



Foreign &
Commonwealth
Office

THE UK AND CHINA:

A Framework for Engagement



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Foreword

The emergence of China as a global economic and political force is one of the most significant developments of our time. We must work together if we are to deal with the major challenges we face.

Most pressing is the global economic crisis. We need China to play a full role, in partnership with us, if we are to restore confidence, growth and jobs and make real progress towards creating an open, flexible and robust global economy.

I am convinced that Britain, Europe and the rest of the world can benefit from China's rise – provided we get our response right. Co-operation with China is vital to reduce poverty, to resolve conflict, and to develop an effective framework to address climate change. To achieve all of this we need China and China needs the rest of the world.

The UK has a lot to offer China. Our commitment to economic openness, our strength in science and innovation, our cutting edge design and our world-class universities all interest a country engaging with the rest of the international community like never before. We are building a strong and dynamic partnership which allows open dialogue. Our experience of creating a society based on accountability, rule of law and human rights is relevant to China as it goes through massive social change. I urge China to make progress in these areas.

But China has much to offer Britain too. Over the next decade it is likely to present more opportunities for our businesses than any other country. It is, like the UK, a permanent member of the UN Security Council and can be our partner in tackling the issues that matter to us. If we are to make the most of our relationship with China, we need to understand China better, through our schools, universities, cultural institutions, our businesses and in Government. I am determined to do just that.

The **Rt Hon Gordon Brown MP**
The Prime Minister



The logic of this framework is straightforward: over the next four years and beyond, strong relations with China can help create a better Britain, a better China and a better world.

There are, of course, major economic benefits from our relationship. In an unstable economic climate, China's role as a motor of the global economy becomes even more important. But the framework is about more than this. It sets out ambitious aims and outcomes for co-operation with China across the board. And it shows that China's own sustainability and development are in our national interest as well. Two examples: China's decisions on its energy, transport and building infrastructure over the next five years will establish the path of its carbon emissions over the next thirty. And China's growing engagement with Africa has the potential to help African countries make real strides towards the Millennium Development Goals – China itself being one of the biggest global MDG success stories.

Promotion of human rights is a fundamental part of this Framework, both because it is the right thing to do, and because we firmly believe that greater respect for human rights will enable China to manage peacefully the internal tensions it will inevitably encounter as it continues to develop. A policy of engagement and co-operation is integral to our promotion of human rights, and will remain an extremely high priority for the Government in the years ahead.

We have never before set out publicly our policy on China in this way and this document is intended to begin a broader conversation. I look forward to your views.

The **Rt Hon David Miliband MP**
The Secretary of State for Foreign and Commonwealth Affairs

Executive summary

China is already one of the world's top four economies. But we are probably still only in the early stages of its re-emergence. China's impact on UK interests is already critical, and it is growing. Chinese markets and investments are increasingly important for UK business. More broadly, Chinese policies are enormously significant for our global agenda: addressing the need for economic, financial and institutional reform through mechanisms such as the G20, managing global pressure on resources, promoting lower carbon growth and sustainable development, achieving the Millennium Development Goals (MDGs), and reducing conflict and proliferation of Weapons of Mass Destruction. On security issues, China is a pivotal member of the UN Security Council and its regional relations will be key to Asian stability. Its relationships with the US and the EU will help to shape the world in the next decade.

This framework offers three pillars for the UK's response to this challenge and sets out the series of outcomes we are working

for under each. The outcomes are in places aspirational and by necessity subject to review. In a period of economic uncertainty, achieving our targets in trade and economic co-operation will be particularly challenging.

The three pillars are:

- **Getting the best for the UK from China's growth:**

This is about encouraging China to see the UK as a global hub, and boosting our business, educational, scientific and cultural gains from the bilateral relationship. It's also about ensuring the UK has the right domestic policies in place to benefit from China's growth.

- **Fostering China's emergence as a responsible global player:**

This is about encouraging an approach of responsible sovereignty on international and global issues, from proliferation and international security to sustainable development and climate change. It's also about helping China to define its interests increasingly broadly.

- **Promoting sustainable development, modernisation and internal reform in China:**

This is about influencing China's evolving domestic policies, helping China manage the risks of its rapid development and, over time, narrowing differences between us. Greater respect for human rights is crucial to this.

Our strategy also sets out the tools at our disposal to pursue these aims: regular interaction with our Chinese counterparts from the Prime Minister down, our growing network of diplomatic posts, the European Union, and our co-operation with other partners within the EU, with the US and with others. Working towards the outcomes we want will require patience, persistence and effective partnership, being candid where we disagree but ensuring the relationship remains characterised by co-operation, not confrontation. Building a progressive, comprehensive relationship with China will be a major priority in the years ahead.

Why China matters

During the three decades since China began reform and opening up, it has grown at an average annual rate of around 10%. It is now one of the world's four biggest economies, and because of its high growth rate it currently contributes more to global growth than any other country. And at a time of relative weakness in the advanced economies, it is even more important as a driver of world growth.

And yet despite its economic strength, in 2007 its 1.3 billion people still enjoyed per capita GDP only 1/8th of South Korea's and 1/14th of the EU average. In other words, we may still be in only the early stages of the growth of a country which for much of history was one of the world's dominant national economies – provided, of course, that the considerable challenges associated with China's growth can be successfully managed, and that China can successfully navigate the global economic slowdown.

The importance of growing prosperity is well understood in China. So there is a strong interest

in co-operating with international partners on policies for stable and sustainable growth. This, together with internal stability, remain top priorities in China. We have to understand these fundamental points for engagement to bring the results we want.

Viewed in the broadest terms, over the next four years, China will be crucial to the UK in several areas:

- **UK national prosperity:**

China's huge economic potential means business, educational, scientific and cultural opportunities for the UK – and big challenges for our competitiveness.

- **Globalisation:**

China is now vital to restoring and maintaining global economic stability. China's own development will require further economic reform to ensure it is sound and sustainable. At the 2008 Washington G20 Summit, China signed up to calls for reforms to strengthen financial markets and

regulatory regimes to avoid future crises. But the transition will not be easy, and meanwhile Chinese demand for scarce resources is increasing global pressure on them.

- **Climate:**

Chinese policies to reduce emissions, as part of an ambitious Copenhagen agreement, are crucial to maintaining global temperature rises from reaching dangerous levels.

- **Development:**

China's rapidly growing impact in the developing world means that its importance is comparable to that of our G8 partners for delivering our poverty reduction objectives and ensuring debt sustainability.

- **International Security:**

China is a permanent member of the UN Security Council with full veto powers and it is playing an increasingly active role in the UN. Its political influence is growing, not only in East Asia but across

the world in areas of challenge for international peace and security (such as Africa and the Middle East). Chinese co-operation is essential if we are to achieve unified international approaches to combating terrorism and proliferation, and to preventing and reducing conflict.

- **The International System:**

China's growing economic and political impact is one part of a complex shift in global power. We need to work together with China to reform international institutions if they are to remain relevant and effective.

Our key opportunities and challenges

China's rise creates important opportunities and challenges for UK interests. Some of them are listed below.

How can the UK economy maximise the benefits it gains from China's rise, and minimise the adjustment costs?

China is already the fastest growing market for UK exports and this trend should continue, even in the face of a serious global economic slowdown. But the 'scientific development' agenda presents potentially significant opportunities for our service sector as well. China's sovereign wealth funds, and even more so its corporations, are also a potential source of very large flows of inward investment to the UK. But we may be hampered by an economic backdrop which is significantly more challenging than in recent years, leading to stronger forces of economic nationalism on all sides.

In a climate where restrictions on market access remain, and the process of economic reform is not yet complete, we should try to make deeper inroads into China's market. We will help British businesses make

the most from the opportunities China's growth offers. And we will put the right domestic economic and social policies in place to respond to the challenges.

How can we work with China to hold back protectionism and keep globalisation on track?

The global economic downturn makes effective international co-operation even more important. China presents a challenge to whole industries and sectors in developed economies, while its large current account surpluses reflect global economic imbalances.

We should engage China fully in the international financial institutions, promote the domestic benefits of a market-driven exchange rate policy, manage global economic imbalances and maintain consensus support for free trade, including through increased market access.

How can we work with China to manage global pressures on resources?

China's demand for oil, minerals and other commodities to support the growth it needs for development is adding to global aggregate demand and increasing the pressure on these and other natural resources.

We should co-operate with China on the basis that the best solutions to global resource pressures are collaborative, transparent and market-based. We should build shared approaches with China and the EU, given our shared interest as net energy importers.

How can we help China to move to lower carbon growth and more sustainable development?

China's growth is pulling hundreds of millions of people out of poverty. But it also poses a monumental sustainable development challenge. China has set itself brave targets for increased energy efficiency and renewables, but it is investing in

energy infrastructure faster than any country in history and has already overtaken the US to become the world's largest carbon emitter. The decisions it makes on energy production in the next five years could lock in emissions trends for the next thirty. The same applies to the development of its transport system and building stock. China and the EU could blaze a low carbon trail for the global economy, if China and our EU partners grasp the opportunity that low carbon growth presents.

We should demonstrate that low carbon choices need to be taken soon and are integral to economic recovery and development, and show China that the UK and EU are ready to help in ways that support our mutual interests. China's ambition to promote the economic benefits of a resource-efficient, sustainable growth model will encourage an active, responsible approach to a comprehensive and ambitious post-2012 climate change agreement based on the principle of common but differentiated responsibilities.

How can we work more closely with China to achieve the MDGs?

China's economic impact across the developing world is growing fast, especially in Africa. China strongly supports the MDGs. China alone has been responsible for 75% of global poverty reduction over the last 20 years. It has also shown it wants to be part of the global effort to achieve the MDGs, signing the Call to Action and taking part in high-level discussions in New York in 2008, for example. But achieving the MDGs remains a daunting challenge for the whole international community.

We should keep working more closely with China on Africa, demonstrating why good governance, sustainable development, donor co-ordination and aid effectiveness improve development outcomes and will help secure China's own rapidly growing stake in the developing world.

How can we work more closely with China for wider peace and security?

China is increasingly active as a permanent member of the UN Security Council and is the largest contributor to UN peace support operations of any permanent member. Its position on key international challenges such as Iran, Sudan and Burma can be decisive in determining whether the international response is effective.

We should encourage China to define its interests broadly, allowing the emergence of unified international approaches on the key regional security and humanitarian challenges of our time. We should also encourage China to continue providing more capabilities and funding for international peace support operations, and co-operate to manage regional tensions peacefully.

How can we bring China into global governance structures?

Cutting across many of these challenges is the need to reshape international institutions (including the UN Security Council, the UN's conflict prevention machinery, the G8 and the International Financial Institutions) to bring them into line with modern realities of power. Ensuring that China's role in global governance reflects its weight and influence will require consensus among other key international players.

We should demonstrate that strengthening the international system is in all our interests. We should also encourage an approach of responsible sovereignty in our discussions with China, acknowledging that in a globalised world all of us depend on each other.

The UK's response

There are three overarching aims which if achieved would enable us to meet the challenges set out above:

(i) Getting the best for the UK from China's growth

This is about maximising the benefits, and mitigating the risks, which flow from our bilateral relationship. It is about securing the greatest possible value for the UK from the rise of China. This means encouraging the Chinese to see the UK as a global hub; boosting our business, educational, scientific and cultural gains from the bilateral relationship; putting the right domestic policies in place to take full advantage of the opportunities and to respond to the challenges that China's rise represents for the UK; and equipping the British people to seize the China opportunity through better understanding of China and better Chinese language skills.

(ii) Fostering China's emergence as a responsible global player

This is about engaging with the Chinese Government, Communist Party, academics, media, business and the Chinese public to encourage an approach of responsible sovereignty on global issues. We would like China to define its interests broadly, recognizing that it stands to gain from strengthening the integrity of the international system and promoting sustainability and global public goods. But we are also determined to find a way to ensure that China and other major emerging economies have a bigger stake in a rules-based multilateral system. To do this, we will work for more systematic Chinese involvement in international leadership structures, without undermining their norms, or diluting their effectiveness. We can do some of this by using bilateral contacts and influence, but we will also want to work closely with our partners in the EU and international institutions to reinforce our approach.

(iii) Promoting sustainable development, modernisation and internal reform in China

This is about influencing China's evolving domestic policies, to make it easier to align international approaches over time. We should do what we can to help China manage the economic, political, environmental and social risks (to them and to us) of its rapid development. Greater respect for human rights and the rule of law are crucial to this. Our main influence will come through working with others, primarily within the EU, but our bilateral work will remain important. This also links to our first overarching aim. By encouraging the rule of law, we help develop a rules-based system within which our companies in China can operate. By increasing cultural understanding through educational exchange, we can foster links between future decision makers which could be of real significance for China's development.

Under each of the three pillars, we envisage a number of key outcomes which we would like to see realised by the end of

2012. The list is aspirational – we do not control the means to ensure these outcomes. But well-targeted UK activity will increase the odds in their favour. The list is not exhaustive. It is fluid, and will be regularly reviewed and updated. And in the climate of economic uncertainty which is likely to prevail during the early part of the period covered by this Framework, achieving the targets in trade and economic co-operation will be particularly challenging.

These outcomes are set out on pages 15 to 19.

(i) **Getting the best for the UK from China's growth**

- a) UK moves beyond current *trade and investment* targets – \$60bn in bilateral trade in goods and services, 100 new investment projects, and 100 Chinese companies listed on the London Stock Exchange.
- b) UK providers of banking and investment *services*, insurance, and pensions well established in China
- c) China substantially reduces *tariff and non-tariff barriers*, is protecting Intellectual Property Rights more effectively, and is co-operating with partners on taxation, leading to deeper and more balanced integration with major trading partners. Bilaterally, this also means a replacement double taxation agreement that is more favourable to cross-border services and investment.
- d) City of London established as top overseas destination for *Chinese external investment* funds. Chinese investments are conducted on a transparent and responsible basis.
- e) UK retains its position as the *top EU investor* in China, helped by mature, increasingly open Chinese markets with more efficient allocation of capital and management of risk.
- f) UK/China *Partners in Health* initiative is a successful vehicle to promote health collaboration and success in the Chinese market for UK companies.
- g) UK is a key strategic partner of China on *climate change and sustainable development*. Strong policy and practitioner links exist at all levels of government and with a wide range of stakeholders.
- h) UK/China agreement on *sustainable cities* is fully implemented, with more collaboration and exchange of engineering, technical, academic and financial expertise. UK and Chinese companies and cities benefit as China's rapid urbanisation process draws on UK experience of urban regeneration and low income housing.

i) UK retains its position as the top foreign provider of tertiary *education* in China. 100 000 Chinese students in the UK, and 100 education partnerships by 2010. Increased educational and scientific links at institutional level between universities, research bodies, colleges and schools, and a greater two way flow of students, academics and researchers.

j) Steep increase in UK/China *scientific* collaboration. One hundred more research and development partnerships between Chinese and British firms by 2010. Production of joint research papers doubled from 5 500 in the first half of the decade to 11 000 between 2008 and 2012.

k) *Chinese public opinion* sees UK as increasingly dynamic and creative as a result of a successful UK contribution to the Shanghai EXPO 2010, a major 'UK Now' cultural festival in China in 2012 mirroring 'China Now' in 2008, the second phase of 'Connections through Culture' to be rolled out over 2009-2012 and the London Olympics.

l) Full implementation of UK/China agreements on *migration*, resulting in healthy legal migration flows and the combating of illegal migration.

m) *Criminal threats* to UK originating in China (including Intellectual Property Rights theft, counterfeiting, excise and other fraud through to human smuggling and trafficking) reduced by more effective co-operation between UK and Chinese law enforcement agencies.

n) Substantially increased knowledge and *understanding of China and Chinese language in the UK*.

(ii) **Fostering China's emergence as a responsible global player**

- a) Reduction in tensions across *East Asia* region.
- b) Increased transparency over *Chinese defence* budget and policy.
- c) China increasingly aligned with P3 on key *UN Security Council* dossiers.
- d) China contributes increased capabilities and resources to international *peace support operations*.
- e) China works more effectively with the UK on *counter-terrorism*, including by supporting our CT objectives in neighbouring countries.
- f) China participates fully in a more effective Counter proliferation architecture spanning all three pillars of the Non-Proliferation Treaty.
- g) China signs up to ambitious action to combat *climate change* at Copenhagen at end-2009. China ratifies an ambitious

and comprehensive post-2012 framework beyond that.

- h) Chinese Government gives higher priority to *sustainable development in the developing world*, in line with the principles agreed at the World Summit on Sustainable Development.
- i) China in deeper dialogue with the UK, the EU and other donor governments on *MDGs and international development* policy.
- j) China joins more multilateral development initiatives like the Infrastructure Consortium for *Africa*; is increasingly engaged in trilateral co-operation around Africa with other donors and African governments; and similar initiatives are developed with China in other parts of the developing world.
- k) China plays an active and constructive role in the *economic, financial and institutional reforms* agenda at the Summit with G20 leaders in London in 2009, and follow-up process.

l) China takes a full, active and responsible role in the *International Financial Institutions*, and in regional economic organisations such as the Asian Development Bank.

m) China co-operates more actively with the world's other major economies to address *global economic and financial instability*.

n) China plays a more active and constructive role to sustain and advance *global free trade*, including promoting a successful outcome to the Doha round.

o) China co-operates fully on *global health issues* with the World Health Organisation, complying with best practice on avian influenza, and other health security issues.

(iii) Promoting sustainable development, modernisation and internal reform in China

a) China strengthens its *social welfare* provision, lowering savings rates and boosting domestic demand.

b) China meets its 20% by 2010 *energy efficiency* target and has set equally ambitious targets to 2015. China is on track to have a commercial scale *Carbon Capture and Storage* demonstration by 2014.

c) China's *domestic development* programmes on basic education, HIV/AIDS, TB, health reform, water and sanitation make good progress, deriving increasing benefit from World Bank policy and analysis.

d) China better integrates all three pillars of *sustainable development* – environmental and social, as well as economic – into its domestic policy making.

e) Agreement between China and the EU to work together on the creation of *Low Carbon*

Development Zones in China, linked to the EU economy, with the aim of supporting and accelerating low carbon growth and development in China; and driving down the cost of key low carbon technologies.

f) China ratifies the *International Covenant on Civil and Political Rights*.

g) China develops stronger *rule of law and more independent judiciary*.

h) China abolishes, or at least greatly reduces, *detention without trial* under Re-education through Labour and other systems of administrative detention.

i) China substantially reduces the application of the *death penalty* (and is providing transparency on death penalty statistics), and increased safeguards against *torture*. Forced confessions no longer admissible as evidence.

j) Well established *dialogue between young UK politicians and Chinese Communist Party* helps to inform wider internal Chinese debate.

k) *Chinese society continues to become more open*. Media freedoms increased. Mechanisms to hold authorities to account strengthened. Public space for policy debate and formulation is widened. NGOs have more freedom to operate independently. Corporate responsibility strengthened.

l) Progress towards a system of meaningful autonomy for *Tibet* within framework of Chinese constitution.

m) Significant reform for the *2012 elections in Hong Kong*, to prepare the way for the election of HK's Chief Executive by universal suffrage in 2017 and fully democratic Legislative Council by 2020.

n) China continues to respect Hong Kong's *fundamental rights and freedoms* under the UK/China Joint Declaration on Hong Kong.

The way forward

To move towards the outcomes we want, we need the right tools at our disposal. The UK has never had such a complex network for interacting with China to do this. We have a rapidly growing network of diplomatic posts in four cities in mainland China – our embassy in Beijing, Consulates General in Shanghai, Chongqing and Guangzhou, as well as offices of the China Britain Business Council in several other cities. We also have a large Consulate General in Hong Kong. The Prime Minister and his Chinese counterpart hold annual Summits. We have a wide range of bilateral dialogues involving the Chancellor of the Exchequer, the Foreign Secretary and other Cabinet Ministers. We hold important regular dialogues in areas such as human rights, Africa, sustainable development and climate change. And we make sure we can tap into the best British expertise on China through the China Task Force, which brings together some of our most influential stakeholders.

But we recognise that our bilateral relationship needs to be part of

a wider picture. In a globalised world, we need to build a broader alliance, with China and other partners, to address the major challenges we face. This means effective co-operation within the EU which is the most effective multiplier for our own objectives. It means close engagement with the US and with key players in the region. It also means our wider agenda of reform of international institutions, from the UN to the international financial institutions, is crucial to make progress in our relationship with China.

Working towards these outcomes will require patience, persistence and effective partnership. We will be candid and honest should we disagree – on issues such as human rights, for example. But if we want to be effective, then where there are differences, we should ensure that the relationship is characterised by co-operation, not confrontation, engagement not containment. Building a progressive, comprehensive relationship with China will be a major priority in the years ahead.

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