



Putting trade and investment with China into perspective

By *Charles Parton*

EXECUTIVE SUMMARY

- As His Majesty's (HM) Government prepares its 'China audit', it is imperative to remember that the economic benefit from the People's Republic of China (PRC) is not comparable to that gained from Britain's allies. Evidence is given to support this.
- This Explainer argues that while trade and investment with Beijing should continue, national security should come first.
- HM Government should establish 'red lines' or 'core interests' in its economic relationship with the PRC, and remember that remaining firm with Beijing on its non-negotiables will neither cripple the relationship, nor the British economy.



This Explainer aims to set out why, in seeking better relations with the People's Republic of China (PRC), His Majesty's (HM) Government should not overestimate the value of economic benefit derived from the PRC, nor fear possible adverse consequences, if the United Kingdom (UK) vigorously implements policies with which the Chinese Communist Party (CCP) disagrees. Beijing's attempts to punish countries through trade and investment have been ineffective.

Does Britain have a strategy?

It is hard to know what HM Government's strategy and policies are for dealing with the PRC. Beyond the slogan of the 'Three Cs' – challenge, compete and cooperate – ministers have been scrupulous in avoiding detail on how the UK is to balance its economic and national security with the desire for a closer economic partnership with the second-biggest economy in the world.

Rachel Reeves, Chancellor of the Exchequer, and David Lammy, Foreign Secretary, say much that is correct. Both agree that national security must come first.¹ In advance of her recent visit to Beijing, Reeves wrote in *The Times*: 'I am clear-sighted that upholding national security and keeping the public safe is the first duty of this government. This underpins...our relationship with China.' But she also wrote that, 'Growing the economy is the number one mission of this government.'² Applied to Beijing, there is a tension, if not contradiction, here. Sir Keir Starmer, Prime Minister, has not been so explicit, but is 'concerned' about the challenge the PRC poses.³

They are right to seek increased trade, investment and high-level contacts, as well visits to Beijing – although given that HM Government is still carrying out its 'China audit', until it has laid out a clear set of policies on the PRC, it would be wise to stay in listening and understanding mode, rather than to make specific commitments.

But there are also worrying straws blowing in the wind. The 'China audit' has been delayed; there is talk of ducking the issue of placing the PRC on the 'enhanced tier' threat level when the Foreign Influence Registration Scheme (FIRS) is belatedly launched; and the tenor of remarks made by politicians

¹ David Lammy, 'Britain Reconnected: A Foreign Policy for Security and Prosperity at Home', Fabian Society, 28/03/2023, <https://fabians.org.uk/> (checked: 03/03/2025).

² Rachel Reeves, 'Rachel Reeves: Choosing not to engage with China is no choice at all', *The Times*, 12/01/2025, <https://www.thetimes.com/> (checked: 03/03/2025).

³ Faye Brown, 'Sir Keir Starmer defends China policy after spy scandal', *Sky News*, 16/12/2024, <https://news.sky.com/> (checked: 03/03/2025).



indicates that they see the PRC playing a larger part in the solution to the UK's economic difficulties than the CCP itself envisages.

Meanwhile, despite the lack of knowledge about the CCP, HM Treasury still appears to be in charge of HM Government's Beijing policy – as it was under the 'Golden Era' of UK-PRC relations, named as such by George Osborne, former Chancellor of the Exchequer. It is hard to conclude that HM Government fully appreciates the degree to which the PRC is a hostile power, that the CCP sees the United States (US) and its allies as 'hostile powers', and that it is preparing for a long struggle to replace the open international order with Chinese hegemony.⁴

While the UK should indeed seek good relations with Beijing, HM Government should also set out clear red lines and limits. Given the ubiquity of new technologies, the diminishing gap between military repression and civil uses, and the PRC's determination to dominate those technologies for geopolitical advantage, those limits are narrowing.⁵

Not overestimating the positive

According to HM Treasury officials, Reeves sees Chinese investment – particularly in areas such as renewable energy – as critical to HM Government's long-term economic plans.⁶ But Chinese investment must be put in proper perspective. The latest government figures – for 2022 – show that of the total stock of foreign investment in the UK, only 0.2% was from the PRC.⁷ Given a struggling Chinese economy and the CCP's focus on the so-called 'Global South', i.e., developing countries, expectations of Chinese investment may need to be tempered.

Furthermore, investment from the PRC is not a charity. It comes with very specific, often geopolitical aims. Since 2016, it has focused its investment on high technology sectors and critical national infrastructure (CNI), such as power generation and ports, and agriculture. As technology enters every sphere of life and as the distinction between civil uses and military/repression uses melts, HM

⁴ For an exposition of the CCP's hostile intent, see: Charles Parton, 'Anti-Americanism will remain the foundation of the PRC's foreign policy', Council on Geostrategy, 23/01/2025, <https://www.geostrategy.org.uk/> (checked: 03/03/2025).

⁵ Charles Parton, 'China's use of science and technology as a geopolitical weapon', Council on Geostrategy, 26/02/2025, <https://www.geostrategy.org.uk/> (checked: 03/03/2025).

⁶ Oliver Wright et al., 'Chancellor pursues growth in China as she vows to stick to borrowing rules', *The Times*, 10/01/2025, <https://www.thetimes.com/> (checked: 03/03/2025).

⁷ 'Trade and Investment Factsheet - China', Department for Business and Trade, 31/01/2025, <https://www.gov.uk/> (checked: 03/03/2025).



Government's intention to prioritise national security requires keeping Chinese investment out of high technology companies and CNI (the examples of digging Huawei out of mobile phone infrastructure and Whitehall's decision to pay back £700 million to get Chinese investment out of Sizewell C nuclear power station spring to mind). Accepting Chinese investment and allowing their companies access to sensitive intellectual property and data is altogether different from permitting the same to companies from countries which espouse the same standards and values as the UK. The CCP is a hostile power, even if the government chooses not to say so openly.

An oft quoted reason for investment is the employment it brings. Here too, the Chancellor should not succumb to siren voices. In the years of 2016–2017 until 2018–2019, when Chinese investment was running at a higher rate than after the Covid-19 pandemic, jobs created and maintained by Chinese investment amounted to 9,400 over three years, or just over 3,000 a year (1,700 in the third year).⁸

Chinese investment is welcome, subject to the limits set by national security. As argued in the paper 'China's use of science and technology as a geopolitical weapon', those limits have to be tightly drawn and policed (the National Security Investment Act is an important mechanism, but it needs better resourcing and more effective implementation).⁹

Not fearing the negative

The CCP uses both economic sticks and carrots as levers in its diplomatic toolset. It threatens that countries which offend will be consigned to the diplomatic doghouse and will not have access to the PRC's vast market, resources or investment. Yet the fear of offending Beijing is overdone. HM Government should, without fear, lay out its economic and national security red lines, or, in CCP parlance, 'core interests'. In the three major areas of exports, earnings from services, and student fees, often regarded as vast sources of profit from the PRC, the ability of the CCP to inflict pain is limited:

⁸ Matthew Haynes et al., 'UK jobs dependent on links to China', China-Britain Business Council, 14/07/2020, <https://www.cbbc.org/> (checked: 03/03/2025).

⁹ Charles Parton, 'China's use of science and technology as a geopolitical weapon', Council on Geostrategy, 26/02/2025, <https://www.geostrategy.org.uk/> (checked: 03/03/2025).



1. **Goods exports:** In 2023, the UK's goods exports (excluding precious metals) totalled £393.5 billion.¹⁰ The PRC and Hong Kong represented £21.5 billion, or 5.46%. By comparison, the European Union (EU) and the US represented 49% and 15%.¹¹ There is general agreement that the PRC, whose global imports fell in 2024, is becoming a harder market, unsurprisingly given its policies of 'self-reliance', 'Made in China 2025' and 'dual circulation' (in essence, domestic wherever possible, foreign only if necessary). While greater efforts to export to the PRC are to be encouraged, the threat of the CCP curtailing those exports would not be disastrous to the UK economy and jobs.

Moreover, an analysis of those countries which before the Covid-19 pandemic suffered the PRC's cold shoulder shows that the CCP's bark is worse than its bite. For all countries, while certain sectors were temporarily hit before they diverted exports, their overall export performance rose during the time of strained relations (an exception is Norway, whose fish sales slumped; but their sales to Vietnam and Hong Kong, and global sales, all increased. Fish is fungible).¹² This is true for the UK, which was put in the doghouse during 2012-2013 because of the meeting between David Cameron, then Prime Minister and the Dalai Lama. They reached a record in 2022 and near record in 2023 at a time when relations with the PRC were also strained. The only time they fell in the years preceding the Covid-19 pandemic was in the so-called 'Golden Era': the 2015 and 2016 figures were below the level of 2014.

The lesson is that, if HM Government takes the necessary measures to prioritise economic and national security, exports will not suffer, other than a few commodities which are either symbolic or not essential to the PRC, such as whisky. Much thunder, but little rain.

2. **Service exports and the City of London:** Exports of UK services to the PRC in 2023 amounted to £11.7 billion, 2.5 % of the total of the UK's global total of £467.7 billion.¹³ This modest figure of £11.7 billion includes tourist money coming into the UK, which amounted to £798 million (where the

¹⁰ See 'Section 3.1': 'UK trade in numbers', Department for Business and Trade, 20/02/2025, <https://www.gov.uk/> (checked: 03/03/2025).

¹¹ 'Statistics on UK trade with the EU', House of Commons Library, 23/08/2024, <https://www.parliament.uk/> (checked: 03/03/2025); 'Geographical Pattern of UK trade', House of Commons Library, 13/12/2024, <https://www.parliament.uk/> (checked: 03/03/2025); 'Statistics on UK trade with the EU', House of Commons Library, 23/08/2024, <https://www.parliament.uk/> (checked: 03/03/2025) and 'Geographical Pattern of UK trade', House of Commons Library, 13/12/2024, <https://www.parliament.uk/> (checked: 03/03/2025).

¹² See: Charles Parton 'Empty threats? Policymaking amidst Chinese pressure', Council on Geostrategy, 06/07/2021, <https://www.geostrategy.org.uk/> (checked: 03/03/2025).

¹³ 'Trade and Investment Factsheet - China', Department for Business and Trade, 31/01/2025, <https://www.gov.uk/> (checked: 03/03/2025); See 'Section 3.1': 'UK trade in numbers', Department for Business and Trade, 20/02/2025, <https://www.gov.uk/> (checked: 03/03/2025).



PRC has imposed tourist restrictions, it has been on package tours rather than individual tourists, who made up 88% of Chinese visitors to the UK, at the high point just before the Covid-19 pandemic).¹⁴

Aspirations to increase service exports look towards Beijing's ambitions to 'de-dollarise' and establish the renminbi as a major international currency. While the use of the renminbi is rising, global usage remains low at around 2.7% and under 5% of global payments.¹⁵ It is unlikely to rise significantly as long as the CCP does not open its capital account or run a negative balance of payments. Neither are likely in the foreseeable future.

Meanwhile, the 'stock connect' between the London and Shanghai stock markets has yet to be revived. Even before the connection was mothballed, it traded only two stocks.¹⁶ The government is keen for Chinese companies to list on the London stock exchange. Shein is a possible candidate – for a £50 billion listing. If it happens, financiers will earn fees, but it is not an investment which will move GDP or create jobs. There have also been doubts expressed about Shein's model, which avoids UK duty (some estimates put it at £150 million a year, 25% more than the annual amount the Chancellor claims to have secured during her visit to Beijing); is environmentally bad (air freight from the PRC for deliveries); is alleged to use slave and child labour; and is causing job losses in the UK.¹⁷

3. **Student fees:** Chinese students at UK universities number around 150,000. They are to be welcomed, except in certain science and technology disciplines at doctorate and post doctorate level where issues of potential military or repression usage arise. Worries about the CCP using Chinese students as a cudgel by threatening to withdraw them are exaggerated. Provided that British universities ensure value for money, Chinese middle classes will continue to send their children: a combination of good education, the English language, and interest in British society and history is an attraction few countries can match. It is conceivable that the creeping totalitarian control of Xi Jinping, General Secretary of the CCP, will end up restricting the freedom of Chinese to study abroad, but that will apply to all receiving countries – as will the effects of a declining population and economy.

¹⁴ 'China', VisitBritain, no date, <https://www.visitbritain.org/> (checked: 03/03/2025).

¹⁵ Chan Ka Sing, 'China's march to strong yuan is long and perilous', *Reuters*, 26/09/2024, <https://www.reuters.com/> (checked: 03/03/2025).

¹⁶ Yujing Liu, 'China approves second listing for Shanghai-London Stock Connect amid strained Sino-British ties', *South China Morning Post*, 03/06/2020, <https://www.scmp.com/> (checked: 03/03/2025).

¹⁷ Joel Hills, 'Clothing giant Shein avoided an estimated £150 million of import tax on UK sales last year', *ITV News*, 08/08/2024, <https://www.itv.com/> (checked: 03/03/2025).



What is necessary is for UK universities to march in step with each other, otherwise if some stand up for academic freedom in the face of actions of the United Front Work Department (UFD) and others do not, those defending UK values will be singled out for punishment.¹⁸

Conclusion

The question of Chinese investment in the UK's automobile industry is one which will require HM Government to come off the fence in the very near future. So far, ministers have dodged the question of imposing tariffs, action already taken by the US and the EU. They have also talked of welcoming Chinese electric vehicles manufacturers to set up in Britain. Here again, there is a need to consider urgently the balance between security and economic expediency. Through Chinese cellular IoT module companies, which must obey the CCP, vast amounts of data could be passed back to the PRC through the audio, video, geolocation and other information systems. At a time of tension or war, the CCP could even disrupt or turn off vehicles remotely (the ability to interfere remotely was graphically illustrated by the Israeli pager bombs).

The UK currently exports around 80% of the automobile industry's output. It is inconceivable that the US and EU will permit British manufacturers to undercut their own producers. It is also likely that Donald Trump, President of the US, will react to the UK taking a different political stance on such issues.

Chinese companies understandably use all means to gain commercial advantage and access to foreign markets. The CCP has developed industrial policies and other strategies. But these are not simply the normal struggle to exploit comparative advantage. It has long gone well beyond that. The CCP seeks to dominate the new technologies and the industries which depend on them, in order to advance its ideological and geostrategic aims. The sooner that is accepted across all of HM Government, the sooner Lammy's claim that 'We will prioritise Britain's national security above all else' will have substance.¹⁹

The good news is that when HM Government eventually gets round to recognising the inevitable, and taking the measures it will be forced to if it wishes to align with allies – whose markets are far more important to the UK than the

¹⁸ Charles Parton, 'What is the United Front Work Department?', *Observing China*, 16/12/2024, <https://www.observingchina.org.uk/> (checked: 03/03/2025).

¹⁹ David Lammy, 'Britain Reconnected: A Foreign Policy for Security and Prosperity at Home', *Fabian Society*, 28/03/2023, <https://fabians.org.uk/> (checked: 03/03/2025).



PRC's – the loud howls from Beijing will not presage painful bites. In the words of Franklin D. Roosevelt, 'You have nothing to fear but fear itself.'



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“Dedicated to making Britain, as well as other free and open nations, more united, stronger and greener.”

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