14.3	2.8%	31.8	6.0%	-17.5
2013	17.7	3.3%	35.9	6.5%	-18.2
2014	19.4	3.7%	36.8	6.6%	-17.4
2015	17.3	3.3%	37.4	6.7%	-20.0
2016	18.0	3.2%	41.2	6.9%	-23.2
2017	21.7	3.5%	43.7	6.7%	-22.0
2018	23.4	3.6%	44.9	6.5%	-21.4
2019	30.7	4.4%	49.0	6.8%	-18.3

Source: ONS

For more information on UK trade with China, see the Library briefing [Statistics on UK trade with China](#).

## Investment

Foreign direct investment (FDI) is divided between flows and stocks - flows measure annual levels of investment on a net basis; stocks record the total book value of all existing investment.

### Chinese investment in the UK

In 2018, inward investment from China fell, from £627 million in 2017 to a net disinvestment of -£84 million. The total stock of inward investment from China was £1.8 billion. This was equal to 0.1% of the UK's total stock of inward FDI. China was the 22<sup>nd</sup> largest holder of the UK's stock of inward FDI.

UK inward investment from China, 2009-2018 (£ millions)		
	Flow	Stock
2009	100	607
2010	12	367
2011	..	767
2012	845	1,118
2013	..	..
2014	604	1,100
2015	460	2,261
2016	433	1,678
2017	627	2,280
2018	-84	1,775

.. Indicates value is disclosive  
Source: ONS

The recent fall in inward investment from China has been attributed by some sources to an uncertain investment climate, resulting from the UK's departure from the EU. EY (formerly Ernst and Young) publish an annual "attractiveness survey" of foreign investors' investments in the UK and their perceptions of it as a destination for investment. The 2019 UK Attractiveness Survey [Tipping Point](#) reported that the UK experienced "a reduction in FDI volumes and a decline in investor sentiment" in 2018, particularly from Asia:

Asian investors are nearly three times more likely than US investors to have reduced their investment, and both Asian and West European investors are more than 10% more likely than average to have paused projects since the Brexit referendum vote. It seems clear that the UK is finding it difficult to convince international investors of its potential as uncertainty casts a shadow over decision-making.

EY's 2020 report [Building Back Better](#) reported similar trends over the period since 2016, with Chinese investment in the UK falling relative to Chinese investment in other European countries:

An analysis of changes in the UK's project origins over the three years since the 2016 referendum on the UK's EU membership shows that the UK has been able to rebalance its investment to compensate for a decline in EU-originated projects. However, there is one area of concern — compared to the three years prior to the vote, there was a significant decline in projects from China (down by 46 projects or 25.7%). This contrasts with Chinese investment across the whole of Europe increasing by 11% between the two three-year periods.

### UK investment in China

In 2018 outward investment in China from the UK was worth £1.5 billion, following a net disinvestment of -£0.9 billion in 2017. This was equal to 5% of total UK outward flows in 2018. China was the 9<sup>th</sup> largest destination for UK outward investment flows.

The stock of UK investment in China was worth £16.0 billion. This was equal to 1% of the UK's total stock of outward FDI. The stock of UK outward investment in China was the UK's 14<sup>th</sup> largest.

UK net investment in China, 2009-2018 (£ millions)		
	Flow	Stock
2009	179	4,614
2010	569	6,001
2011	1,135	6,598
2012	1,702	6,501
2013	352	4,588
2014	-251	9,165
2015	-807	9,862
2016	1,221	12,026
2017	-896	10,583
2018	1,499	15,966

.. Indicates value is disclosive  
Source: ONS

As the above table indicates, the trend has been sharply upwards since 2014.

A recent article by the think-tank [RUSI](#) on UK-China commercial relations argues that a divide has opened between UK companies “for whom China is a critical part of their global strategy and those who have decided that returns in China do not justify the effort”, owing to difficulties resulting from “regulatory and cultural differences.”

In advice issued on overseas business risks, the [FCO](#) states that “doing business in China can be challenging” for British companies, owing to “restrictions on the extent to which foreign companies can operate in large areas of the economy.”

These restrictions are, to some extent, due to the World Trade Organisation (WTO) allowing China to designate itself as a developing economy. Under WTO rules, developing economies [can protect their](#)



[economies](#) to a greater degree than developed economies like the UK and the US, using “[special and differential treatment](#)” provisions.

President Trump has [strongly criticised the WTO rules](#) for developing countries and in particular China’s use of these provisions. China continues to describe itself as the largest developing country in the world. However, it [says it is undertaking reforms](#) to move from a planned to a market economy.

In March 2019, China passed a new foreign investment law granting foreign companies “equal standing” with state-owned businesses. The Financial Times [reported](#) the legislation was rushed through due to US pressure.

In June 2020, the British Chamber of Commerce in China [reported that](#) British firms had not seen any impact from the new legislation.

The Chamber added that China’s cyber security measures have been the most pressing concern for UK businesses over the past few years. Other concerns include the dominant position of state-owned enterprises in China and restrictions on data sharing and capital flows that were “isolating” the China offices of British firms.

## Examples of specific projects

### China in the UK

The case of Huawei was discussed earlier in this briefing (see section 2.1).

Other examples of major infrastructure assets in the UK where there is significant Chinese involvement include:

- The [China General Nuclear Power Group](#) (CGN) owns a 34% stake in NNG Generation, which is constructing the Hinckley Point C nuclear power plant; CGN has also agreed a 20% stake in the Sizewell C project with EDF. CGN also has a majority stake to build its own reactor design at Bradwell.
- In 2012, CIC (the Chinese sovereign wealth fund) acquired a 10% stake in [Heathrow Airport](#) and a 9% stake in [Kember Water Holdings](#), which owns Thames Water. CIC went on to acquire an 11% stake in the [National Grid](#) gas network in 2016.
- The [China National Offshore Oil Corporation](#) (CNOOC) has stakes in the Buzzard and Golden Eagle oilfields, making it the “largest crude oil operator in the North Sea.”
- Chinese firm [Jingye](#) completed the acquisition of British Steel in March 2020.
- [Jaguar Land Rover](#) borrowed £560 million from five Chinese banks in June 2020.
- [South Western Trains](#) and [Crossrail](#) franchises are 30% owned by MTR, the Hong Kong state-owned metro operator.

Grant Thornton estimates that there are 13,000 Chinese-owned companies in the UK. A list of the 30 most successful Chinese-owned companies in the UK by sector is published in its publication [Tou Ying](#)

[Tracker 2019: The latest trends in Chinese investment in the UK](#) (see table below). These are UK-based companies that have had an audited turnover of more than £5 million for the previous two years and are at least 50% owned by an individual or entity in mainland China.

Company	Industry group and sector	Region
<b>Anker Technology (UK) Ltd</b>	Technology, media and telecom	North and Midlands
<b>ATB Group UK Limited</b>	Manufacturing and industrial	Central Region
<b>Bimar Company Limited</b>	Business support services	London region
<b>Boc Aviation (UK) Limited</b>	Financial services	London region
<b>CGN Global Uranium Limited/CGN Europe Energy UK Holding Limited</b>	Manufacturing and industrial	London region
<b>Chemchina UK Limited</b>	Manufacturing and industrial	London region
<b>Cherry Valley Farms Limited</b>	Consumer	North and Midlands
<b>China Mobile International (UK) Limited</b>	Technology, media and telecom	London region
<b>China Taiping Insurance (UK) Co Ltd</b>	Financial services	London region
<b>Cosco Shipping (UK) Company Limited</b>	Business support services	Central Region
<b>Farsound Aviation Limited</b>	Manufacturing and industrial	Central Region
<b>Geely UK Limited</b>	Manufacturing and industrial	North and Midlands
<b>GF Financial Markets (UK) Limited</b>	Financial services	London region
<b>Haier Appliances UK Co Ltd</b>	Technology, media and telecom	South Region
<b>Hikvision UK Limited</b>	Technology, media and telecom	London region
<b>Hisense UK Limited</b>	Technology, media and telecom	North and Midlands
<b>Huawei Technologies (UK) Co Ltd.</b>	Technology, media and telecom	South Region
<b>Lianhetech Holdco Limited</b>	Healthcare	North and Midlands
<b>Mindray (UK) Limited</b>	Healthcare	Central Region
<b>Nexperia UK Ltd</b>	Technology, media and telecom	North and Midlands
<b>Petrochina International (London) Co Limited</b>	Manufacturing and industrial	London region
<b>Pharmaron UK Limited</b>	Healthcare	South Region
<b>Power Link Machine (UK) Co Limited</b>	Manufacturing and industrial	North and Midlands
<b>Precision Technologies Group (PTG) Limited</b>	Manufacturing and industrial	North and Midlands
<b>Promethean World Limited</b>	Technology, media and telecom	North and Midlands
<b>Schwing Stetter (UK) Ltd</b>	Manufacturing and industrial	London region
<b>Swisslog (UK) Ltd</b>	Technology, media and telecom	North and Midlands
<b>Thompson Aero Seating Limited</b>	Manufacturing and industrial	Scotland and NI
<b>Warchest Limited</b>	Technology, media and telecom	London region
<b>Yuanda (UK) Co Ltd</b>	Real estate and construction	London region

Chinese individuals and companies [own property](#) in the UK but there does not appear to be much public data in this area.

### The UK in China

The British companies which have found China a [fruitful investment destination](#) have tended to be UK-based multinationals in the consumer, pharmaceutical and automotive sectors, as well as some financial services. They include AstraZeneca, Diageo, Unilever, Intercontinental Hotels Group (IHG), HSBC and Jaguar Land Rover.

Financial services firms are beginning to increase their presence in China. In 2018 [UK financial services exports to China totalled £350m](#). However, this accounted for just 0.4% of total UK financial services exports

In 2019 China [announced](#) it would remove some restrictions on foreign investment in its financial sector and lower barriers to entry for foreign insurance companies.

UK-based banks [HSBC and Standard Chartered](#) were recently a target of criticism in the UK after they publicly endorsed Hong Kong's new national security law (see above).

In 2019, the Greater China and North Asia region [generated 40% of Standard Chartered's operating income](#). Of that, 61% was generated in Hong Kong and 14% in mainland China.

35% of HSBC's personal accounts are based in Hong Kong and 3% in China, compared to 29% in the UK and 8% in the rest of Europe, according to the bank's [annual report](#). Hong Kong accounts for around 35% of HSBC's revenue, and mainland China just under 6%.

In November 2016, England's Premier League announced it had agreed a record \$700 million television rights deal with the Chinese digital broadcaster PPTV. This made it the league's most lucrative overseas deal on a per-season basis, [according to the \*Financial Times\*](#).

However, in early September 2020 the Premier League [announced that it had cancelled its £564 million contract](#) with PPTV, as the company had withheld its latest payment of £160 million.

The BBC reported that the China deal represented a [significant proportion](#) of the £4bn due to be made by the League between 2019 and 2022 from overseas TV rights.

## 3.2 Higher education

China [sends more students to the UK](#) than any other country – over 86,000 in 2018/19. The number of Chinese students in the UK has risen by 62% since 2011/12. The UK the [most popular](#) education destination in the world for Chinese students, recently overtaking the US.

However, there have been reports that a significant number of Chinese students are [reconsidering studying](#) in the UK in 2020/21 due to anxieties about the relatively high Covid-19 death toll in the UK.

Current tensions in the UK-China relationship may also contribute to a reduction in numbers in future.

In July 2020, in remarks widely viewed as a warning, China's Ambassador to the UK, Liu Xiaoming, urged Chinese students coming to the UK to "[leverage their strength](#)" and "serve your motherland".

In the same month, Onward, a UK think-tank with links to the Conservative Party, published a report claiming that UK Universities have become "dangerously reliant" on Chinese students. According to Onward's director, [Will Tanner](#):

[...] in just 25 years Chinese students have gone from a rounding error in universities' balance sheets to their second largest source of funding, after taxpayer-funded loans.

In the last four years alone, the number of Chinese students studying in Britain has risen by 36%, more than three times the 11% rate of growth for domestic students.

[...] Given the financial dependence of universities on Chinese students, then, the increasingly menacing language coming from Beijing should worry vice-chancellors deeply, especially at a time when they face a Covid-related financial squeeze. Beijing has threatened "devastating consequences" in response to recent decisions on Huawei and Hong Kong. If those consequences are targeted at UK university campuses, as is happening increasingly in Australia, they will have profound consequences for this country's students, taxpayers and competitiveness.

[...] If China instructs its students to boycott Britain, it is almost certain that several institutions would fall over. [New Onward research](#) estimates that up to 16 universities rely on Chinese students for more than a fifth of their total fee income. The list includes many of the most prestigious and research-intensive institutions, including University College London, Imperial, Sheffield and Manchester, many of whom are already over-extended with debt and facing lower student flows due to the pandemic.

The [Russell Group](#), representing 24 leading Universities, responded to the report, saying that British students amounted to 77% of their intake during academic year 2018-19.

Concerns have also been voiced that funds provided by Chinese official bodies for several China-related research centres based at UK Universities could [undermine academic freedom](#).

### 3.3 Human rights

In 1997, the new Labour Government established the [UK-China Human Rights Dialogue](#). Held twice a year, it continues up to the present. In the main, it has been a low-profile exercise.

Over the past decade China has been a human rights "priority country" (in other words, a country of high concern) for the UK, featuring strongly in its [annual human rights and democracy reports](#).

[Respect for human rights has deteriorated](#) in China under President Xi Jinping, who took over the leadership of the country in 2012.

See Section 2 for a discussion of the impact of human rights issues in Hong Kong and Xinjiang Province on the UK-China relationship.

#### Tibet

Following a major outbreak of unrest in Tibet in 2008 the Labour Government of the day expressed concern but there was not much concrete action as China [successfully clamped down](#).

In the same year, the Government [updated its legal stance](#) on Tibet, abandoning its longstanding position that Tibet was under the "suzerainty" of China and recognising for the first time that Tibet was part of China. China had long objected to the concept of suzerainty.

The change in the UK position was [viewed by critics as capitulation](#). The Government argued that abandoning an “anachronistic” position would allow it to advocate more effectively with China on human rights issues.

Meetings between UK prime ministers and the Dalai Lama have always been sensitive issues for China. [Tony Blair](#) met him in London in 1999 but no political issues were reportedly discussed. There was [controversy in 2004](#) when, on a subsequent visit by the Dalai Lama, it was claimed that Mr Blair was too busy to meet him. [Gordon Brown](#) met him in 2008. [David Cameron](#) met the Dalai Lama in London in 2012, prompting China to cancel an official meeting with the UK.

## 3.4 Security

### The Integrated Review

Until recently, successive UK governments have tended to downplay the extent to which China poses a threat to UK national security.

There was a striking contrast between how the UK’s [2015 National Security Strategy](#) treated Russia and China. Russia was predominantly considered as threat. China, by contrast, was mainly viewed as an opportunity. This assessment seems likely to change when the results of the ongoing [Integrated Review](#) of foreign policy, defence, security and international development are published.

### Intelligence-sharing

When it looked as if the UK would allow Huawei to play a major role in the UK’s telecommunications networks, the US issued warnings that doing so might affect its willingness to share intelligence with the UK in future.

An important component of the US-UK intelligence relationship is the “[Five Eyes Alliance](#)”. Established in 1941, the Alliance also embraces Canada, Australia and New Zealand.

Following the shift in the UK position on Huawei in July 2020 (see Section 2), MPs involved with the Conservative Research Group reportedly suggested that the Alliance might expand in future to include Japan and broaden its remit to cover [strategic challenges](#) such as securing critical minerals and health supplies. These proposals are based on a clear conviction that China will be a competitor and rival of the West in the years ahead.

### Taiwan

Over the last twenty years, despite periodic calls from some quarters to upgrade its involvement with Taiwan, the UK has consistently taken a low-key approach on this issue. Doing so has been a precondition for increased cooperation and engagement with Communist China.

The UK does not recognise Taiwan as an independent sovereign state. Under the terms of a 1972 agreement with China, the UK accepts that [Taiwan is a province of China](#). It does not deal with the Taiwan authorities on a government to government basis.

## South China Sea

The approach of the UK to territorial and maritime disputes involving China in East and Southeast Asia has also been low-key over the past two decades. This includes which country or countries should have sovereignty in the [South China Sea](#).

However, in recent years, successive UK governments have become more forthright about China's actions in the South China Sea.

Over the last decade, there have been rising tensions over rival claims in the South China Sea. China has been accused of taking unilateral actions, including the building of new islands, to strengthen its control over the area.

In 2016, an Arbitral Tribunal under the UN Convention on the Law of the Sea ruled against actions taken by China in a case brought by the Philippines. China has ignored the ruling.

The 2016 ruling did not take a position on who should have sovereignty in the area. The UK has [called on China to accept the ruling](#) while adhering to its longstanding stance of not taking a position on the sovereignty issue.

Stronger UK action in future is more likely to be prompted by growing concerns about the freedom of maritime navigation under international law in the South China Sea than sovereignty. In this regard it shares the views of other Western powers, including the US, which has been sending naval ships into the area to uphold this right. China claims that it supports the principle, provided its territorial waters are not violated.

In early 2019 the UK's Royal Navy [increased its joint military exercises](#) with the US Navy in the area. There have been reports that the UK may send an aircraft carrier to the region in 2021 to demonstrate its commitment to freedom of navigation in the South China Sea. China has been heavily critical of this idea, warning that doing so could be considered "[hostile action](#)".

## Soft power

Over recent decades, the Chinese authorities have sometimes expressed discomfort about BBC World Service broadcasts, taking actions that – critics allege – are designed to limit their reach and impact – for example, in [Hong Kong](#) in 2017.

The cultural and educational programmes of the [British Council in China](#) have to be formulated with Chinese sensitivities about the "soft power" strategies of foreign countries like the UK in mind. The Council's governance-related activities in China are currently limited to [access to justice](#).

The same applies to the [Great Britain-China Centre](#), a UK non-departmental public body which carries out governance, human rights and sustainable development programmes in China.

The UK closed its [bilateral aid programme](#) to China in 2011. However, it continues to spend some aid money in China in the context of a "global

development partnership” between the two countries. This spending has sometimes [provoked controversy](#) in the UK.

£9.17 million of aid spending on projects has been approved for 2020/21. However, such spending is due to reduce to close to zero in 2021/22.

A significant amount of UK aid has been spent on promoting UK-China cooperation in tackling climate change. For example, in 2017, as part of the ninth UK-China Economic and Financial Dialogue, the two countries launched a “[UK-China climate and environmental disclosure](#)” pilot project. It brought together a group of British and Chinese financial institutions to strengthen climate reporting practice in both countries. This pilot project is ongoing.

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