

TO: David Lammy, UK Foreign Secretary
FROM: Laura Crowley, Diplomat
DATE: 28/10/2024

RE: UK-China Trade Relations

Summary

This memo outlines three policy recommendations to strengthen the UK's trade position-removing trade barriers and sanctions with China, adopting a protectionist approach that prioritises trade with Europe and the US, and promoting targeted trading industries while maintaining a cautious stance.

Given the UK's allies' collective security concerns towards China, alongside the opportunities to expand UK trade and presence abroad, we recommend that the government take the final approach of promoting targeted trading industries while maintaining a cautious stance. By promoting UK exports of medicinal, pharmaceutical goods, and health insurance services to China, while limiting trade in sensitive sectors and reducing reliance on Chinese imports in critical industries, the UK maintains a cautious stance, in line with its allies, while capitalising upon opportunities abroad.

As the UK's 5th largest trading partner and emerging geopolitical power, a proactive approach to trade relations with China is vital (DBT, 2024). This relationship impacts domestic economic growth, soft diplomatic power over China, and collaborations over global issues such as climate change and conflict (Lanktree, 2024). This memo advocates for a shift away from decoupling, towards a more 'pragmatic and consistent' trading relationship with China, as quoted by yourself, Mr Lammy, following your recent state visit to China (Landale, 2024).

Background

The COVID pandemic accelerated the trend toward decoupling from China in the West (Whaley, 2024). This mutually harmful wave of protectionism feeds fearful narratives and causes an 'action-reaction cycle' (Gries, 2024-5) of defensive measures that underpin the origins of numerous global conflicts. Worsening relationships with China have seen total UK trade with China fall by 21% since 2023 (DBT, 2024). This relationship has always proven difficult to navigate, particularly recently due to the trade war ignited by our closest ally the US.

Ultimately, protectionism is not a pragmatic solution for a new Labour government which needs to champion economic growth and show strength in its international relationships. China's trade patterns and choice of global partners will heavily shape future power dynamics and have significant and lasting impacts, especially on the environment. This brings the importance of a strong UK trade policy towards China, to the fore.

Policy options

1. Remove trade barriers and sanctions with China

A straightforward open trade policy option is to progressively reduce and eliminate trade barriers with China, fostering mutual trade and renewing diplomatic relations. As the largest country in the world by population size, with 'over 100 cities of more than a million people'

(DBT, 2024), it presents vast opportunities for UK businesses to tap into its growing business and consumer markets.

This embodies a more *realpolitik* approach to foreign policy, prioritising national economic interests over moral considerations (Gries, 2024-5). However, this stance would attract opposition both domestically and from key allies, notably the US. Western trade sanctions are widely seen as measures to counter China's contentious political actions, such as its support for Russia and threats toward Taiwan. Therefore, adopting an open trade policy does risk not being able to hold China accountable for its role in global conflicts and human rights violations, including the persecution of Uyghur Muslims. Given the current climate and the fact that 'Western Liberalism and Chinese nationalism predispose Westerners and Chinese to distrust each other' (Gries, 2024-5) this policy is less likely to be effective.

2. Adopt a protectionist approach that prioritises trade with Europe the US

A second policy option is to further embrace the trend of decoupling by imposing trade sanctions on China and excluding it from all sensitive industries. This aligns with the US's stance, which has led to a trade war, stalling productive communication and causing economic harm to both sides. The advantage of this policy is its potential to counter the perceived threat from China, simultaneously triggering greater reliance on European markets, and strengthening western economies- competitors of China.

Xi Jinping's 'Wolf Warrior' approach to foreign policy alongside his considerable investment in the military plays into the antagonization of China's trading partners and makes cautionary and protectionist measures seem more attractive to many (Shirk, 2022). There is a real risk that increasingly hostile UK China trading relations could lead to a Thucydides' Trap (Allison, 2017) and spark geopolitical unrest.

3. Promoting targeted trading industries while maintaining a cautious stance

Increased exports of both goods and services to China would reduce the UK trade deficit and consequently improve diplomatic relations.

The pharmaceutical goods and health insurance sectors offer significant export opportunities for the UK while fulfilling a global demand for more accessible and advanced healthcare. Currently, medicinal and pharmaceutical products are the UK's fourth largest export to China, accounting for £1.1billion (DBT, 2024). China also has the world's second-largest insurance market, projected to become the largest within the next decade. With the UK insurance sector highly regarded in China, life and health insurance services present unique opportunities for UK providers (DBT, 2024). Focusing on these exports, rather than mechanical power generators- currently, the UK's fifth largest export, supports China's healthcare needs without directly advancing its technological or cyber capabilities, making this policy likely to gain public support (DBT, 2024).

Simultaneously, the UK must remain vigilant to security threats from China, particularly cyber-attacks as the 'UK's intelligence and security services have warned that China is increasing its espionage and cyber operations, in particular seeking to gain sensitive commercial information' (Curtis, 2024). China's overt desire to surpass America as a global power (Doshi, 2021), and Liu Xiaoming's public denial of the persecution of the Uyghur population in Xinjiang also highlight the moral dilemma of increasing relations with China (BBC, 2020).

Having a pragmatic trading relationship, whilst maintaining enough distance to be able to challenge China for human rights breaches and cyber-attacks, is a clear strength of this policy. It will expand trade, but importantly, also decrease China's influence within sensitive markets and place clear guidelines on UK security. We advise the government to increase protective measures on sensitive sectors of nuclear, microchips and Artificial intelligence, building on the existing 2021 National Security and Investment Act allowing (Curtis, 2024).

Policy Recommendation

Therefore, the recommended policy is to promote targeted trading industries while maintaining a cautionary stance. This balances economic opportunity and national security, by promoting export growth in selected sectors while enforcing protective measures to trading in sensitive industries. Reversing the current decoupling strategy is key to strengthening economic resilience, maintaining influence over global trade, and avoiding an escalation into geopolitical conflict. This therefore represents the pragmatic, consistent solution that you seek Mr Lammy, one which benefits the UK and its long-term strategic interests.

Word count= 1098

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