

THURSDAY 5 MARCH 2009

Present

Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Jay of Ewelme, L
Jones, L
Selkirk of Douglas, L
Swinfen, L
Teverson, L (Chairman)

Witnesses: **Mr Charles Grant**, Director, Centre of European Reform and **Ms Isabel Hilton**, CEO, China Dialogue, examined.

Q86 Chairman: Good morning. Can I welcome you both to Sub-Committee C? You are some of our first witnesses in terms of the EU and China investigation we are doing at the moment. Perhaps I could just go through the procedure before I go through the House warnings about being recorded live and that anything you say can be modified afterwards. We have two sets of questions and if you would not mind the Committee would be very pleased if we could go through them sequentially, but if either of you have comments you would like to make on the other person's questions as well then we would be very keen as a Committee to hear those comments. Question numbers eight and 16 are the same so we will deal with those both as question number eight. This meeting is being web cast and will be taken down as well. You will be sent copies of the evidence and if there is anything that you want amended at that time then there is the ability to do it then; I do not think we can re-digitalise the web cast though. Is there anything either of you would like to say in terms of a brief opening statement?

Mr Grant: I do not have an opening statement.

Ms Hilton: I am happy to start with questions.

Q87 Chairman: I know there are one or two other questions that will arise as part of what we are doing as well. Mr Grant, I have a very broad question for you to start with, what is the current nature and level of development of EU-China relations in the broader context? What should be the primary objectives of EU policy towards China? How do Europe's interests in closer interactions with China on trade, investment, environment and technology relate to its wider foreign and security strategy? That is very much a broad opening question; we will see where we get to from there.

Mr Grant: The Chinese like the EU more than the Russians do. They generally think it is a good idea because the Chinese believe that a multi-polar world is emerging and that it is desirable. Anything that prevents or impedes a US dominated uni-polar world is therefore a good thing for the Chinese. The Chinese have great expectations of the EU as a pole in the multi-polar world order. They have, of course, been disappointed in recent years when, in issues like the EU arms embargo on China, the EU buckles under US pressure. The Chinese are very good at taking a long view and they reckon that in the long run the EU will be something different from the US and therefore will help to create a more democratic world order (as they put it; it is a strange use of the word democracy but that is what they sometimes say). I think they are generally quite encouraging on the EU. More specifically in the last year or so there has obviously been a lot of tension between the EU and China; as you know they cancelled a summit between the EU and China last November. It was quite unprecedented to do that but they cancelled it to punish Sarkozy who not only met the Dalai Lama but issued a press release about his meeting with the Dalai Lama which was a really stupid thing to do from the Chinese point of view. On issues like Tibet or Taiwan the Chinese get very, very agitated and very emotional - I am not a sinologist like Isabel so I defer very much to Isabel on questions of what China is really like but I can look at the EU-China

relationship – and when these issues like Tibet and Taiwan crop up they think it is more important than anything else and, in my opinion, they overlook their own economic self-interest which is to work with the EU to ensure an open trading system. To answer the second part of your question about what the EU’s objectives should be, my own view is that China could become a supporter of a multi-lateral system of global governance, as the EU normally is, but there is a risk that it could throw its weight around in a unilateralist way like the US does on a bad day. Within China there is quite a big argument as to whether they should become liberal internationalists or assertive nationalists. I see the role of the EU as being to engage China, to demonstrate to China that it is in China’s self-interest to support strong international institutions in general (like the UN), to work with the EU to make sure that the world trading system remains open (because China is the world’s biggest exporter, equal biggest with Germany) and to support other sorts of multi-lateral institution[s]. I have written a book on the EU-China relationship which came out last summer and I stand by what I said in this book which is that the EU should focus on areas like Africa, like climate change, like non-proliferation (notably Iran) and like reforming global governance, to work on the Chinese to show them that China’s own interests are well served and best served by sustaining strong international institutions in those areas. That to me should be the objective of the relationship between the EU and China from a European point of view.

Q88 Chairman: Ms Hilton, would you like to add something?

Ms Hilton: I do not disagree with Charles at all. I think that if one were to look at it from the Chinese point of view for a moment, the Chinese are joining a world in which all the rules were made by us essentially. They certainly feel that and they have been trying to find their place in this world. At the same time China is very much a work in progress in terms of the construction of good governance and rule of law and this applies equally to international affairs. China has a number of concerns about the international order. It has its own needs

for natural resources, its own needs for energy and it perceives the balance of power in the world as being against it. It has started off with very much a nationalist focus and is evolving, in my view – although perhaps more slowly than many would wish – into a much more responsible international player. There are still great areas of concern which I am sure we will return to, Africa being one of them, but essentially there is an evolving view in China that membership of multi-national institutions can work in China's interest provided that space is made for China within those institutions. China has joined the WTO and done all the internal reforms that that required but it is still under-represented in the big global institutions. I think the EU has two main objectives which are in both the EU's interests and in China's; one is to assist China along the path of virtue in terms of its internal governance and in terms of building legal estate, in terms of civil and human rights, and on the international stage to encourage China to understand that a crude policy of non-interference – as China would declare it – in the internal affairs of other states, no matter how bad those internal affairs might be, is actually not in China's long term interests. It does not build stability and a more responsible and collaborative approach is in China's interest and indeed in the EU's interest and I think that should very much be the focus of EU policy.

Q89 Lord Crickhowell: Can I broaden this question into the context of the world economic crisis which we are now facing? China has been running a massive trade surplus with the rest of the world particularly with the United States and if, as seems likely and indeed essential, there is going to be a sharp reduction in US consumption, this is going to mean that China is going to be in a huge over-production situation unlikely to be met by the increase in Chinese consumption in the short term. Surely this is going to have pretty important consequences for China's relations at the present time with the rest of the world and particularly with a large trading partner like Europe. How do you see these things developing? They are likely to impose severe internal strains inside China but it seems to me it is likely to have

consequences for its relationship with Europe as well. It is not an issue that we have actually given you warning of but I have been away as it happens and have only seen the list myself in the last day or two, but it does seem to me that we have to look at the relationship at the moment in the context of what is happening pretty catastrophically in the world as a whole at this moment.

Mr Grant: I think that is a very good question. It is pretty obvious to most of us that China and the EU have a strong interest in resisting protectionist pressure because we are both very big exporters and beneficiaries of transfers of technology and capital and so on. The worry is on both sides. Even before the economic crisis protectionist sentiment was growing on both sides, in China and in Europe, and southern Europe in particular where the industries compete directly with some Chinese industries like shoes, for example, and women's clothing. There was already a growing hostility towards China, a growing feeling that China was not playing fair in recent years, and a hostility towards the Commission for being controlled by ultra-liberal Anglo-Saxons who were not being tough on China. As a result, Mandelson, when he was trade commissioner a couple of years ago, did try to get a bit tougher with the Chinese; he read the riot act to the Chinese and said, "Look, if you guys don't do more to open up your markets, I won't be able to resist protectionist pressure in Europe". I do not think that had much effect because the Chinese, according to the reports of the European Chambers of Commerce in China, China is not doing a lot to open up its markets. I am sure you are aware of the complaints of intellectual property being stolen, of hostility to foreign investors in China, of obstacles being created for foreign businesses operating in China (hidden obstacles rather than formal ones), discrimination in favour of Chinese companies against foreign companies and also import controls. I think from the European side we are very worried about the 200 billion dollar trade deficit that emerged last year between the EU and China; Europeans feel that the Chinese are not playing fair. This was before the recession and I have

not been in China recently but I suspect that the desire in China to open up markets for foreign goods is probably even lower than it was before. I think there is a serious danger of rising Chinese protectionism or economic nationalism provoking strong reactions from Europe of a similar nature. So far, to be fair to the Commission, I think it has held its ground; I do not think there has been a great increase in protectionist measures like anti-dumping duties against Chinese goods, but I think this is a very worrying development on both sides and its something we need to guard against.

Q90 Chairman: Ms Hilton, did you want to say something particularly on that?

Ms Hilton: I would only say that on intellectual property rights there are many complaints and many of them have been justified by past problems with intellectual property, but this situation is in fact improving and it is improving as China itself wants to move up the value chain and more and more stakeholders in China have intellectual property that they wish to see protected. That puts pressure on the legal system to function more effectively. It is quite true, it should be noted, that foreign firms suing for intellectual property rights in China have a rather greater success than they do in that constituency in Texas where I believe no foreign firm has ever won a case. Perhaps we should keep a sense of proportion here.

Q91 Lord Anderson of Swansea: Mr Grant, you talked about the Chinese world view, the constant theme being against the US hegemon, how does this affect their view currently of relations with the European Union? Is this world view likely to diminish as Chinese power increases and the ageing European Union diminishes in its own world power? Is it a self-serving matter at the moment or is it likely to continue as a major theme of Chinese foreign policy?

Mr Grant: I think it is going to continue because I think most Chinese thinkers and leaders, whether they are on the liberal international side or on the more assertive national side, see

China's objective as to overtake America. They do see American as their peer group, not Russia and not the EU. However, they know that the European economy is very important and I think they know that Europe has technology which they need for their own modernisation. They know that we are the biggest markets for their exports; China exports more to Europe than to the US. So they have to think about this quite carefully. They know that the Europeans are not very good at getting their act together on foreign policy, yet, but they hope that we will grow up one day. I do not expect a significant change to that world view. I think Europe getting smaller relative to China in relative terms yes, but not in absolute terms. I do not think the European economy will go on shrinking in the long run. They take the US seriously as a strategic actor because the US has the weapons and it has a single government and a single foreign policy; they find EU is very difficult to deal with – perhaps we will come onto this later – as everybody does because it is so complicated. Of course the EU finds China very difficult to deal with. However, I would not expect a major shift in the Chinese world view on that point.

Q92 Lord Jones: Turning to trade investment technology and specifically the aerospace industry, I read recently that E.A.D.S. (the parent company of the airbus manufacturer, of their product, giant aircraft, giant airlines) have literally begun production in China as an airbus company. Has this come across your desk? Has it any potential and how do the Chinese rate that industry as a way of getting into the EU?

Mr Grant: I think the world aerospace industry has been becoming increasingly global for quite a long time and if you want to sell airplanes into a particular market you may need to make parts of your aircraft there. Boeing makes a lot of its bits and pieces in Japan, for example; it does not, I believe, do so in China. However, I do remember in the old days when I used to follow the aerospace industry, McDonnell Douglas had a factory in China to make aircraft and that did not work very well. So it works two ways. On the one hand the Chinese

want our technology and so they want our assembly lines there and they do steal whatever goes into China – everybody knows that – and they copy it secretly at night and all that sort of stuff. On the other hand, if you want to sell airplanes in China you have to do that sort of thing. This is very relevant for the US-EU relationship because the US has a very strong fear or worry that the EU is too lax in allowing high technology goods to go to China, hence the long running argument that we may get into on the arms embargo. The DoD in Washington – the defence department – is very annoyed with the Europeans for allowing all sorts of bits and pieces of high technology, dual use equipment to go to China. Of course the Americans have their own problems there and the US has itself prosecuted American companies for allowing missile technology to leak into China. It is very difficult to control these technologies.

Q93 Chairman: We are coming up to G20 and a lot of preparations are being made there. What pressures do you think that the EU might put on China at the G20 and what about currency revaluation, is that going to be something that Europe is going to be looking for?

Mr Grant: Firstly on the currency, obviously one reason for Europe's huge trade deficit with China is that China has deliberately undervalued its currency. I do not think there is much doubt about that. I am not an economist so I will not say very much on that. I know you can argue these things both ways and it seems to me that it would be helpful for China's own interests if it allowed its currency to revalue somewhat, to rebalance its economy so that it becomes less export dependent. The Americans of course have put massive pressure on China on this issue for several years with some results and the currency did start to rise against the dollar to some degree. It rose less against the euro because of the movement between the dollar and the euro. That is an issue but the way the EU behaves it is never going to threaten the Chinese like Geithner did in his famous comment of a couple of months ago when he said accused China of deliberately manipulating its currency which really upset the Chinese. The EU does not have the ability to speak assertively and even aggressively in a

single voice in its foreign policy. The EU will always be a bit softer and laxer with the Chinese which is one reason why the Chinese quite like the EU. On the G20 generally I think the main concern of the British and the Europeans is just to get the Chinese to engage. As Isabel said, they have never really taken a great leadership role in global governance issues because they see global governance as something invented by the West for the benefit of the West and that is a fairly accurate description; the West, particularly the Europeans, are ridiculously over-represented in many international institutions like the international financial institutions and the EU Security Council. China has seen itself as a poor developing country which is exploited by rich developed countries. What the Europeans have to try to do is get the Chinese to understand that they are part of the top table of the world these days; all the world's big problems like climate change, migration and economic dislocation cannot be solved without Chinese involvement and that means getting China to take a role in re-shaping the institutions so that they represent emerging powers like China better. The Chinese are scared of responsibility. They have never wanted to join the G8 and they are worried that if they are made to join the G8 they would have to deliver outcomes on climate change which would be very painful for them and they would have to give more aid to third world countries. They are very worried about responsibilities. They are a kind of adolescent; they know they are growing up to become an adult but they do not want to do the things that adults have to do. Hopefully that will change slowly as they become bigger and stronger. Perhaps the G20, because it is not the G8 and it does have more developing countries in it, is a good forum in which to get the Chinese to really become leaders and to take responsibility for reshaping global governance. They are not in the International Energy Agency, they are not in the Financial Stability Forum – two very important bodies – and they should be encouraged to join and the rules should be changed to encourage them to join in my view.

Q94 Lord Chidgey: Mr Grant, I think you have made some very interesting opening remarks and to a degree you have inevitably touched on some of the issues in the section we are now coming on to: managing the EU-China relationship. Maybe this is a bit of a sweep-up rather than moving to previously untouched ground, but just to make sure we do get everything can you give us your views on specifically what the EU has to offer China as a partner and how it can best influence Chinese thinking and policy? Perhaps more importantly, how successful has the EU's diplomacy towards China been in attaining these stated objectives and, critically, how could it be improved?

Mr Grant: Obviously the EU has a market to offer China; a big single market and China likes that. It has technology to offer China. The Chinese are very offended that we do not sell China armaments but the EU has a lot of technology to offer China; the Chinese know and like that. How can the EU best influence Chinese thinking policy? Well the EU believes of course in engagement. The EU always does tend to believe in engagement and it believes that if you talk to them and are generally quite polite then you are more likely to be able to nudge them in a certain direction. This is the case, for example, in the human rights policy which Isabel will have a lot to say on later I am sure. The more we talk, the better our chances of pushing them in the right direction. Has this been successful? On economic issues I think probably not terribly successful. Peter Mandelson has himself said something along the lines that if we are soft on the Chinese they ignore our wishes on opening markets and if we get tough with the Chinese it does not really work either. I think European diplomats, not just Mandelson but the EU Commission in general, is at a bit of a loss as to what is the best method of influencing the Chinese. I think the general view is that getting really tough is not going to achieve very much but I do not know what the answer is to that. How could we do it better? There is something new which started last year, as well as these annual summits which have happened (as I said the last one was postponed). It is a sort of process driven

thing called a high level mechanism. It is a deliberate attempt to ape the US-China high level strategic dialogue that Hank Paulsen established and it started off last April when Barroso took a plane load of commissioners to China and they sat down with a group of ten Chinese ministers around a table together to talk about climate change, Africa and other things. I think the more you engage probably the better. Do you get any results from this engagement? In the short term you do not. On some specific things, on the foreign policy side for example, it is almost easier to nudge them on the economic side; on issues like Sudan, Zimbabwe and Iran there are examples of China bending its policy just a little bit to get the West off its back, to keep the EU and/or the US happy. On Iran, for example, China has supported the United Nations sanctions three times against Iran – albeit very modest sanctions – because the EU and the US pushed it to do so. On Burma and Sudan – I am sure Isabel knows more than I do – although they have essentially not been particularly helpful on the substance, they have given a little bit here and there just to keep us happy occasionally. I guess you can say that is a result of the dialogue.

Q95 Lord Chidgey: What about the Chinese military assistance in the piracy problems off the coast of Somalia?

Mr Grant: It is obviously very much in the Chinese interests to stop their ships being hijacked. That is an example of them becoming, as Isabel said earlier, more responsible global stakeholders. That is a phrase coined by Bob Zoellick, head of the World Bank, and he said this when he was Deputy Secretary of State. I think China is very slowly becoming a more responsible global stakeholder. There are a thousand Chinese peacekeepers in Lebanon, at least there were last year. It is helping, as you say, off the coast of Somalia. It has helped a little bit on Iran. It is very small scale stuff but it does feel it has to take some responsibility for these global problems which it used not to.

Ms Hilton: If you look also at the regional issues for China we tend to think of the challenge being Taiwan cross-straits relations but actually China is the biggest investor in Afghanistan for instance; it has a huge copper concession in Afghanistan. China is a long time ally of Pakistan; China has a Muslim problem in Xinjiang. This is going to force China eventually to take a pro-active role in regional security and I think China would be a country that we should talk to about Afghanistan. It has played a positive role in North Korea; it is one of the few countries that are able to exert effective pressure in North Korea. It did move on Sudan and it did move on Burma, possibly infinitesimally. However, it did move. I am not sure that this is the result of EU high level engagement and I think in terms of EU pressure and how it could be more effectively brought to bear the EU has pulled back rather from the kind of public statement and public commitment to values that the United States perhaps occasionally does too stridently. I do think that since the Chinese are very concerned about symbolic politics as well as real politics that this is a mechanism that the EU has been too shy to use since things like the human rights dialogue moved behind closed doors; it makes it almost too easy. Although the mechanisms are very much in place for engagement with China, the political content of those mechanisms remains deeply confused – the nature of the EU, if you like - and the Chinese find it relatively easy to create disorder and dissent within the EU – who would not? – and divide if not rule. It is an easier for them to do in the European Union with the many pressures that all the political leaders in the EU are subject to - anxieties from businessmen, concerns about the economy – which tend to weaken the EU’s commitment to a public message to China on the issues of concern.

Q96 Lord Hamilton of Epsom: On the Muslim problem in Xinjiang, is this Sunni or Shia?

Ms Hilton: As in most Muslim territories this is an evolving situation and there were, as you will recall -----

Q97 Lord Hamilton of Epsom: Yes, but are they Shia or Sunni?

Ms Hilton: There is an incursion now of Sunni ideology. Elements of the Xinjiang Muslims have become involved in the global expansion of hard line Islamist ideology but that is not the dominant mood; they are mostly Sunni with a strong Sufi influence.

Q98 Lord Hamilton of Epsom: Does that mean that China is more worried about the Taliban or about Iran?

Ms Hilton: They have rather good relations with Iran. They are certainly concerned about the Taliban and they are certainly concerned about the destabilisation of Pakistan. They are concerned to the degree that elements in Xinjiang are involved in global jihad. You will recall that there were Xinjiang prisoners in Guantánamo who were captured in Afghanistan. They were never actually charged.

Q99 Lord Anderson of Swansea: What about Chechnya?

Ms Hilton: China, as you know, has the Shanghai Corporation Accord and has central Asian influence. I am not sure that Chechnya directly is of concern, but Xinjiang certainly is and there has been long running discontent which is local in nature but of course risks becoming contaminated by the global situation.

Q100 Lord Anderson of Swansea: The average British and French citizen would be aware of their political leaders leading trade delegations to China; they would be less aware of any impact by the European Union. Apart from the trade rivalries between various EU nations, how significant are the differences in perspective between the different EU countries and to what extent does this make a common policy more difficult?

Mr Grant: In my view the fundamental interests of the main EU countries and China are very similar. They all wanted China to develop successfully, to respect human rights better, to get

on well with Taiwan, to be nicer to the Tibetans, to control carbon emissions and so on. Despite that I think it is fair to say that the big three countries do not cooperate very well in China; they are obsessed with their own immediate short-term commercial interests. They compete against each other in Beijing for the best contacts, the best contracts and so on. They do even undermine each other to some extent. For example, in 2007 when Mrs Merkel met the Dalai Lama and got into trouble there was not much solidarity from the British or the French. Everybody in the German Government tells me – I do not know whether it is true – that Sarkozy phoned up Wen and said, “The Germans have let you down but we can be your best friend now”. Even if that is not true, people in the German Government at high levels believe it is true. Then of course recently when Sarkozy got into trouble many people in Brussels believe that he himself handled it rather badly with the way he met with the Dalai Lama in the autumn and again there was not a lot of solidarity from other EU countries.

Q101 Lord Anderson of Swansea: Does this make a commons strategy then, a worthy aim but a rather low common factor?

Mr Grant: The two issues where I think you see the disarray of Europeans are actually Tibet and Taiwan. In Taiwan the extraordinary hours of diplomacy that go into drafting language on how the EU sees the issues is extraordinary. Right now the EU is negotiating a Partnership and Cooperation Agreement with China and apparently already they have spent days and days just discussing what the EU says about Taiwan. This is so important to the Chinese; much less interesting for the Europeans of course. Again the Europeans do not actually tend to agree. Some of them take a rather cynical view: let us give the Chinese what they want in order to enhance our commercial interest. Others – perhaps the Czechs or the Poles or occasionally the British – take a more principled view and argue that you have to think about the principles as well as your commercial interests. On those sorts of issues you do see real differences between Europeans. Going back to my first point, the fundamental interests are

more or less the same; the long term interests are more or less the same; given how clever, as Isabel said, the Chinese are at dividing and ruling – as indeed the Russians are – if only we could actually get our act together and concert our diplomacy – not unify with one voice but concert it so we support each other - we would be much stronger in dealing with the Chinese. They would have more respect for us and we would be able to achieve our objectives more easily I believe.

Ms Hilton: After Mrs Merkel did get into trouble over seeing the Dalai Lama the Chinese made a great deal of noise about how damaging it would be to German/China relations. The head of the EU/ China chamber of commerce in Beijing went back over similar rows to see they had in fact impacted on bilateral trade in the county concerned and in fact there was very little trace of any effect. The Chinese are extraordinarily pragmatic; if they want to buy something they will buy it but they do succeed in convincing the pale and trembling businessman that all contracts will be lost if their political leaders do not put their interests first. I think we could be a little bolder on this and I think it really is in the EU's interest that China becomes a solid legal state. China makes much of non-interference in other countries' internal affairs. However, it thinks nothing of publicly rebuking a European head of government or head of state for what that head of government or head of state does in his or her own country. I think it should play both ways.

Q102 Lord Jones: What is the current state of the institutional framework for the conduct of EU-China relations? How well do the summits, dialogue mechanisms, technical agreements and programmes meet their aims?

Mr Grant: I think the relationship is not what I would call strategic. By that I mean firstly it is mainly about economic issues; secondly I would say it is not very focussed on a small number of priorities; thirdly it is not very focussed on the long term. This is not a problem so much for the EU-China relationship; it is a problem for the EU's relationships with everybody

(for example the EU-US relationship, the EU-Russia relationship). The current framework, as you know, is that there are annual summits. The one last November was cancelled but it has been re-arranged in Prague and there is going to be another one in the autumn so we have sort of caught up. The Chinese are practical and pragmatic and they will catch up when they want to catch up. There is this new body created which I referred to, the high level mechanism, which brings together the Commission with the Chinese Government. I think the Chinese quite like the Commission because the Commission quite likes China and Barroso is quite good with the Chinese. How effective is all this? It is not strategic therefore it is less effective than it should be, but as well as the summits there are also these dialogue mechanisms on a whole number of subjects. I think there are roughly 30 platforms in the technical jargon used by the Commission on subjects such as social security reform, lots of things on carbon emissions, energy security, various sorts of industrial collaboration in particular sectors, social problems, health. There is a huge number of these dialogues and platforms which bring together civil society and I suspect that some of them are quite useful just for promoting contacts between Chinese people and European people. I wish that there was something a bit more focussed. The EU is very badly organised for dealing with China. One problem has been that a lot of different commissioners in Brussels all go to China and do their own thing; there has not been enough concertation. That has got better in the last year or two because Barroso took charge and set up these high level mechanisms and I think it is more concerted now than it was. The Commission, of course, does not talk to the Council very often; that is a problem which the Lisbon Treaty will hopefully rectify if it ever happens. Solana himself has no senior official covering China. This is very sad. He has his priorities – the Middle East, Africa and the Balkans in particular – and for all sorts of complicated bureaucratic reasons he has never been able to appoint a very senior person on China which I think is regrettable.

Q103 Chairman: Do you think he has a wish to and the institutional framework stops him from doing that?

Mr Grant: I must be careful I do not go beyond my expertise here, but the whole issue of personnel appointments in the Council is very complicated and particular jobs tend to have particular national flags on them. So if Solana wishes to appoint a particular person for a particular job, it may be one particular country has the right to appoint that person and if the country offers a person who is not very good Solana can actually decide to say no and keep the job vacant rather than appoint the wrong person. I certainly know of examples where that has happened. It may be the case in China but I could not really comment in detail on that.

Q104 Lord Chidgey: Mr Grant during your responses on a number of occasions you have referred to the Chinese liking the EU and the EU liking China which tends to illustrate that there is a sort of personality issue here, that individuals can do business with individuals in China which is something which is quite intriguing because it infers that there is stability within the Chinese side of the negotiations or discussions which is sometimes matched but otherwise not matched by their EU counter-parts. How important would that be? Or does it exist at all? Is it just bureaucracy or is it really a question of personalities gelling and able to look at the wider issues as representatives of the Chinese Government and the EU?

Mr Grant: There is always stability on the Chinese side because they do not kick out the ruling party too often. The Chinese do attach great importance to long term relationships that they build up with individuals. They got to know Barroso when he was Portuguese Foreign Minister handling the Macao negotiations long ago. They got to know him and trust him just like they got to know and trust Chris Patten having initially disliked him intensely when he was in Hong Kong. In more recent years when he was the EU External Affairs Commissioner they did like Fat Pang, as they called him, a lot. I think these relations are important which is why I would not say, despite my earlier comments on the importance of unifying EU policy,

that the EU should replace the Member States in dealing with China at all. This is the EU itself does not have an awful lot of expertise in certain areas, particularly the strategic side of dealing with China. If the French or the British or the Germans or the Italians go to China they can bring more to the party. My point is that they should speak to EU policy and support EU policy rather than try to undermine the other EU countries. Again some of the individuals in particular countries, for example Chirac and whatever you think of Chirac the Chinese knew him for a long time and they trusted him and he could be relied upon to bat for their interests which he did very well, as did Schroeder. They do like individuals that they get to know over a long period.

Q105 Lord Chidgey: Could you tell us who you feel fulfils those roles now or might do in the near future?

Mr Grant: The leaders of the three big European countries now are not people who have known China for a long time. Gordon is the one who has not upset them greatly; Merkel and Sarkozy obviously have both upset them on the Dalai Lama front, although Merkel is now forgiven and has been rehabilitated and the Germans are now winning contracts again. Sarkozy has not yet been rehabilitated; the French spat with China has not yet been solved which is still creating difficulties for the EU's overall relationship with China.

Ms Hilton: One of the big problems with Sarkozy is that they find him unpredictable; the Chinese do not like that.

Q106 Lord Hamilton of Epsom: Mr Grant, you mentioned that the Chinese were an unelected elite. The EU Commission would have a lot of knowledge of being an unelected elite. When they come to lecture the Chinese on democracy, do the Chinese come back and say, "Well, when it comes to institutional change in Europe, the Commission and everybody

else in Europe seems to be extremely reluctant to allow the people to actually have any say". That is what I would be inclined to say if I were Chinese.

Mr Grant: I have not heard the Chinese say that. I have heard the Chinese lecture Europeans on the stupidity of being democratic. The Chinese believe that the reason why the EU is sometimes protectionist against their exports is because the Commission – like the Member States – does have to listen to public opinion, does listen to industrialists and trade unionists who demand protection and I have heard somebody quite senior in the Chinese Communist Party say, "We worry that your democratic system prevents you from modernising your economy and we worry that your economy will continue to decline because you give in to public opinion on protectionist issues". I have heard them say that.

Q107 Lord Jones: What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?

Mr Grant: I think serious negotiation between China and the EU started in 2007 on this new agreement. I am told they are about half way through on the substance which means that we might expect to see a conclusion to the negotiations in 2010. These things always take a long time. I am also told, talking recently to people in Brussels, that there is a distinction between the economic side and the political side. On the economic side the Chinese are giving away nothing but the EU hopes to use this negotiation to get the Chinese to open up their markets, as we have discussed already. I am told that the Chinese are not yet giving anything on that. There has been a bit more progress on the political side. There has been a long discussion on human rights; there is always a human rights clause in these agreements between the EU and third parties. What I am told by one official is that the Chinese will eventually agree to a human rights clause so long as we give them all the wording they want on Taiwan which the EU is reluctant to do but probably will do in order to get the whole agreement moving

forward. I think, despite the cancellation of the summit last autumn, these talks are proceeding and I guess to some extent the process of the talks is itself a good thing because it just brings the two sides into contact with each other and helps us to understand each other better. It is an awfully painstaking and laborious task to push through one of these agreements.

Q108 Lord Jay of Ewelme: I was very interested in what both of you were saying about global governance and China's attitude towards global governance. I have one question following up on that if I may. Do you think that the Chinese would be tempted into some kind of G2 whereas in effect the US and China, the two of them, were an active motive force for global governance? I understand that the Obama administration was considering a little while ago the idea that the major emerging markets group might be shared jointly by China and the US. I think they have moved away from that now, but can you see the Chinese being tempted to that sort of format?

Ms Hilton: Certainly on an informal basis this is a very, very powerful partnership in which there are very strong mutual interests. As you know, China holds US debt in very large quantities. They both have a powerful interest in the stabilisation of the world economy. There is simply no prospect of progress on climate change without the US and China and that has been a dialogue which has essentially been stalled for eight years under the Bush administration and is now opening up very rapidly under Obama. Under the Bush administration the high level strategic dialogue was a treasury driven initiative and relations were fairly good at that level. It is now becoming a much wider political conversation and it remains to be seen how, in the Obama administration, the balance between state and treasury and other aspects of government will play out. I think that on both sides there is a renewed interest in recognising that in the global dialogue, this is the one that counts. The Chinese are still quite nervous of the Obama administration and are waiting really to see what it is made

of. They know that with the Bush administration they could hide behind Bush's reluctance to act on many fronts. They knew that Bush's foreign policy was distracting the United States to China's advantage; China managed to fill a lot of space that the United States was not able effectively to occupy under the Bush administration and gained a great deal of influence in the process. I think they now recognise that it is time that this becomes a more explicit dialogue. Whether that becomes G2 we will see, but in effect it would become G2 I think.

Mr Grant: I agree with all that. I just think we have not yet got to the stage where the Chinese are prepared to acknowledge that they are world leaders. They still like to benefit from the idea that they are an exploited developing country that has been screwed by the West in many ways for many years. It would be great in a way if they could think of themselves as part of a G2. Incidentally, I have been in Russia recently and the Russians have a massive fear of this G2; it is a big thing dominating what Russian leaders are saying now, that this G2 is an awful idea and why do the Russians and the Europeans not get together to prevent this G2 running the world. The Russians seem to think that the Europeans will happily join them in that task.

Q109 Lord Jay of Ewelme: Following on from that, how do you see the developing US-China relationship affecting the EU-China relationship? Do we just follow along in the wake? How does that affect us on foreign and defence policy, for example?

Mr Grant: When China and America are getting on badly that creates problems for the EU-China relationship and if they get on well then that reduces problems. If China and America get on badly that creates divisions amongst Europeans by definition because some European governments always want to keep America happy. We saw this in the arms embargo row which was five years ago when the EU chopped and changed several times as to whether it was going to lift the embargo or not. In December 2003 it said it would lift the embargo and then the Americans got heavy on the Brits and other members who were just joining the EU

(the Poles and the Eastern Europeans) and then we could not lift the embargo after all because of American pressure. On Taiwan also that is an issue that divides the Europeans and when the Americans are having a strong disagreement with China on Taiwan that creates divisions amongst Europeans. If China is getting on well with America then that is not so much of an issue. In general the Americans think the Europeans are too soft on China and they are prepared to compromise their principles on human rights in order for commercial benefit. That is a general American view, particularly in the defence department there is a view that Europeans will do anything to sell to China and disregard all the rules and principles they should follow on impeding the transfer of sensitive technologies. Having said that, so long as America and China are getting on fairly well I do not see why the Europeans and Americans should not work together on China. In fact one of the good outcomes of the awful business of the arms embargo and the disagreements that the Europeans had amongst themselves is that as a result of that the US and Europe set up a strategic dialogue on East Asian security in order to talk more about these issues. I think Europeans did learn a lesson and after that 2004 row more European governments started to understand that China was not just a market, it was also a strategic actor, a rising power and that they needed to consider those factors as well as the economic side of their links. The more the Europeans think strategically, the easier their relationship with the US on China. However, the transition from Europe as being a player that sees China in economic terms to one that sees it in more strategic terms is very slow and very hesitant.

Q110 Lord Anderson of Swansea: You stated that China's self-perception was still to some extent that they were part of the non-aligned group, that they were the victims of an international system and they are still not fully adjusted to their weight in political and economic terms in the world. Is it the view of both the US and the European Union that they

should be encouraged to punch their weight in terms of their foreign and security policies? Or is there a certain caution and hesitation if they were to do so?

Mr Grant: I think the US has some hesitation and there are different views on the US. The predominant view throughout the Bush years (Bush the second years) was, I think, fairly positive on China, to engage it and hedge; hedging means trying to form alliances with some of China's neighbours in case it turns nasty. The more right wing Republican focus on containment was pushed aside in the Bush years.

Q111 Lord Anderson of Swansea: Now with Obama Kissinger has been brought in to advise.

Mr Grant: I would expect a fairly positive view on China to persist but of course within the US system, particularly in some of the armed forces and the DoD there are those who do see China as a real threat and those who would favour some sort of containment, and those who worry about the consequences of engagement, and those who think that the US should remain the number one power and do what it can to stop other people overtaking it. The Europeans have a different view. The Europeans are all happy to see China emerging as a new power because the Europeans are not as obsessed as the Americans are about maintaining the supremacy of US power.

Q112 Lord Anderson of Swansea: The National Intelligence Commission report showed a recognition in the US policy makers about the rise of China. Do you think that the Obama administration will have a substantially different perspective? Does this mean that there will be a convergence of views between the European Union and the US in terms of the Chinese power?

Mr Grant: It is too early to say I think.

Chairman: That is a fair enough answer; we will revisit it in due course.

Q113 Lord Hamilton of Epsom: When Europe comes to deal with China should this be on the regional and international basis? Clearly European countries meet in global forums such as the UN, presumably the EU cannot meet China through the UN, can it? Is it about individual countries or is the EU able to do that as a collective organisation? What is the role of regional organisations such as the ASEM process in terms of institutions of global governance and promoting the EU's objectives?

Mr Grant: I think the Chinese are more sympathetic to regional governance than global governance for the obvious reason that they can dominate more and America is not involved. So the Chinese are very keen on the ASEAN Plus Three format and the East Asian conference (the one that has India, Australia and New Zealand in it; I forget what they are all called). It is also quite keen on the Shanghai Cooperation Organisation as well. What these bodies have in common is that the US is not involved and China is the biggest fish in them. I think they are generally more sympathetic. The EU does take part in the ASEM meetings, these regular Asia-Europe summits which do not, I think, achieve very much. A lot of people turn up and have a sort of party for a weekend but there are so many people there that the Europeans often do not send their top people and I think the Asians get rather offended about that. I think the Europeans should encourage regional cooperation, encourage China to take a strong role in regional cooperation because even though it is not the same as global governance the Chinese sort of getting more involved in these regional bodies helps to socialise them into their neighbourhood, helps to create trust between them and their neighbours which I think is all desirable. I think the Europeans should say yes to as much regional cooperation as possible. I think the Americans should not be quite so sensitive about bodies being created of which they are not members. They should just get used to the fact that they cannot be members of everything.

Q114 Lord Hamilton of Epsom: You are talking about the Europeans; are we talking about the EU as an institution or are we talking about individual European countries?

Mr Grant: I think both.

Q115 Lord Crickhowell: On regional cooperation and influences, my question is not so much directed at the European aspect; you have already referred to the important influence in Afghanistan and the potential influence in Pakistan. Pakistan is a terrible threat to everything at the moment. Do you think that China is capable of playing a role in providing more stability into Pakistan's situation?

Mr Grant: I do not know enough about Pakistan to answer that question.

Q116 Lord Crickhowell: You did refer to it earlier which is why I wanted to follow it up.

Mr Grant: I have looked a bit more at the situation in Burma and in Iran and in Afghanistan (again I know very little about Afghanistan) and in Burma and Iran China has the ability to make change. I believe that if China got serious about leaning on the Iranians with the Russians there is a significant chance that Iran would change the policy on its nuclear programme. One of the most interesting negotiations between the Chinese and the Europeans in the last five years has been the slight shift in Chinese policy on Iran. Five years ago the Chinese were saying, "What have we got to do with the Iranian nuclear programme? We just see Iran as a country where we have to invest in the energy industries and get oil out of it." That has changed. The Chinese do not like this pressure that the West is forcing them to put on Iran, but they have signed up to three rounds of sanctions and if they got tougher I believe that they would have some impact. In Burma China is the dominant power in the country and Isabel knows better than I do that if China tried it could achieve some changes in Burma.

Q117 Lord Crickhowell: They have not shown much sign of trying up to date.

Mr Grant: Not in a significant way; perhaps in very small ways.

Ms Hilton: On Pakistan I think this is a relationship that bears examination. As you know in the Cold War there was traditionally an India-Russia alliance and a Pakistan-China relationship. Since then China has made enormous infrastructural investments in Pakistan, including the building of a deep water port and pipelines. It is a player in Pakistan. Given the complexity of Pakistan's problems, whether any external power can be the magic bullet I doubt, but is stability in China's interest? Absolutely, and there are other things China could do. On Afghanistan the United States was forced to close down an airbase in central Asia recently; that is an area in which China has influence. It is actually an airbase which helps to service access to Afghanistan for United States troops. I cannot believe that in the strategic military dialogue with the United States that these issues were not raised. We may not see much public evidence of this but I would lay money on this conversation being had and it being important.

Q118 Lord Anderson of Swansea: That was Russian pressure.

Ms Hilton: It was Russian pressure but, on the other hand, China carries a lot of weight in that region. If we are looking for allies in US interests or in Western interests in regions it is a conversation to have.

Chairman: Perhaps we can move onto question eight. Could I ask Ms Hilton to go first on this one and then Mr Grant to follow?

Q119 Lord Selkirk of Douglas: I ask this question in relation to Europe and China's development model in Africa and the developing world. What is the Chinese view of promoting security and development in Africa and the developing world; and how far does this approach correspond to that promoted by the EU? In answering this question can I ask

you to confirm if it is your view that China does plan over an extremely prolonged timescale, and also there is a danger of them being under-estimated?

Ms Hilton: Yes, I would agree with both of those things. I think China does plan over a long time scale and I think China's strategy in Africa is an interesting example of that. Africa is important to China for a number of reasons. We have talked about China feeling locked out of energy markets; China's demand for energy is very large and growing. It seeks other raw materials in Africa. We have discussed this rather adolescent condition of China's self-image and its international image, this notion of "Poor little us, we are just another developing country". This has been extremely useful in Africa where former colonial powers are not always the most popular and it has been possible for China to strike a political posture which is much more acceptable in Africa, particularly when it was accompanied by explicit commitment not to interfere in internal affairs. When western oil companies pulled out of Sudan, China moved in; when no-one is going to do business with Mugabe, China does. Loans with no strings attached, support for governments which are not regarded as the best by international standards have been no problem for the Chinese. They are not alone in this. Equatorial Guinea, a major ally of the United States is hardly an example of good governance. So one can exaggerate this and one can exaggerate the importance at present of the scale of China's investment and aid for Africa. European concerns were obviously high on that level. How do you bring rogue states into line if China is there with no strings attached money? How do you push forward things like the extractive industries transparency initiative if China becomes the major purchaser of minerals and is not interested in enforcing that? We have seen an evolution of this position because although China might argue that it was forced to go to unstable and possibly unsavoury regimes for what it needed, it is also beginning to understand that unstable and unsavoury regimes are not good long term partners. This is a slowly evolving position but I think it is one that the EU could certainly encourage China to

make more firmly its own. We should also acknowledge that China, as well as handing out no strings attached aid, has made substantial investments in Africa. As a major trade partner of many African countries it has contributed to relative African prosperity over the last decade. Some of the things are probably problematic in the long run and I would refer you to food security as an upcoming issue. China and other countries are buying land and settling in farmers, buying land for food production which is intended for China. I think politically in the long run, should food security return to being an acute anxiety, this could be problematic for China. Finally, Africa has been a sort of proving ground, if you like, for China's first steps in becoming international business players. We have a curious situation in China where there are very big companies which are trying to go global without first exhausting their domestic markets. This has not really been tried before. When Japan became a global industrial and commercial trader it had already exhausted its home markets. China is trying to do this in one leap. This is quite a difficult thing to do. China has encouraged, with financial support and political support, Chinese companies to set up in Africa and as it were to practise being multi-nationals. That has been an interesting experiment and one that is not to Africa's detriment.

Mr Grant: I do not think there is a unified Chinese policy on Africa. Within the Chinese system there are different views. There is the traditional view which is that Africa is a developing country; China is the friend of the developing world in contrast to the imperialist, arrogant West, we are the Africans best friend and we do not impose conditionality on our aid and so on. There is that view which is quite strong in the Chinese system, but there is a debate and an argument going on and I have heard Chinese scholars taking a different view. They say, we do have to think about governance because whilst we do not want Africa to be democratic of course, but actually our oil workers get killed and kidnapped in certain parts of Africa. This has happened and if various places dissolve in a civil war this is not very good

for the Chinese investments. So using our discrete, subtle, gentle influence to push governments towards thinking about governance is not such a bad idea. I think at least some people in the Chinese system think that and of course Chinese companies operating in Africa do not necessarily do what the government wants. Chinese companies have their own policies in Africa so even if the government does want to do something it does not mean that the Chinese energy companies will necessarily do it. There is quite an array of different institutions and organisations with tentacles in Africa. From the EU point of view, the main problem the EU has with China and Africa is governance. EU aid, like American aid, like IMF aid is conditional and the Chinese really do not have any conditions except (a) you must not recognise Taiwan if you get our aid and (b) you must spend the money in China. That is more or less it. This is where the EU clashes with China. Again, I am not an expert on Africa but I think in at least some African countries there is some resistance and opposition to the Chinese approach. Although the Africans like the lack of western style conditionality, for example the Chinese say is nothing about human rights, they do see the Chinese companies exploiting their countries in the way that the Europeans used to do. In fact Thabo Mbeki did say something a couple of years ago about the Chinese behaving in neo-colonial ways. I think the Chinese have to watch their soft power in Africa. Overall they probably have more soft power than the Europeans in many ways and many governments there like Chinese involvement, but they do have to worry a little bit. They tend to always focus on the governments; they do not think about public opinion of course. They got shocked when they sent a ship of weapons to Robert Mugabe about a year ago and the South African trades union refused to unload the weapons. The Chinese do not really understand this; they do not have free trade unions. I think some people in the Chinese system do understand that they need to think freshly about how they cope with Africa, engage not only with governments but with other actors too and perhaps think a bit more about governance. I hope there is a bit of a re-

think going on but I do not have enough knowledge to say how profound such a re-think is if there is one.

Ms Hilton: I would certainly echo Charles' point that there is a policy debate and I think as a general point when we look at China from here we tend to see an effective vertical system, untrammelled by questions of public opinion or clashes of interest. This is simply not true; Beijing is always weaker than you think. It is dealing with its tremendous constituency of interests domestically and all sorts of things escape its control. I would just add two more points on Africa in terms of long term relationships which are largely environmental. China now plays an important negative role in terms of illicit extraction of certain natural resources – timber, illegal fishing – and this is a problem of China's own governance. The toxic combination of poor governance in Africa and poor governance in China mean that all sorts of illicit trades flourish into the Chinese market. On dam building China has traditionally been the world's largest dam builder. It has been relatively easy to do in China because China has not had to worry about other stakeholder opposition, what happens to populations who are affected or indeed the general debate on the effectiveness of dams. China is now building dams in Africa on quite a large scale and these issues of course arise there: what happens to the people who live there? How are these issues dealt with? What sort of compensation or consideration is paid and how effective are these mega projects? Just looking at the long term possibilities of back lash against China's operations in Africa this is another area that has potential.

Q120 Lord Hamilton of Epsom: The West has not had great success in Africa when it comes to improving governance and it has now had lots of years to do it in. When it comes to investment in Africa the commercial sectors find it extremely difficult to operate there. It strikes me that the Chinese may actually have a formula which is more successful than ours. On balance would you not think that Chinese investment in Africa was a good thing?

Ms Hilton: I think investment in Africa is a good thing and I do not think we have any right or possibility of obstructing Chinese investment in Africa. If it works it is a good thing. What we are discussing are the conditions under which it might be thought to work and whether it will work in the long run on this model. Time will tell.

Q121 Lord Anderson of Swansea: Some claim that the investment by China is reckless to the extent that it increases the indebtedness of African countries and that we in Europe and the international financial institutions will have to pick up the bill. How significant is this as an effect?

Ms Hilton: It is certainly a concern to the British. The British have been to the fore in the question of African debt and debt forgiveness. There is a great risk of a re-run of African indebtedness and that is certainly a concern.

Q122 Lord Anderson of Swansea: Is that an argument for a greater dialogue between China and the European Union and the IFIs?

Mr Grant: I think it is. There is an EU-China dialogue in Africa, there is also a British-China dialogue in Africa and a French-China dialogue in Africa. I think this is very important because the Europeans might I think agree with what Lord Hamilton said that it is fundamentally a good thing if China invests in Africa but why do we not at least try to collaborate on some issues? Perhaps there are some common issues or common problems like re-building war torn countries where we could team up with our complementary skills. The Chinese are good at building roads and railways; we are not very good at that but we do other things. The more we talk about this to the Chinese the better. I do not think anybody wants a great game in Africa between ourselves, the Americans and the Chinese; it would not be good for anybody.

Q123 Lord Anderson of Swansea: Is there an attempt to do just that, to have a degree of dialogue?

Mr Grant: I do not know how far it has got but there is a Commission China dialogue in Africa as well as the various ones I referred to but what result is coming from them I do not know, probably not very much so far but let us hope that they do something.

Q124 Lord Chidgey: Mr Grant, you touched earlier on on the Chinese attitude towards the standard of governance in the countries they are investing in or extracting materials from and it seems rather intriguing, it is a sort of dichotomy really. The Chinese wish to have a fairly stable sort of government and yet on the other hand they do not want to market it because it tends to upset the troops, so to speak. There is a great deal of intellectual and other investment going into African states from the West to try to improve the strength and good governance and rule of law through institutions such as the African Union and its projects and NEPAD which you are probably aware of. How is China playing this? Does China recognise the influence of the African Union in trying internally within a constant to resolve conflicts and poor governance or does it like to keep out of it?

Mr Grant: I think the Chinese have not been very good at engaging with the AU. The EU has given money to the African Union to help it train peacekeepers, for example, but as far as I know the Chinese do not have much of a relationship with the AU but I may be ill informed on that. I think they tend to focus on national governments in Africa. There have been examples where they have undermined the EU's efforts to promote better governance. There was an occasion about four or five years ago when Hilary Benn cut off aid to Ethiopia because of human rights abuse and the Chinese stepped in and matched the cut off aid pound for pound. In Angola equally there was a time when, to avoid IMF conditionality, the Angolans went to the Chinese instead. I think there are examples of the Chinese directly undermining western efforts to promote better governance. As we have both said, there is a

debate going on within China; I think many people in China are taking a somewhat different view now. Of course let us not forget that a lot of Africa is actually democratic to a greater or lesser degree and the Chinese have to accept reality. Many countries in Africa hold fairly free elections these days.

Q125 Lord Selkirk of Douglas: Mr Grant, you used the word “neo-colonial” and think we all know what you mean by that, but for the sake of clarity can you make clear to us exactly what you meant in today’s context by the use of that word?

Mr Grant: It is partly an attitude: many African governments and people claim that western countries are arrogant and patronising when they deal with them. It is partly a policy issue which is that western institutions and governments tend to apply conditionality when they give aid. The Chinese claim – I guess rightly – that perhaps in those two respects they are different from the Europeans.

Q126 Lord Selkirk of Douglas: In other words there is an element of exploitation.

Mr Grant: Yes.

Ms Hilton: Can I just say something in general terms about the risk that that charge could be levelled at China? We do already see a reaction in Latin America and in Africa, over the pattern of trade which is essentially the old Manchester model: we import raw material, we export cheap manufactured goods, to the detriment of local industries. That is what Chinese trade substantially is and that is also noted.

Q127 Chairman: How does the EU’s policy on promoting the rule of law and human rights, including women’s rights, and its advocacy of political pluralism, freedom of expression and civil society interact with its broader foreign policy objectives on China? What is the priority, scope, content of the bilateral dialogue on rights and law; and is it meeting its objectives?

Ms Hilton: To take the last point first, no I do not think it is. In terms of the EU's interests in China it is clearly in the interests of China to promote the rule of law of civic and political rights in China. To take a historical view, when I first went to China in 1973 when I went to university there, there were no human rights and there were no civil rights; there were no rights that the party did not give and the party could not take away, so the broad direction of travel of course is very positive in China and there have been huge improvements in this respect. However, we do seem to have got a bit stuck and I think you could do more to move this on. China has signed but not ratified several international conventions; the EU continues to urge China to ratify them but no progress is made. The EU does have benchmarks on its expectations of China in human and civil rights but it does not really seem to have any timetable for achieving those benchmarks and it does not seem to have any mechanism to deal with failure to achieve those benchmarks. I think that there is a general timidity in trying to move the agenda forward and a sense that China will react in negative ways. On the positive side I think that both the EU collectively and individual EU countries have made a considerable contribution to assisting China in building a legal state. There has been a very active dialogue. Certainly in the recent past there was a very active track two engagement on the death penalty. This has not yet of course resulted in the abolition of the death penalty but there is at least a constituency in the Chinese judicial establishment which is in favour of the abolition of the death penalty. Other contentious issues include the use of labour camps, of reform through labour which is an administrative measure which is taken without reference to accord and which an individual can be sentenced for up to four years hard labour. The EU continues to press China to abolish this without result. There are many areas in which no progress has been made for five, six or seven years and I think the EU should be more robust, as I have said.

Q128 Chairman: If you were running this policy what would you say the EU should do to make it more effective or should it just accept that this is a token argument, it is not going to get anywhere and therefore it needs to talk about it but get on with the real business of the relationship?

Ms Hilton: I think the real business of the relationship is the rule of law and I think that if we were to frame it in those terms we could benefit from the fact that China is committed to building the legal state. Joining the WTO was very important in that; you cannot do business if you do not have law. Once you have law citizens can begin to use law. If you go into any Chinese bookshop there is a tremendous shelf of books with titles like *How to be your own lawyer*. In the absence of the possibility of political action, which is effectively not available to Chinese citizens, the law is a very interesting instrument. China has many statutory rights which are not defended by the state but citizens have begun to reach for the law in order to try to assert these rights and in order to try to defend them. It is pretty tough because the Chinese legal system is, as I say, a work in progress.

Q129 Chairman: What is the most important thing that Europe should do to make this agenda real?

Ms Hilton: I think Europe should bundle the human rights conversation into the legal conversation because that gives the European Union grounds on which to stand; this is something to which China is committed. Much of trying to engage China on these issues is about language and the question of human rights sends up all sorts of rather negative static. Once you get into a conversation about human rights in China you get into non-interference and you get into the record of the West in Guantánamo, of torture, of all these issues and it becomes an extraordinary sterile exchange of: “You’re not better than we are”. If you put it into a technical area and you can describe it as a technical area, you can help to build institutions whereby the Chinese themselves who, after all, have an interest in human rights

and in the rule of law, can take that on and eventually what will make this happen in China is not what the EU thinks or does or says to the Chinese, but what the Chinese citizens are inclined to do for themselves and that is where we can help.

Mr Grant: I totally agree with everything Isabel says. Of course the Chinese leaders know that their long term economic development depends on greater respect for rule of law. They know that so it is very hard for them argue against it if the EU focuses on the rule of law. The EU does have programmes to train prison officers and judges and things like that which are probably of direct benefit and I think we should absolutely focus on rule of law rather than use the words “human rights”.

Q130 Lord Anderson of Swansea: Presumably they will understand in the commercial and business world that the rule of law means the honouring of contracts, an impartial arbitration procedure, the protection of minority shareholder rights and so on. To what extent do you hear British and European businessmen complaining about the lack of rule of law in those relationships?

Mr Grant: They do complain about it but as Isabel as already said the courts are getting better and you now hear that some western businesses fight on IPR or other cases in courts and sometimes they win. I think there is a positive trend in the way the legal system is developing.

Q131 Lord Anderson of Swansea: The Chairman mentioned women’s rights. Is there any serious discrimination against women?

Ms Hilton: There is no political discrimination against women but if you look around the senior leadership in China you get a picture, rather as you do in this room, of not very many women.

Q132 Lord Selkirk of Douglas: How successful has the EU been in encouraging Chinese participation in international conventions and institutions in this area, such as the International Convention on Civil and Political Rights; and the United Nations Human Rights Council?

Ms Hilton: The UN Human Rights Council I think has been a bit of a washout all round, partly because of its structure. In a previous iteration of that body there were regular efforts in which the EU used to support to try to bring resolution on human rights in China. I do not think it ever got to the table and it made no further progress on the convention. On China's participation in things like the International Covenant on Economic, Social and Cultural Rights that has been signed and ratified. The ICCPR has been signed but not ratified as I recall and the EU has really failed to get China to move forward on that.

Mr Grant: It has really tried. When the arms embargo row was happening in 2003 and 2004 they actually said, "If you ratify this convention then it is easier for us to lift the embargo" but the Chinese did not; I do not really know why they were so reluctant to do it but they did seem to be very reluctant.

Q133 Lord Anderson of Swansea: China appears to be fairly consistent in its foreign policy in respect of non-interference in the internal affairs of other countries, territorial integrity and so on. I am thinking, for example, of their refusal to follow the Russians in recognising South Ossetia. Are there any exceptions to this policy?

Ms Hilton: I think the question of non-interference is a rhetorical one. The point has been made that if you have relations with an illegitimate government you are interfering in the internal affairs of that country. You are certainly having an influence in the internal affairs of that country. Part of the evolving discussion on Chinese foreign policy in the real world as opposed to the symbolic and rhetorical world is a recognition of that. I think it is slow but I certainly think it is coming, and that is to do with long term real interests as we have discussed. In terms of recognition of breakaway states, after 1989 in Europe China

recognised all the emerging states including Yugoslavia. Part of the caution in terms of recognising newly independent states refers to China's internal situation and the extreme tensions with Tibet, Xinjiang and Inner Mongolia. China's national and international story is that China is the oldest continuous civilisation and China is today as it always has been. This really does not bear very much examination in terms of history. China is twice the size that it was in 1644 at the fall of the Ming Dynasty. It is a land based empire of relatively recent date in its current form and those discontents are present.

Lord Anderson of Swansea: The dissident territories of the non-central territories be it Hong Kong, Macao, Taiwan, Tibet and Xinjiang – are relevant to its external relationships. Can you say generally what is happening there and what is the relationship with the Chinese Government? Is it changing positively or not?

Q134 Chairman: Perhaps I could also bring in the next question which I think goes well with that, that is how the EU should react to that or the effect that it has on EU relations as well. Perhaps we could roll that into the same discussion.

Ms Hilton: You mentioned Hong Kong; I think there are no particular problems there. There have been issues over legal jurisdictions but I think Hong Kong on the whole is a success story. Taiwan is in rather a good phase, particularly since the recent elections in Taiwan which brought to power Ma Ying-jeou, of the Kuomintang, who pretty much see the Taiwan issue oddly enough in the same way as Beijing does. They are, after all, the former rivals in the civil war so they have a view that it is one China, and they are not part of the Taiwan independentist movement which has, on the whole, rather quietened down. The Chinese have taken a long view of Taiwan and I do not think that anyone sees it in their interests, provided Taiwan does not do anything to change the international legal order that this should become a military issue despite having given themselves the right to invade Taiwan if they wish. I think they hope for this to be a stable and maturing relationship; they have a very close

economic relationship with Taiwan and for the moment that is not an area of tension. I could not say the same about Tibet and Xinjiang. Tibet in particular is in a very unhappy situation. As you know there was a major uprising throughout the Tibetan territories in March of last year and Tibet is effectively under military occupation at present; 10 March marks the 50th anniversary of the uprising which led to the exile of the Dalai Lama in 1959. The Chinese government recently issued a White Paper on Tibet which essentially says that everything is fine and that Tibet is making great economic progress within the embrace of the motherland. At the same time it has been briefing officials to the effect that the trouble in Tibet is instigated by foreign powers with the intention of damaging and weakening China and encouraging splitism. The public position last year was that it was all fault of the Dalai Lama. My personal view is that these are extremely weak arguments, that there is widespread and justified discontent in Tibet which would be, I think, resolvable with a more enlightened political attitude on the part of the Chinese. I think if you go to Lhasa you find an administration which is rather stuck in Cultural Revolution attitudes. It is the most politically reactionary part in terms of the Chinese state of the whole country and Tibetans certainly suffer from this. There was a template, if you like, for Sino-Tibetan relations which was the so-called 17 point agreement for the peaceful liberation of Tibet which was negotiated after the Chinese military occupation which gave a kind of one country, two systems status to Tibet. It broke down, for reasons we need not go into, but given the success of one country, two systems in Hong Kong and the de facto one country, two systems in Taiwan, one might have hoped that this could be applied. I think if the EU has a role to play it might be to encourage that and I think that the EU should certainly take a robust view of the Chinese management of Tibet. I do not think there is any prospect of independence for Tibet or for Xinjiang; they are strategically important. Tibet sits at the headwaters of the rivers on which China depends. Even if it were not a question of minerals the question of water supply for

China, which is one of China's most acute and serious long term issues, is bound up with the fate of Tibet. So independence is off the map. However, there is a great deal of autonomy that could be given to Tibet without going that far.

Q135 Lord Anderson of Swansea: Do you think they have gone too far for that? They have demonised the Dalai Lama; he may die within a reasonable period. He seems to have moved beyond what some of his constituents might want; do you think there is any prospect at all of an accommodation?

Ms Hilton: The experience of the rather slow talks of the last five years has been extremely discouraging and I think the Chinese are missing a political opportunity here because if there is a moderate voice in my view it is represented by the Dalai Lama. There are also very few people – I cannot think of another one – who would be able to deliver both the exiled constituency and the domestic constituency in Tibet to any agreement that was negotiated. With his eventual loss – we all know how old he is – the Chinese will lose that opportunity and I think they believe that with the loss of such an important figurehead their problem will diminish because he plays such a big role in raising the international profile of the issue. I do think that is a mistake; if you have the option of a moderate and effective interlocutor this is rather a good opportunity and I would hope that they come to understand that. Again I think that the EU should be clear on that point.

Q136 Lord Swinfen: Is there any danger of fundamental Islam from Afghanistan or Pakistan causing trouble?

Ms Hilton: There is, and again Xinjiang suffers very tight control by the Chinese authorities. I think one of the political problems which is likely to precipitate that sort of reaction is that China essentially mistrusts local cultures and mistrusts local identities. In China's now centuries old search for a modern political form the dominance of Han culture has become an

instrument of state to the detriment of other cultures within the country. To the degree that both religion and culture have been seen as vehicles for local nationalisms, the Chinese state has attempted to re-educate; patriotic education is one of the instruments of state and this does, I think, tend to set up very strong reactions. An attack on culture is felt very strongly. There have been incidences – although they have been relatively minor – of terrorism or what has been classified as terrorism by the Chinese state. I have limited knowledge of Xinjiang but what I have encountered amongst Uygurs is not militant Wahabism, but the more frustration there is, the more tempting that option will be.

Q137 Lord Jay of Ewelme: Could you say a little bit about how you see the environmental consequences of Chinese economic development and how effectively do you think that the Chinese authorities are responding to those challenges? I suppose there is a series of linked challenges really which are part of the economic social which leads into political challenges and also technological ones. As a final question, there is a widespread perception in the United States in particular that China is not really doing anything at all about climate change which, in a sense, is also bedeviling a little bit some international negotiations; how justified do you think that is?

Ms Hilton: The Chinese model of development in what has been the biggest industrial revolution ever seen has been pretty much like that of Yorkshire: you get rich first and you clean up later. That has been very much the attitude. However, it became clear four or five years ago that this was not a sustainable position because China simply does not have the headroom to continue with the level of pollution and the level of environmental degradation that the industrial revolution was causing. There was a very stark list of China's environmental problems delivered by Minister Pan Yue in the Environment Ministry in China who talked of acid rain over 25% of the territory, terrible water pollution, something like 30% of the water that flows through China's cities is grade four which is unfit for any purpose

whatsoever. There is advancing desertification which is a serious problem. There are health issues; there are entire cancer villages in China caused by chemical discharge of one sort or another. There is pollution of very large bodies of water on which large urban communities depend. Air pollution became a high profile issue over the Olympics and they struggle to control that. As a result of this perception that China was not going to go on getting rich if it did not actually make its development more sustainable, the government attempted to balance its development and this became explicit government policy about three or four years ago. Now officially the policy is sustainable development. However, there are a number of problems. If you look at what eventually cleaned up our industrial mess, civil society played an important part in this, an effective legal state played an important part in this; free press played an important part in this. The Chinese remains a very vertical system where Beijing attempts to pull levers which, as often as not, come off in its hand. You get conflicts of interest not only between the very powerful state industries and the state itself in this area, but also between provincial governors who are thinking of their own GDP growth, their own unemployment and you will find a chemical plant can be closed down in one province and it is immediately offered favourable terms in a poorer province further west where they want to industrialise. So it is a very tricky thing to do. The Chinese regard it as an expensive thing to do but at the same time they feel it is a necessary thing to do. As in this country, the environment ministry is much weaker than the Treasury; it is much weaker than the industrial ministry. It does its best. I have not been able to check this, but I was told that in terms of the number of personnel in the environment ministry in China there are more personnel in Mao's Mausoleum in Tiananmen Square. Clearly this is not a powerful or a particularly effective body. The USEPA has 70,000 employees; the Chinese has about 400 or 500. In addition to that, the provincial environmental protection agencies work not to the national agency but to the provincial governors so they are under the thumb, if you like, of people who have a direct

interest in headlining economic growth over environmental issues. That said, efforts are being made; that said, civil society is weak but growing in this respect; it is vulnerable and the Chinese have an ambivalent attitude to it because they fear that if civil society is organised around environment then sooner or later it will organise round other issues as it did in Europe in 1989. There is nervousness but they know that the state cannot do it all. The same is true for the press. The press, when it comes into conflict with state interests, is explicitly censored. When it gets away with it it does really quite a good job of investigating and exposing environmental abuses. On climate, I would say that up to about five years ago the Chinese pretty much took the view that the Indian Government has held rather more recently, that it is the West's problem, and the West can clear it up. However, it is being borne in rather forcefully on China that this position may be rhetorically satisfying but it does not actually save you from the consequences of climate change which, in China's case, are extremely severe. China is very vulnerable to climate change. It is currently suffering a major drought in north China; this is one of the areas that the UN reports say will get worse: extensive flooding, more violent storms in the south. The most serious issue of all is the melting of the glaciers of the Himalaya. The glaciers of the Himalaya are the source of all the rivers in Asia and 40% of the world's population. In Chinese terms they are the source of the Yangtze and the Yellow River. This is very serious, Different rivers depend to a different degree on glacier melt, but in Xinjiang, for instance, it is a very, very high dependency. This is a very arid region. Without the glaciers Xinjiang is really in trouble. This is a serious and long term problem which has certainly helped to focus the Chinese Government's mind on climate change. The essential position is that China is willing to be constructive on climate change and there are many policies the Chinese Government has adopted which have dual use; they are to do with energy efficiency, energy security, diversification of energy supply and they also have utility for mitigation. These are ambitious targets: 25% renewable energy,

25% energy efficiency and so on and so forth. What China will not do is accept caps. It will not accept caps because it argues that it still needs to develop. It does argue that although China overtook the United States as the world's biggest emitter of greenhouse gases last year, per capita Chinese emissions are a fifth of the United States' and half those of the European Union. So it says that historically the greater responsibility lies in the developed countries. The greater capacity to address this lies in developed countries and the developed countries are currently addressing this insufficiently. If the developed countries make greater efforts, including the European Union, China will be a willing partner not only in seeking to control its own emissions but also in the development of low carbon technologies and in the area of industrial and technological cooperation where there is much to be gained by cooperation with the European Union.

Q138 Lord Crickhowell: You referred to the glaciers; I think it is right that China has half the world's glaciers and if they were to melt the consequences are very severe.

Ms Hilton: Not just for China of course.

Q139 Lord Crickhowell: The Chairman will remember that when we were on the Joint Committee on the Climate Change Bill – together with Lord Jay – we had some very specific evidence from a representative from the Chinese Government that they were taking this very seriously and wanted to do something about it. I think you have already answered one of the questions that I was scheduled to ask about caps and targets, but what is the scope do you think of the EU's environmental cooperation in assisting China and helping it to mitigate the damaging consequences about which you have been speaking?

Ms Hilton: I think there is tremendous scope and I think there is tremendous scope for technological cooperation. There is an investigation going on currently by a group of researchers in Europe and a group of researchers in China on the idea of low carbon zones, for

instance. The idea would be to create low carbon zones, to pioneer low carbon technologies which would be of use. The EU is cooperating at the moment slightly ineffectually on carbon capture and storage experiments. One of the problems with policy right now is that much of it is dependent on clean development mechanism and carbon trading and, as you know the carbon price is currently on the floor. This means that this has effectively come to a halt so one of the key mechanisms for investing in low carbon technologies and in mitigation in China is currently looking pretty ropey. One thing the EU could do would be to do something about the carbon price and this is something that governments absolutely have to do to make the system work.

Q140 Lord Crickhowell: I have to declare an interest at that point because my son is a major player in Climate Change Capital and pays frequent visits to China and indeed was in China last week. It has not entirely come to a standstill. He was in China dealing with a scheme under emissions trading but, as you rightly said, the world economic situation, the fact that nobody is investing around the world in new plant at the moment means that the price has gone through the floor and there is a real problem.

Ms Hilton: It makes most of these projects uneconomic.

Q141 Lord Crickhowell: Yes, but it is not only problems affecting China, it is affecting the whole working of the emissions trading scheme in Europe and elsewhere. It is going to be a major problem. There are contradictions still, are they not? They are and have been doing quite a lot of these schemes I have described; they have a large nuclear programme but they have still been building coal fired power stations on a massive scale so that at times Hong Kong is almost uninhabitable because most of those coal fired power stations are just outside Hong Kong and the fumes and the pollution pours over. Do you see any sign that they recognise this problem, this dichotomy, that it is not just enough to do the nuclear things and

make some improvements to existing polluting plants, but they really have to stop a huge number of coal fired power stations using the worst sort of coal?

Mr Grant: Of course they are going to go on building coal fired power stations because they need the power.

Ms Hilton: And they have the coal.

Mr Grant: There is no doubt that China will become a much bigger producer of carbon in the atmosphere than it is now. Whatever happens to the world's climate China is going to be pushing out a lot more carbon. I wanted to make a point about the EU. The EU does have a whole number of schemes to transfer technology to China on climate change but the Chinese are not very enthusiastic about it because it uses energy less efficiently than other sorts of power generation. There is no more important issue in the EU-China relationship than climate; it is the single biggest issue. I know that when European leaders – not just Barroso – when they go to China they say that this matters more than anything else because we all know that without China there can be no effective global system. There is a serious risk of Europe getting protectionist on this issue. Sarkozy has called for carbon tariffs against exports from China if China refuses to accept limits on carbon emissions. I am not sure if there would be much support from other Member States, but some Member States would support it. The openness of the whole global economic system depends on getting China signed up for something. My guess is that on so many other foreign policies we talked about they will not perhaps agree to quantitative caps that we have discussed but they will agree to something. Wen has indicated that he will agree to something because he will want to keep the rest of the world off his back. They will do the absolute minimum to make sure that there are no economic penalties imposed on China and they will do no less than that; they will probably do the minimum in the long run I would suggest.

Q142 Lord Crickhowell: Possibly the fact that the American administration seems now likely to develop an emissions trading body will reinforce and help rescue the present European scheme and the problem that it is facing. It may make it easier for China if we really have a sort of worldwide system developing rather than a purely European one. Do you agree?

Ms Hilton: I certainly think that the change in position of US policies is very important but I was in Poznan last December, talking to the Chinese delegation. You will recall that at the same time as Poznan the European Union was having its own energy summit in Brussels. What the Chinese complained about in Poznan was that they had come with several proposals on various aspects of the potential Copenhagen Treaty including financing for adaptation and finance mechanisms for mitigation and they had had no reply at all. At the same time the European Union was busy making concessions to Poland on coal and making concessions to industries on permits. China has coal; China has an energy problem. Although China is building coal fired stations – and this is extremely worrying – they are super critical these days and they are closing down the old plants. They have plans currently to close down one-third of the sector. This is substantial. The economic downturn is assisting them in this respect; the demand for power has fallen quite dramatically because of the slow down so there is an opportunity to do this. As Charles says, they are sceptical about CCS; I have to say that I share that scepticism. I think the technical challenges of CCS are formidable and it will not happen for 20 years. However, where they are being extremely proactive are in things like wind and solar power and of course in hydropower which is rather more problematic.

Q143 Chairman: I think at that point, if Lord Swinfen will forgive me, we have talked quite a bit about the energy side and I am warned there is likely to be a vote in the next few minutes so perhaps we could bring the session to an end at that. We have had a very, very good tour

of all the issues here and unless there is anything that either of you specifically want to say that has not really been brought up.

Mr Grant: There is just one very final comment from me. We were discussing the responsibilities to protect earlier and the principle of non-interference, and I do think there is a real shift going on in China's thinking on this. Let me give you a very brief quote, an important quote. A guy called Feng Zhongping, a Chinese scholar I greatly respect, says on the question of Chinese not wanting to interfere in other countries, said about the change, "It is so slow, we look at this case by case, there are not going to be any revolutions, we are not going to say we scrap the principle of non-interference but in practice we are changing it, bit by bit pragmatically" and they are. Look at what they are doing in North Korea and Iran and so on. They are actually beginning to interfere in other countries' affairs but they will never see the principle; they will just do it in practice. I think that is a very positive development.

Q144 Chairman: Ms Hilton, was there anything else you wanted to say?

Ms Hilton: I would just like to stress the point that has been made about climate and the European Union. One of the things that concerns me about the Chinese position here is the question of stabilisation targets. As you know we have signed up to 450 parts per million; the science now says 350ppm. The Chinese do not believe that 450 is achievable and they think they can live with 550. I think this is really quite worrying. However, in order to move that, they look to the European Union to have the courage of its convictions. We will get a much better response from the Chinese if we are seen to be vigorous in our own territory.

Chairman: That is a very strong comment, thank you. Can I thank you both very much indeed for the long time that you have given us. This is a really very important study as far as the House is concerned; thank you for participating in it.