



**Margaret Thatcher Conference on China and Britain
Guildhall, London
Tuesday 19 June 2018**

Transcript of Panel One – The Big Picture: The Current State of UK-China relations

**Lord Sassoon (Chair), Lord Powell of Bayswater,
Rt. Hon. Sir Malcolm Rifkind, Dr Keyu Jin, and Dr Steve Tsang**

The video recording of these remarks is available on the [CPS YouTube channel](#).

Lord Sassoon: Good afternoon, ladies and gentlemen. Let me just briefly frame the discussion for this panel. I'm, as you've heard, James Sassoon, Chairman of the China-Britain Business Council. Just to underline who we've got on the panel because here we are at the Margaret Thatcher Conference after all, so to have not one but two panellists who were very active in UK-China relations under Margaret Thatcher is itself great this afternoon. But they, of course, continue to be very active.

Both Lord Powell of Bayswater, who was there working for Margaret Thatcher Prime Minister in 1984 when, amongst other things, the joint declaration on Hong Kong was agreed, and Sir Malcolm Rifkind, not only a former Foreign Secretary but also a Defence Secretary in the Foreign Office. I think Malcolm, in the run-up to the '84 declaration and then of course back in the Foreign Office as Foreign Secretary in the run-up to the Handover in '97, and most recently considering, amongst other things, defence and security issues as Chairman in recent years of the Intelligence and Security Committee of the House of Commons.

We then have Dr. Keyu Jin, Associate Professor of the London School of Economics, one of the great experts in the macroeconomic issues for China, but also with the unique perspective, born in Beijing, partly educated in the US, and now living and teaching in London. Finally, Professor Steve Tsang, now Director of the SOAS China Institute. But many people will know you, Steve, from Nottingham and Oxford. You've been teaching in the leading institutions here for many years, writing on many subjects. You've written a book recently on Xi Jinping's era, a book on Taiwan, very much involved on all the key issues.

Let me just frame the debate by repeating what some of you [inaudible 00:02:15]. I think the UK-China relationship is in great shape. It's not just that we saw the warmth of the relationship built up between President Xi and Prime Minister Theresa May three months ago, the talk of new chapter of the golden era. I was in Beijing and heard the Vice Premier in a meeting with me last month talking about profound friendship between the UK and China. Not language I've heard before in my working time. I represent British business, so I'm



delighted that British exports of goods and services in 2017 were up over 30%, 30.2% to China last year. So our business people are very energetically on the case and they're selling what China wants to buy.

But there are many questions we should get on to start discussing. Hong Kong may come up something unique, a particular facet of the UK-China relationship which no other country has. We've already heard references; Martin setting us the task of thinking strategically as Mark Tucker did on Belt and Road. I know that will come up. Huge opportunity, but some see it as a threat. To what extent is the state of the UK-China relationship now driven by the fact that China and the US have embarked on a trade war. Is it some sort of zero-sum game? What are the things that the UK should be working on? Again, rising to the challenge from Mark and Martin, what are the areas where the UK should be working together? Yes, Belt and Road. What about technology and the many other areas of businesses?

I finally say, looking at one of my Chinese friends in the audience, I won't embarrass him by mentioning his name, but a senior Chinese official who knows Britain very well, who immediately after the state visit in 2015 said to me in Beijing, "Golden eras don't last forever so we better get on now and see what we do with it."

With that, I'd first like to ask Lord Powell, Charles Powell, to give us some opening remarks.

Lord Powell:

Well, thank you very much, James. I think, since this is the Margaret Thatcher Conference, we should start with just a moment of history. Margaret Thatcher was deeply engaged with China throughout most of her prime ministership, but particularly in the earlier years when she had to discuss the future of Hong Kong with Mr. Deng Xiaoping. Now let's not mince words, Margaret Thatcher hated the idea of handing Hong Kong back to what she regarded at the time as a communist dictatorship. That was particularly the case since we are engaged in the Falklands War and she had fought that successfully.

Indeed, rather like Queen Mary I, who said that she would always have Calais written on her heart, I think Margaret Thatcher always had Hong Kong written on hers. But she was realistic and she set out to fight hard to gain the maximum autonomy for Hong Kong. Her first ideas didn't exactly appeal to Mr. Deng Xiaoping. Her opening position was, "Don't worry about 1997. Of course, sovereignty reverts to China, but we'll go on running Hong Kong for you, Mr. Deng Xiaoping. Don't worry at all." As you could imagine, the reaction to that was not very positive.

But she negotiated hard, with enormous help from Geoffrey Howe, really I think his greatest moment as foreign secretary, and ended up with an agreement, which is still observed in almost every respect today. What she demonstrated is that you can be firm and negotiate hard with China while showing respect and still conclude an agreement. In this case, the joint declaration on Hong



Kong's future, an agreement that was far more favourable to Hong Kong than many thought possible when the negotiations began.

Now that period was succeeded by what one might call the first golden era, when almost every conceivable Chinese leader visited Britain between 1984 and 1989. They all came - Hu Yaobang, Jiang Zemin came as Mayor of Shanghai. I have a particularly happy memory of his visit. We knew nothing about him at that time. But he arrived to see Margaret Thatcher and announced the one thing he really wanted to do was to travel alone on the London Underground. Well, this doesn't strike me as necessarily the best idea, but I had a word with the security officer at Number 10 who said, "Don't worry, sir. We'll put him on the circle line. He'll come back eventually."

But, of course, that first golden era came to an end with the events of Tiananmen Square and over the years there have been plenty of setbacks in our relationship. It's just right to remember that. We have troubles over people meeting the Dalai Lama, we have trouble over Hong Kong Airport, other aspects of Hong Kong over Tibet. It's not just in the UK, other countries have had great volatility in their relationships, look at Norway, for instance.

Now, of course, we shouldn't unnecessarily, needlessly provoke China on these sorts of issue but nor should we be supine if the tempests occur. We should always be ready to stick up for our principles, our values, and our interests, and not be seen as a pushover. The message is that just bear in mind how rapidly things can change in the China-Britain relationship and take nothing for granted.

Now our objective has to be the strongest possible relationship while always acknowledging the huge differences in our societies, which, in some ways, are actually increasing. But we also need to be aware of the risks which could confront us, and some of the difficult choices. I'm going to list four.

The first is, Hong Kong. Well, of course, we don't have any direct responsibility for Hong Kong. We do have continuing moral responsibility. We should not - we should not - support attempts to claim rights for Hong Kong, which were not in the joint declaration or the Basic Law. Those are completely unrealistic. But on the other hand we should speak up if the promises made in those documents are put in jeopardy, even if that causes some reactions in our relations with China.

Second risk, the trade war. We have a risk of being caught up in an escalating war where the friction was notched up further yesterday. As far as possible, we should stand aside from it. But, although some of President Trump's objectives and negotiating tactics are absurd, such as arithmetical balancing of imports and exports, the uncomfortable fact is that China remains, in many ways, protectionist and mercantilist, and Britain shares many of President Trump's objectives on intellectual property, on subsidies, on a level playing field. We have perhaps, in some of these issues, been a bit too indulgent of China in the



past, particularly in China's continuing developing country status in the WTO. So there's plenty to criticize in President Trump's approach, but let's recognize he's also fighting some of our battles and has grabbed China's attention.

The third risk, a further deterioration in the wider US-China relationship. The days of low profile for China recommended by Deng Xiaoping are over. China's power is increasing, so is its propensity to exercise it particularly in the region, and strategic competition and economic friction are bound to increase. Now a policy of engagement on its own is not enough. It's not delivered what we hoped for it and it does need to be balanced. It needs to be balanced principally by the United States, maintaining its power in the region, plus such modest support as we can learn to that. But it is likely to present us with some hard choices between our purely bilateral interests and wider strategic interests in common with other democracies.

My fourth and last risk is, what happens after Brexit? Of course, the answer we all have on the tip of our tongue is, who the hell knows? But I'm just saying one word, don't exaggerate the attractiveness to China of a bilateral free trade agreement. I think China may well prefer to keep any concessions it has to offer for the wider EU market. It may see some tactical advantage in Britain being separate from the EU, but I think I would have to say we can't look for salvation here. A Chinese FTA is desirable, but it's not a ready-made substitute for our exporters for the European market.

My conclusion, it's fine to luxuriate in the golden era and do our best to maintain it, but there are bound to be times when we have to act against our purely business and commercial interests and we should not flinch from doing so if we have to. That will require firm and decisive leadership of the sort Margaret Thatcher showed in her time, both in dealing with China and in many other respects. Thank you.

Malcolm Rifkind:

Ladies and gentlemen, the earlier speakers at this splendid conference concentrated, perhaps not unreasonably, on the extraordinary transformation of China and all the significance of that. I think we're indebted to Charles Powell for, of course, reminding us that the situation has areas of concern and sensitivity as well, which also have to be aired.

As he said, Margaret Thatcher hated the idea of Hong Kong becoming part of mainland China because they would risk losing political liberty, and China has not changed since that happened. She realized in a pragmatic way that we had to work towards the two systems in one country. But the sad and undeniable fact is that China certainly has no more political liberty than it had at that time. And of course, we've had Tiananmen Square in between, with all the horrors that that represented, but which cannot even be mentioned in China, such is the denial of free speech.

Now I'm just going to make three relatively short comments in these remarks at the moment. If one or two of them sound a bit negative, it's not because I



want in any way to deny China the credit for the tremendous transformation of its economy, but there needs to be a bit of balance as we assess what has been achieved. Yes, China has transformed itself in the last 30 years, but it should have happened 50 years ago. It should have happened at any time in the 20th century. We have always known that if China adopted capitalism it would transform, not only China, but make an extraordinary impact on the world. How did we know that? That's not just a theory. Because all those years that China was poor and struggling and backward, we had the examples of Hong Kong, of Taiwan, of Singapore, Chinese communities, quite apart from Japan, South Korea, and other Asian countries.

What we have seen in this extraordinary transformation since Deng Xiaoping was not, I have to say, Lord Saatchi, it's not that China now has socialism with Chinese characteristics, it has capitalism with Chinese characteristics. It is capitalism that has transformed China into the extraordinary economy that we have seen. And being vastly larger than Singapore, Hong Kong, or Taiwan, of course, the impact is global rather than regional.

The Chinese characteristics, sadly, are not so much economic characteristics, so they include the capital investment and matters of that kind, but also the denial of political liberty in what is otherwise a market economy. We always used to assume capitalism had to be a decentralized system in order to achieve its full potential. Who knows what the potential of China might be if the political constraints, the political freedom on hundreds of millions of Chinese was relaxed in a significant way? That's the first point I wanted to make.

The second point, of course, in terms of the United Kingdom's position, is we cannot forget, as Charles Powell correctly mentioned, our responsibilities in regard to Hong Kong. Chinese government said we have no responsibilities. Hong Kong is now part of China, it is now history. But that's not the case. It's an international treaty between China and the United Kingdom deposited at the United Nations and it commits China for 50 years. And we've only had 20 years so far to respect two systems in one country. Not just the letter, but hopefully the spirit as well.

Now I want to pay credit to China, the Chinese government, that in the first 20 years of the 50 years, we still have two systems in one country. Hong Kong remains dramatically different from mainland China, both the political liberty of its people and all the other social and economic characteristics that we are familiar with. I pay all credit to the Chinese government for having carried out many of the strict letter of the obligations that they had.

But have they carried out the spirit of it? If there is an area that we should be most anxious about, which certainly the people of Hong Kong are anxious about, it has been in the regard to the rule of law in Hong Kong. Not that it's gone. It still has an independent judiciary. But we have seen, in some respects, a real erosion of the rule of law in Hong Kong and, in other respects, we've



seen proposals from Beijing, which if they had been accepted and not given rise to huge opposition would have eroded that rule of law even further.

Now Lord Sassoon mentioned that I was foreign secretary at the time of the final stages of the transition from Britain to China. I remember vividly a visit I made to Beijing after having been for a day or so in Hong Kong to see the Chinese Foreign Minister Qian QiChen. When I'd been in Hong Kong, the people of Hong Kong whom I met said, almost uniformly, the business community as well as the political people, do emphasize to the Chinese government that what is crucial when Hong Kong becomes part of China is not just a question of the political rights of the people of Hong Kong, whether they'll have two candidates or three candidates rather than one candidate to vote for in elections, but what's perhaps even more important is the continuing enjoyment of the rule of law. Because Hong Kong under the British was not democratic, but it did have the rule of law.

When I saw the Chinese Foreign Minister I made this point and I have never forgotten his answer. He said, "Don't worry Mr. Rifkind, we in China, we believe in the rule of law. In China, the people must obey the law." And I had to point out to him that when we talked about the rule of law, it wasn't just the people who had to obey the law and be under the law, it was the government itself had to be under independent courts and independent judges. I think not only did he not agree with me, I don't think he understood what I was talking about. Because I think in China, and it's one similarity they have with Russia, it would better be described, not as the rule of law but, ruled by law. You use the legal system and the courts ultimately to impose your political control and to prevent any serious challenge to it. That is something which inevitably has implications for the future of Hong Kong.

The third and final thing I want to refer to is, of course, that the transformation of China, this extraordinary transformation, has not just been an economic one. Because as China has become hugely important economically, with vast resources at its disposal, we've seen the transformation of its military capability. We've seen China for the first time, virtually, in its history becoming a naval power of real significance.

Because the extraordinary thing about the Chinese Empire was, with one episode hundreds of years ago, one exception hundreds of years ago, China never sought a maritime policy beyond its own shores in a significant way. It does today. It now has a base in Djibouti near the Suez Canal. It now has port facilities in Pakistan. It has 70% ownership of a port in Sri Lanka. It has an aircraft carrier newly constructed. It has very significant military capabilities.

So the point I want to make, and it's not just on the sea lanes, it is also the Central Asian initiative, the Belt and Road Initiative, is they're not just economics; these are geopolitical. The huge attempt that China will successfully make, I think along with the support from many people, to link for the first time in human history Europe and China - not just by sea, which has



been the traditional way of getting access, but by land through Central Asia - will have profound significance. The big losers in the short term will be Russia, because Russia traditionally has assumed its primacy in Kazakhstan and Uzbekistan, these countries of Central Asia and already they are becoming economically, not insignificant but, very much the junior partner.

Final remark in regard to the sea lanes because the United Kingdom perhaps even more after Brexit will have more emphasis on its maritime policy. What happens in that part of the world, because it's a very long way away, nevertheless affects us. It's perhaps worth remembering that no less than 12% of our trade in goods, 12% goes through the South China Sea.

And if the South China Sea, which despite its name, is not next to China, its closest neighbours are Indonesia, Borneo, Malaysia, Brunei, Philippines, if the South China Sea then, particularly the Spratly Islands, are now not only being controlled increasingly by the Chinese government, but are being militarized with the military bases being established there, there's clear evidence of that, then we have to wait and see whether that is going to increasingly be, not just an opportunity but, potentially, a threat,

There is a real nervousness amongst China's neighbours. Recently, for the first time in history, India and Japan jointly had a naval exercise. What on earth do India and Japan have in common except China? That nervousness is shared in Vietnam, it's shared in Indonesia, it's shared in Australia, and other countries.

So I make these points not to belittle what China has achieved, but simply saying that what we've seen in human history is that whenever a country transforms itself into a global power, then there is nervousness amongst their neighbours, not just economic opportunities. It happened with the British Empire. It happened when the Americans became the global power. It happened with Germany after Bismarck in the 1870s. It's too early to say for certain whether it's going to happen with China. Deng Xiaoping always used to emphasize that we have no ambitious or aggressive rules, we don't wish to throw our weight around. More difficult to argue that that is still the case with Xi Jinping.

I simply conclude by saying I think on these political issues the jury's out. I do not hope ... I hope very much that they will not inhibit the economic cooperation. That can happen with new powers, all powers, and countries that are no longer powers, and the more that that happens the better. Thank you very much indeed.

Keyu Jin:

First of all, let me say how thrilled I am to be here, as a Chinese national living in London, to be part of this esteemed group committed to enhancing the relationship between our two great countries. Now the Industrial Revolution was considered one of the most important events in history because for the first time, within one human life, a person's income increased by 75%. Under plausible projections about China's future growth, people born of my



generation, after Deng Xiaoping's opening up and reform programs, it is highly plausible that we would have seen our income and living standards rise by 75 fold. That is the remarkable transformation of China.

Back in the days of Industrial Revolution, these various countries had to define their relationship with Great Britain. Today, it's very possible that many countries are thinking about how they want to relate themselves to the rise of China. Now the word that best captures, in my view, various countries' sentiment towards China's rise is "ambivalence." Now on the one hand, various countries in Asia and Europe want to enhance economic cooperation because there is a lot of room for cooperation that will be beneficial for, not only China, but for the respective countries. On the other hand, as we've also just heard, there's the view that China poses as a real threat to global political stability.

Now that view tends to push countries towards working closer with America, with the United States because only then can the containment of China be possible. Now that kind of ambivalence is, I believe, a very prevalent sentiment. But I actually found, living here in London, that the United Kingdom, UK, has been tremendously open-minded, much more than most other countries, most other industrialized Western countries, towards welcoming China and China's investment and cooperation with China. But as America pursues more of its America-first policies, as President Trump steers the US away from its global leadership, I think the consequence is that it will push various countries closer to working with China.

Now, if the objective is to enhance the relationship between a country with China, I'd say that the first thing that one needs to do is to kind of break the mental shackles one has about this enigmatic strange creature. We find it very strange because it has risen to prosperity through very unconventional paths. It hasn't risen to prosperity with Adam Smith's invisible hands, but rather Buddha Guan Yin's thousand very clear and obvious and prevalent, ubiquitous state interventions enhanced in these kind of mobilization economics with which we are not familiar was one big part of China's rise in the recent years.

So we deal with China, or let's say, the misperceptions about China come from the fact that a lot of these issues surrounding China are either emotionally-charged or ideologically-charged. Did they steal our jobs? Did they displace our workers? How could an authoritarian regime, with collective leadership, not a liberal democracy succeed economically? We have these emotionally-charged issues.

Now rather than blame trade one should ask the question: how much it has to do with technology? Technological progress has much more as a factor contributed to the displacement of workers than trade. Is the trade surplus with China, which by the way has come down from 10% of GDP to 1% of GDP over the course of 10 years, is it really because of unfair trade practices or is it because of economic success of China? The fact that they produce more they



consume rather than the other side, in the Americans, which is that they consume more they produce.

A lot of these issues are emotionally-charged and, therefore, we tend to go towards this more kind of misconception about China's rise. Now the very fact of the matter is, in my view, that economic growth model that has helped lift 800 million people out of poverty, has built infrastructure, and given access to education and health to so many Chinese is also a form of human rights, of giving human dignity to a large group of people.

Coming back to how the most important question of the century is: how is China going to exert its global leadership role? That must be, what is the defining characteristics of that? Post-war US defined it with universal values and export of moral universalism and export of values. China is not going to pursue that. The essence of China's global leadership is economic pragmatism, whether you like it or not that is the essence of what it's trying to do.

Today, when the world is in a deep need of infrastructure development, and here we're not talking just about developing countries, I think most of us will never say they admire the JFK Kennedy Airport in America. When monetary policy is such that interest rates are at the zero lower bound, this is a chance for a fiscal policy all around the world to be able to help stimulate the economy. So the world needs infrastructure development.

Interestingly enough, everyone has heard of Belt Road Initiative; they have probably heard of the One Belt One Road. I suspect that a few of you would have understood why the name got changed from One Belt One Road to Belt Road Initiative. The reason is that the focus too much on the one - one maritime linkage, one land route - was giving the notion that it was a very China-centric effort. Now that's another deep misconception about what that is, what this Belt Road project is about. In fact, it is five different links and routes that will link together Europe, Asia, and Africa.

The Belt Road offers us a new global concept, as Martin had said, a project, a platform for various countries to cooperate. And speaking about what the UK or what kind of participative role the UK can have in this project, one has to understand what that concept is about. The concept is to link various countries comparative advantage. We're not talking solely about infrastructure. We're talking about finance. We're talking about logistics. We're talking about governance issues. We're talking about, of course, manufacturing and technology. All these various aspects providing a global platform for different countries to cooperate.

Hence, the initiative behind the Belt Road Initiative is trying to signal no, this is not a China-centric, China-focused program. It is China trying to enable by paying the initial fixed costs of setting up a program, a platform so that countries can work on global projects together.



Finally, let me say that apart from the Belt Road Initiative, which has, of course, garnered a lot of attention, there are so many areas, aspects of cooperation between the two countries. It is probably the first time in history that a country with only 25% of the richest country's GDP, or one of the richest countries' GDP, US, it's the first time in history that it has become a technological leader in many key areas. We used to think about China being the copycat model, but now many of its business models are being copied rather than the other way around.

I think that the reason why China was able to succeed was that, economically speaking, is that it followed one principle: don't let politics get in the way of economic development. So when we think carefully about labelling China as threat saying that Chinese investments of any kind are threats to national security, when we want to stop China from investing infrastructure or at least enable that program to invest in infrastructure in poor countries, this is also something I think we should remember: don't let politics get in the way of economic development. Thank you.

Steve Tsang:

I will try to keep to the five minutes that we've been allocated, you may be pleased to know. I was asked to talk about the big picture. I think I will come into it from a slightly different perspective of the golden era of Sino-British relations. I think it's easy to look at this and see this as an unprecedented strong relationship. I would like to remind everybody that, in fact, the United Kingdom and China had been partners, friends for a long time. We were at wartime allies and not only in name, but just forces fought side-by-side with Chinese forces in the Second World War in Burma and British units also operated in China units, like the British Army Aid group.

That wartime period was not only just about military cooperation and assistance. Now that Chiang Kai-Shek, China's wartime leader, had his personal diary released, from those diaries, we know that between 1938 and 1942, when one, Sir Archibald Clark Kerr was British Ambassador to China, believe it or not, he was one foreign advisor or indeed one advisor that Chiang Kai-Shek relied on most. He had plenty of generals and able administrators in the Chinese government, he couldn't always trust them and talk to them freely. Archibald Clark Kerr was somebody that Chiang Kai-Shek relied on to sang out his ideas about the war and the post-war order. It was a very strong relationship all through that wartime.

At the end of the war, when China in the post-war world started to rebuild its navy. Well, yes, the bulk of the post-war Chinese navy were ex-Japanese ships, with a few American destroyers. But what was the Chinese flagship? The CNS Chung King. That was formerly HMS Aurora. It was a gift from the Royal Navy. That was a cruiser and the flagship of the Chinese Navy. The United Kingdom was also the first major world power apart from the Soviet Union of the Socialist Bloc, which accorded the People's Republic of China full diplomatic recognition on the 6th of January 1950. Before anybody else, before we even knew what the new Chinese government would or would not do, the United Kingdom took the lead to recognize China.



In the 1980s, when China started with Deng Xiaoping reform, or indeed from the start of Deng Xiaoping reform in December 1978, one of the biggest contributions to the success of the Deng Xiaoping reform was the role that was played by British Hong Kong. I do not want to belittle the role that Margaret Thatcher played and her foreign minister and foreign secretary played in negotiating for a deal for Hong Kong, but we also need to recognize that when China agreed in the 1980s and kept its promise in 1997 for Hong Kong to have its different system from China, it was not only because of the treaty that was being signed.

Important as it was, it was also because Hong Kong was so incredibly important for the success of the Deng Xiaoping reforms. China is where it is today because of the fantastically important positive role that British Hong Kong played in this development. And of course, I think Sir Malcolm was right to say that it is something that we want to continue.

Now I will end, I hope Lord Sassoon will know, will hear that I am going to end on the note that where do we go from now? I gave you a picture of how much the United Kingdom have been in some ways very positively helping, assisting China in its development and achievements. But the world has changed. I think we heard a lot about that. Martin gave a fantastic exposition of how the world has changed. China does not need our help any longer. China is now a peer partner of the United Kingdom. For peer partners, it will be utterly disrespectful, disrespectful on our part if we do not simply treat it as an equal peer. And between friends, reciprocity is the key word.

That is what we should be insisting on. It's not about whether we should or should not be more welcoming to Chinese investment. Of course, we should, but equally, we would expect and ask for the Chinese government to treat British investments in China on the same basis that Chinese businesses and investments and visitors in this country are being treated as good friends. Thank you very much.

Lord Sassoon:

Steve, thanks very much for making sure we didn't slip further behind. But we still got I think about 25 minutes for getting a discussion going. I assume there are microphones that will come round if you want to join the conversation. But we've had a lot of issues on which we've had some very [inaudible 00:38:53] voices already. Perhaps the place to start, because Charles kicked off in, well, I mentioned Hong Kong, but Charles kicked off in substance Hong Kong as one of the first of the areas of potential difficulty.

Then, Malcolm, you cast some quite severe doubts over the rule of Hong Kong. I mean, is this Hong Kong in which the President of the Supreme Court of the United Kingdom has just agreed to become a judge on the court of final appeal? What is going on here? I just wanted to talk a little bit more about Hong Kong. I know, Steve, you mentioned Hong Kong, but first of all, Charles, do you want to say a little bit more about what you see either in the context of rule of



law or other issues that could come up in Hong Kong as a significant difficulty in the relationship with the UK and China?

Lord Powell:

Well, I thought I gave my basic view in my remarks, what was achieved for Hong Kong in 1984 was very creditable, that it's been observed in the almost in entirety since then, and that Hong Kong has remained remarkably the same as it was. Of course, there had been some changes. There are issues around as we all know.

On one side, we have a generation of people who simply don't know the history and believe that Hong Kong is entitled to independence. I mean, that's nuts. It's complete nuts. There was no mention of independence. There never has been. The idea that that can be presented and taken up by human rights campaigners in some parts of the world as a credible future for Hong Kong, I mean, it's just ... Well, words fail me.

There are other issues on which I think Hong Kongers do feel uneasy, in the security field in particular, to some extent in the education field, where the facts of history that their children are to be presented with, that don't really accord with, let's say, the whole reality. But I think these are by and large reasonably minor issues.

Hong Kong, of course, it's rowdy, it's a little bit chaotic in its politics, but that's always been one of the strengths of Hong Kong. That it's not conformist and everyone doesn't salute and obey. They argue, but they get there in the end. I'm not at all worried about Hong Kong's future in general. There will be problems along the way, and if they arise, we, in Britain, must be prepared to speak up if their complaints are justified.

Lord Sassoon:

Thanks, Charles. I'd like to come back to Malcolm in a moment, particularly this question you raised speaking up. I mean, what is the balance of getting the most effective response speaking up in public or speaking privately in Beijing. But maybe, Malcolm, you'd like to come back on that in a minute, but after, Steve, do you want to add a word on the Hong Kong issues?

Steve Tsang:

Yes. I think Charles was right to flag up the issue of Hong Kong independence. But let's not forget that if you go back about five years, there was no independence movement in Hong Kong. There wasn't really much, even of a call for independence in Hong Kong. It happened largely as a result of the use of excessive force by the local police against the Occupy Movement of 2014, which then became the Umbrella protest.

It was out of that that people in Hong Kong and with their decisions to, with their options of directly electing the chief executive also being closed off that some people in Hong Kong talk about it. It's not a movement. I don't think there is an independence movement in Hong Kong. I don't see that as really a viable option for Hong Kong either. But I think we also need to bear in mind that if we don't flag up the issue about where Hong Kong is and how it actually



happened, the Chinese government may not actually necessarily see what is the right thing to do.

That is why I think I agree with Sir Malcolm that flagging up the issue of rule of law now is the right thing to do. We should not wait until rule of law has disappeared before we flag it up. It's something that we have to work for, we have to protect on a daily basis, anywhere, even in democracies we have to do that. We have to remind our Chinese friends that Hong Kong is important for all of us. We share the same common interest that Hong Kong will remain vibrant and successful and contribute to China.

Malcolm Rifkind:

Yes. I don't want to exaggerate the point I was making earlier. But I do think it has to be recognized that, in a number of respects, there has been a gradual attempt at eroding traditional liberties, traditional freedoms, and the rule of law in Hong Kong. Let me just give two examples. There are a lot of examples that can be given, let me give two; they're quite well-known. A bookseller in Hong Kong, who was simply abducted by the Chinese security people, removed to China and held there for a very considerable period of time.

Second example, many of us will remember the Umbrella Movement, which was overwhelmingly a nonviolent protest by young Chinese, perhaps a bit naïve, perhaps a bit unrealistic, but thousands of them were demonstrating and a significant number of their leadership has been given terms of imprisonment. Although there had been debates as to exactly what they were found guilty of, but the protests in Hong Kong are the sort of things which were happening in every Western country as simply as an expression of free speech, large numbers of young people demonstrating for a different point of view.

I happen to agree with Charles, independence is absurd. But it's a point of view that people are perfectly or ought to be perfectly entitled to argue. The difficulty we have, it's the final point I make, is that just as the Chinese in the whole of China do not allow any discussion about human rights in Tibet or Xinjiang, or even in China for the rest of the population. They want gradually to achieve a similar self-restraint in Hong Kong so that people understand the barriers that are expected of them, if they wish to have career promotion, if they wish to be recognized for other opportunities, there all sorts of insidious ways. I mean, if you wish to put pressure on people you can do so even if you technically don't change the law.

Lord Sassoon:

Malcolm, thank you. It's so nice being occasionally the chairman. I mean, just to make the point, of course, that some of those sentences on the protesters were recently reduced by the Court of Final Appeal in Hong Kong, a panel of judges which in that case included Lord Hoffmann. They are very important and difficult issues, but I think we ought to move on to another area where there was some controversy between panelists. But an agreement I think of the enormous economic opportunity between the UK and China, which is Belt and Road, BRI.



Keyu, you sketched out some of it, the enormity of the project, and we saw it graphically, Martin showed us the map with the five corridors and more on it. But you said, Keyu, I think one point, "Don't let politics get in the way of economic development." I mean I think we'd probably all agree that there is an almost business opportunity for the UK to work with our partners in China here. But then we heard a bit from both Charles and Malcolm what some of the fears are. Is it possible for China to be really carrying out this project, leading it? You said it isn't entirely a Chinese project. But how do you respond to people who, like Malcolm and Charles, know China very well, they know the thinking, they're not coming from some unthinking critical background, who do point out that we shouldn't look at this entirely without critical thinking?

Keyu Jin:

I think that there are many areas in which China has to work significantly on and I want to list a few of the points where I have my reservations about China and China's growth. But first of all, let me say that the China shock, it's a one-time shock and it's over, it's done. The trade, the inflows, the fluxes of knowledge and trade of goods and financial capitals that's driven by China's growth, that's already over. So the economic and financial history that will be written by China is what we should be looking forward if China tries to liberalize its financial accounts. Trade accounts, trade liberalization, it's been open.

On trade, I want to say that despite the fact that trade frictions are obviously to be avoided, I do actually believe that it is time for China to be opening up. China, whether we want to accept this view or not, the Chinese government has come to the awareness that it is now time for China to start giving back to the global system from which it has benefitted so much. We haven't seen much efforts yet, but I can tell you that the thinking or the frame of mind is already there.

Second, I agree that it's ridiculous for China to be imposing direct technological transfers if foreign companies want to come to China to work with China. It also makes very little sense to impose so much high tariffs on cars, wine, and cheese, and things that the Chinese consumers can enjoy because China is no longer at a stage of development where infant industry protection is warranted. When a country starts to grow you want to protect some of its industries and it's easy understand. China has long graduated from that stage of development. Actually, only by inviting the best technological companies to come work in China, invest in China, by liberalizing the financial markets can there be another impetus to China's growth.

So on that, even though I disagree with the kind of the political and the trade frictions that have risen, I do believe in general that China should be headed towards being a fairer, playing a fair share in the global system. On the politics, on the political, geopolitical side, I think that it's interesting to really study carefully economic history, China is not the first country to have risen very rapidly in economics, accumulated a huge amount of external surplus, external wealth, and is trying to internationalize its financial centre and its currency.



Actually, we started with this country in the 19th century where there was a huge amount of capital flowing abroad to emerging markets to invest in infrastructure. Then was the United States and things like the Marshall Plan is just an illustration where some of this could be put into good use. I don't want to belittle the notion that there is a general concern about the geopolitical aspects, but you want to ask the question: Is it about economic benefits for many different countries for people, for a wide group of people, for helping development and will it achieve that? I think that is the question we need to focus on.

Lord Sassoon:

Okay. Well, let's come onto that, you didn't directly rise to the kind of Djibouti challenge, but I won't press you any further on that, but you talked about the economic challenge. I think, Charles, you talked about the attractions of a free trade agreement. I mean, you made the wider point about whatever the benefits to the UK and China of a free trade agreement, which you sounded very positive about, that in itself isn't going to sort of deal with the wider UK post-Brexit question.

But I just I want to spend a moment or two on the free trade agreement question because there was some key British opinion formers on China who say, and Peter Mandelson has written in the Financial Times, for example, perhaps he's a lone voice, but Peter, who knows China extraordinary well, has had to negotiate with China on trade after all, would say, and I think I paraphrase him ... Is he here? Is Peter here? No? I can paraphrase him by saying I think he would say that the UK is already so open, allows China to do so much here, that we have so little to offer, what's the point? Not a viewpoint I agree with.

Steve, do you want to say anything about free trade agreements and whether China is or should be interested in talking to the UK?

Steve Tsang:

I think what you paraphrased of Peter Mandelson's is right. We are very, very open, which is essentially why I ended my five minutes with the word reciprocity. I'm delighted that you're saying that China should be opening up. It is where we really need China to go and to appreciate the long-standing friends. I mean, no country, no major economy in the world is more open and welcoming to Chinese investments and Chinese trade and Chinese visitors than the UK. It really should in a sense be reflected in how China treats British investments and businesses and visitors in China.

At the moment it's not quite the same. So we need to move a lot more in that direction and the incentive should be not just what it can be done with the UK. And by doing it with the UK, it sets the example to show what Dr. Jin has talked about in terms of the sincerity of the Chinese government in how it wants to play this new role in global affairs. It needs to put money where its mouth is.

Keyu Jin:

Can I just add something?



Lord Sassoon: Yeah, do come on, please.

Keyu Jin: Services as a percent of GDP is about 50%. This is far below the 75 to 80% in advanced economies. So this is an area in which service trade could potentially be an area of cooperation, that's number one. Number two, I think that the internationalization of the currency and, as I've said, China is really trying to make international financial markets liberalized. I think that China could assist London in still maintaining or enhancing the international financial centre role by putting a lot of its activities of the RMB and the currency trade in London.

Lastly, I mentioned technology. I didn't really quite explicate. But for those of you who are not familiar with that sector in China, it is really booming and bustling and it offers so many opportunities. This is why I'm optimistic about China's economic future is really how much of a digital economy is able to transform itself. I understand that here we also have a focus on innovation and technology. I think that with China's big market, big data with the technological innovation and capacities here that's another area in which there could be greater cooperation.

Lord Sassoon: Thanks, Keyu. I agree with all of that. There is certainly an awful lot that the UK, first, has to offer and can gain from bilateral agreements. I mean, here we have HSBC, I'm reminded, looking behind me, as the sponsors today. I mean, it's fine. It's fine for the world's banks to be able to own majority ownership of financial services firms, but if when they can come to get detailed licenses for specific areas of business and it's not a level playing field, then ownership only gets you so far and one could see that across lots of areas.

I have no doubt that the UK has an awful lot. We shouldn't think we can teach China a lot in many areas, but I think there's a lot of interest to China here in many areas of technology, including financial services. But the question is: what do we have to offer? I mean, it does seem to me.

But maybe I should throw this back to Charles because actually he put it on the table first. It does seem to me that actually what we offer China here, Charles, in access to our nuclear industry and in technology partnerships are things which are there at the moment, but which could go away very quickly if the political sentiment changes, which perhaps could happen, I don't know if there's not a willingness on both sides to actually roll up the sleeves and have a free trade agreement. But is that the way to analyse it?

Lord Powell: Let me just make two or three related points. One is, China's technological spurt in the last five years or so has been remarkable. So remarkable that it would be slightly unkind perhaps to speculate quite how it's been made so rapid. But I think we all know where some of it has come from, and I won't say more than that.

On the question of politics not interfering with development, I think that's certainly a curious statement. Politics is ever more involved in China's current



economic development. The role of the party in companies is increased, not diminished, party secretaries appear on boards or dominate boards even for foreign companies. For me, that is involving in politics in economic development.

My third point will go back to something Martin Jacques said, that we shouldn't expect China to change in our direction and accept the system, the global system as it is. Of course, I don't expect them to do that. But I do point out that China has benefited hugely from the rules of the present system and will continue to do so as long as it serves them. To say that you know somehow they would be entitled to deviate from them, because they weren't involved in the construction of them, I think is not really the right view to hold.

Lastly, on the free trade agreement, well, yes, we are much more open than anyone else. Of course, that's not true of all our European neighbours, many of whom have many more restrictions on Chinese companies than we do and, indeed were much more open to the United States as well. All the more reasons for China to take a benign attitude to the interests of our companies in its market and be ready if we have a bilateral free trade agreement to open up more particularly to British firms.

Lord Sassoon: Malcolm, do you want to add anything on his statements?

Malcolm Rifkind: Well, yes. I would simply say that, I mean, I'm on the sceptical end of the spectrum as to whether there are all these fantastic free trade agreements ready to be negotiated either with China or with a number of other countries. But actually, we have a marvellous opportunity to find out. At the moment there are simply assertions on both sides of the argument about whether we should remain in a Customs Union or whether we would lose the chance for free trade agreements.

Now we know, because of the transitional agreements that have already been accepted, that we're actually going to be de facto in a Customs Union for at least the next three years. There's nothing to stop us either with China or other countries, if they're willing, to start the discussion as to what would be the basis of a bilateral agreement if that was to prove possible in the light of Britain leaving the European Customs Union. Over the next year, 18 months, we couldn't agree or reach a conclusion, become pretty obvious by then how much was actually likely to be on the table either from China or the United States, or any of these countries.

Therefore, a final decision could be taken in the UK based, not on confident assertions with no evidence to support them, but on the basis of what actually happens when you start talking to the Americans and the Chinese, how keen are they on a bilateral agreement, what would they be prepared to offer, and what would they expect from the UK? We don't know that at the moment. We've got a year and a half to find out at least before we need to come to a decision.



Lord Sassoon:

Malcolm, thank you for that. I'm going to draw things to a close. We've had an incredibly wide-ranging discussion that goes much further than the bilateral relationship, but I don't think anybody on the panel is challenging the very good state of the bilateral relationship as it is now. I thought what Keyu had to say about the comparison of the UK with either the ambivalence or the outright hostility now of other large countries is encouraging. We've been reminded frequently about the need to raise our sights and look at the relationship in strategic and long-term way. Of course, amongst other things, the post-Brexit trade arrangements and Belt and Road gives us some very large opportunities to think big and think ahead. I am greatly encouraged by all of that.

Thank you very much, Charles, Malcolm, Keyu, and Steve for this panel session. Thank you.