



Britain's new 'special relationship'? by John Hemmings

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Chinese President Xi Jinping received the reddest of red-carpet treatments in London last week, with Xi being treated to a 21-gun salute, a royal carriage ride down the Mall, an address to both Houses of Parliament, followed by a State Banquet at Buckingham Palace and a visit to the Prime Minister's official residence Chequers. The fact that British Prime Minister David Cameron used the full powers of the British state to welcome the Chinese leader has many wondering about the future of UK-China ties as the two proclaim a new "golden era" of bilateral relations, and agree to create a "global comprehensive strategic partnership."

While many in London question the timing – this year Beijing mismanaged a stock market slump while simultaneously tightening control over dissidents – the Treasury attitude is simply to bulldoze the new China approach through other departments of government, including a skeptical Foreign Office. The visit and the assumptions it's based on raise questions about Britain's tactical understanding of China. After all, as Evan Medeiros, former senior staffer on Asia on President Obama's National Security Staff, told the *Financial Times*, "if you give in to Chinese pressure, it will inevitably lead to more Chinese pressure."

The seemingly 'new' mercantilist approach of Chancellor George Osborne is deeply imbedded in historical traditions of British foreign policy-making, and has run parallel and sometimes counter to Britain's values-oriented foreign policy. Long before Henry Kissinger said it, Lord Palmerston claimed that Britain had no "permanent friends or allies, only permanent interests." Britain has always viewed trade as one of these permanent interests, since power is derived from economic standing. This is evident throughout the last century: the UK was the largest source of long-term foreign direct investment in the United States, played a pivotal role in Japanese industrialization, and was one of Germany's main trade partners prior to both the first and second world wars. If the new China policy is a mistake, Britain has made it before.

The Soviet Union was the exception to the rule: blame Russian communist views of trade. Therefore, it is unremarkable that Osborne wishes to hitch the UK wagon to China's rising star. Seen from Whitehall, this approach marries traditional notions of liberal trade internationalism with the promise of profit for City of London financiers. The Downing Street website puts this financial promise at the front of its webpage describing Xi's visit, claiming it will "unlock" more than \$48 billion of commercial deals across energy, finance, technology, and education. The question is whether

all this promise will be delivered and at what cost to Britain's security and freedom of maneuver.

Unlike Britain, China does not prize the bilateral relationship for short-term economic gains, but rather seeks to use British financial acumen to lift itself into ascendancy. The internationalization of the RMB, using London as a trading hub, and a scheme to link the London and Shanghai stock markets – both announced during Xi's visit – are to build the foundation of a new Chinese order. Xi was not in London just to meet the Queen. He was there to make deals, buying the experience and know-how of the British financial world and he has the cash to close the deal. The \$48 billion that he's put on the table could be just a start: despite the slowing of its economy and huge public debt, China has more than \$1.53 trillion in sovereign wealth funds. Furthermore, London would profit immensely from becoming the primary RMB trade hub, which is a very real possibility says Yang Du, head of Thomson Reuters China business desk. Currently, Britain is the eighth largest destination for Chinese investment: when Prime Minister Cameron and Chancellor Osborne said at the Buckingham Palace Banquet that they want Britain to be China's "best partner in the West," this is what they mean.

Caution is in order, however. The Osborne Doctrine suffers from several fatal flaws. First, it is hype built on hype. Several economists view Britain's strategy toward China as over-relying on foreign investment to sustain growth. Rather than passing the costs of building British infrastructure – such as three planned nuclear power plants – on to China, why not borrow at 3 percent and maintain control over processes, control over quality, and most important, maintain the capacity of local industry? This off-shoring is rich in irony: Britain – home to the industrial revolution – is paying China – one of the most recent adherents of the industrial revolution – to finance and make British products *in Britain*. As if to drive home the point, Xi's visit was preceded by the bankruptcy of a leading company in the British steel industry, a result of Chinese steel dumping this year.

The second flaw is that China does not seem serious about upholding either the rules-based order that Britain helped build after World War II or the liberal economic and political values implicit in that order. Prime Minister Cameron's silence over human rights issues for the sake of finance was widely criticized in the British media with Chinese dissident artist Ai Weiwei claiming that it was in the name of profit. The Chinese ambassador had even warned that Xi would be "offended" if human rights were raised during the visit. The main problem with this approach is that it is simply out of step with the British public, which expects an ethical foreign policy from Whitehall. Power and finance are not enough.

This misplaced faith in Chinese investment promises and the willingness to downplay human rights issues have not

gone down well in Washington, where London's embrace of authoritarian China looks increasingly out-of-step with its regional concerns. This is the third flaw of Osborne's strategy: Britain is out of touch with other liberal democracies like Germany and France and how they balance economic policies with principles. London's willingness to join the AIIB without consulting or even alerting the G-7 was a major blow to the group, but it also damaged British prestige.

Britain is increasingly out of step with Washington, which sees its trade relationship with China rapidly eclipsed by issues such as cyber security and maritime security in the Asia Pacific. Osborne's willingness to throw open certain sectors of the economy critical to national security to Chinese investment strikes many as naïve if not dangerous: a 2013 British Parliamentary committee issued a scathing report of the government's willingness to award large contracts in the telecommunications sector to Huawei, a Chinese company with purported links to the People's Liberation Army. Though Cameron did receive a joint statement from Xi over cyber security during the visit, it is no stronger than the one Xi gave in Washington, and probably has less meaning.

Finally, there is the flaw of unintended consequences: Beijing's belief that Britain – a major player in the current liberal rules-based order – is bandwagoning for profit may encourage China to attempt to dismantle the system in favor of one that favors Beijing's autocratic preferences. No one believes that Britain could play a pivotal role if a conflict broke out in the Asia Pacific, but it may help deter Chinese adventurism. This regional aspect highlights the shortsightedness of the Osborne Doctrine because it assumes that as long as China's misbehavior occurs in the Asia-Pacific region, it does not impinge on British interests. This belies Britain's dependence on trade routes that transit the contested South China Sea and East China Sea waters.

President Xi's carriage ride down the Mall to Buckingham Palace was rich in symbolism; the image of Prime Minister Cameron kowtowing to the Chinese president evokes Britain's first diplomatic mission to China in 1793, when Lord Macartney traveled to meet the Qianlong Emperor in Peking. His attempt to open trade between the two empires ended in failure as the two held incompatible worldviews and practiced incompatible diplomatic cultures. Seeing President Xi and his wife dressed in Western clothes, in front of a trade delegation to Britain would seem to indicate that two states understand each much better now. However, Cameron's willingness to trade British principles for investment and significant concessions and market access show that London is no closer to understanding Beijing than it was 250 years ago.

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