

THURSDAY 26 FEBRUARY 2009

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Present

Anderson of Swansea, L  
Chidgey, L  
Hamilton of Epsom, L  
Inge, L  
Jones, L  
Selkirk of Douglas, L  
Symons of Vernham Dean, B  
Teverson, L (Chairman)

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Witness: **Dr Kerry Brown**, Chatham House, examined.

**Q36 Chairman:** Dr Brown, welcome and thank you very much indeed for coming along to our inquiry on the EU and China. I remind you that this is a public session, so it is recorded and we are webcast, which is probably far more important than being broadcast these days. I remind you that you will be given a copy of the transcript and, if there is anything on it that you do not feel is right, then you will have the opportunity to correct it. I think you have had a copy of the questions that we want to ask and I know that the Committee will be quite keen to explore some of those areas more broadly, but I wonder whether there is anything you want to say as an introductory remark before we begin.

**Dr Brown:** Just thank you for inviting me and I look forward to the dialogue.

**Q37 Chairman:** Perhaps I will begin with what is really quite a general area which maybe gives us a good opportunity for an introduction and ask you what you see as the main successes and challenges of economic, social and political modernisation in China over the last 30 years. I guess that could take three hours but if you could contain it to slightly less than that, it would probably be useful to the Committee.

**Dr Brown:** I think that it is generally accepted since 1978 when the real period of liberalisation began that China has achieved big increases in GDP growth and so you could say that, in the last 30 years, China has been a GDP growth factory and it has lifted probably 300 million people from poverty – that is a World Bank statistic – and created a successful middleclass in the coastal areas and a kind of trickle-down wealth system. I think that it is more difficult to say whether it has been successful in creating educational outcomes or social outcomes – that is much more complex – but, in terms of wealth creation, it has been incredibly successful.

**Q38 Lord Anderson of Swansea:** I guess that anyone who looks at the period of the last 30 years must see an astonishing success story in terms of the quality of life of the ordinary Chinese citizen, and the aspirations of the booming middleclass certainly in terms of housing demand has been massively met I would have thought. A couple of years ago I was at a housing fair in Shanghai with new estates with names like Hyde Park and Kinroyal and the number of young, wealthy Chinese – this was Shanghai of course – was amazing. Surely it is not confined to the coastal belt because in Chongqing and areas in the Three Gorges equally there is a vast explosion of new wealth.

**Dr Brown:** Yes. I think the issue now that it has become a reasonably long-term process of 30/31 years is that there has been a great deal of inequality from that growth and therefore I think you see in 1984 according to the Gini Coefficient which is an accepted measure of inequality, China was largely a fairly equal society and now it is one of the most unequal, I think as unequal as places like Brazil or places in Latin America. I think that the deal that was done in the late 1970s after the years of Maoist State Control of the economy – 99 per cent of the economy in 1971 was state controlled; it was a very closed economy with very little foreign trade through Hong Kong – really kind of led to a political deadlock and economic deadlock and the country was effectively bankrupt with no foreign reserves in

1977, a year after Mao's death. So, a policy decision to liberalise the economy and look at what the Japanese had done in the 1950s and 1960s and become more of an export-led economy and try and move away from agriculture, and that has been successful. I think that the 1980s was a period of genuine liberalisation. There were real efficiencies in the agricultural sector freeing up massive amounts of people to work in enterprises and that has been maintained to this day. Even Deng Xiaoping, the paramount leader in the 1980s, said that that was an accidental process. They were not trying to achieve that, they were just trying to create an industrial infrastructure but, as the agricultural sector became so much more efficient, in fact they created a very big non-state sector and that has been a big engine of growth to this day. I think that the inequality remains a problem because of, as we see at the moment, issues of social stability and lots of protests. The last figures which are commonly quoted were 87,000 protests in 2006, but I think every week you can see quite large protests about living conditions and payment of wages which do not really get reported widely in the West. The other issue is that there are big differences on any kind of economic indicators between the coastal areas and the western areas and I think that the Central Government has tried to deal with that by trying to have provinces in the coastal areas sort of adopt provinces in the western areas and it has tried to produce taxation systems and it has tried to release some of the tax burden on agricultural workers in the last year, but that inequality is still a big worry and it remains a big worry. I think that the other issue really, which we will probably talk about later, is that while the middleclass are economically very free, they are not politically enfranchised and that remains an issue and, while the Central Government talks about it a lot and Hu Jintao, President of China, in his talk at the party congress in 2008, the 17<sup>th</sup> Party Congress, used the word "democracy" more than any other word and yet there have been no significant moves since 1989 to look at political

enfranchisement and that kind of stuck transition I think remains a big problem and we do not really know how that will play out in the future,

**Q39 Lord Anderson of Swansea:** Democracy with Chinese characteristics!

*Dr Brown:* Indeed. The Party have promised democracy by 2050 with no Chinese characteristics, just democracy, so they are going to have to do something with that promise.

**Q40 Lord Hamilton of Epsom:** Following on from that, if you look at the Chinese in Singapore, they have some of the highest per capita income in the world and they do not seem to have any overwhelming desire to democracy, they live under a chosen one party state. Does that not read large over China itself?

*Dr Brown:* No because Taiwan has democratised very successfully with a bigger Chinese population and a probably more representative Chinese population since 1996. Whenever people say that the Chinese culturally do not need democracy, they have to explain Taiwan which has been very successful. They have actually seen the ruling party lose power in 2000 and then be re-elected in 2008 with stable, transparent and very good elections. Singapore is the size of a small Chinese city and so it is easily controlled. It has been talked of as a possible economic model for the whole of China, but I do not think because of the size and because of the historic background it is that relevant.

**Q41 Lord Chidgey:** I am particularly interested in some of the impacts of the tremendous growth in economic wealth in the last couple of decades as you touched on earlier and I wonder whether there is any sign of the benefits of that wealth being used to create much improved infrastructure through China and I am thinking particularly in the context of the world-wide recession/depression that we are facing. I am also interested in what you feel the pros and cons are for the Chinese economy in this current situation with their huge amassing

of sovereign wealth funds. It seems to me that that could be a significant key in how we tackle the downturn in the world economy at the moment.

**Dr Brown:** Since 1978, the average economic growth has been about ten per cent per year and although in the last year it started to fall, it is pretty likely that, with the kind of fiscal stimulus package that the Central Government are talking about, they will meet the eight per cent target this year. There would not have been any way that the Premier of China, Wen Jiabao, would have used that figure if he knew that they were not going to meet it. So, they will meet that target this year. The 31 provinces in China is a territory that is bigger than Europe, so there are big differences between the west and the eastern regions with the GDP growth rate, and I think you are looking at pretty mature, developed provinces around Shanghai for instance and then you are looking at predominantly rural provinces which have very low growth rates. Tibet for instance is a particularly impoverished area. You might have 200 million people who are living on less than one dollar a day. So, real problems with systemic and endemic poverty. The issue about the kind of economy model is that the whole of the Chinese economy is still 45 per cent agriculture and that is very important, and 45 per cent industry and the issue that we really look at from outside is more the export industries, the international trade. That is only about four or five per cent of the Chinese economy, but it has been the main area where there has been big growth. So, in the 1980s in one of the special economic zones that was allowed to do international trade earlier than any of the others, Shenzhen just opposite Hong Kong, they had 40/50 per cent growth rates over six or seven years; so an incredibly diverse and fragmented economy. That I think remains a real problem for Central Government policy makers in that they are making policy in Beijing for a diverse, complex territory where there are no rules really and that is part of the problem with the five year plans that they have, the five year programmes that they try and capture. Incredibly diverse economic realities. About the foreign reserves, at the moment they stand at

\$2 trillion and that has been accrued through investment and through export revenues. They run an export deficit or a trade deficit with the EU and the United States of about \$260 billion a year in 2008. That started really from quite a low base. In 2001, there was not that big deficit. I think that what you can see from that is that China has been a big beneficiary, a big winner, from WTO entry. It entered WTO in 2001 after 14 years of negotiations, but in fact, as of 2009, it has been a big winner and it is strange that it is not more proactive with the Doha round of talks and other talks in trying to increase liberal open borders.

**Q42 Lord Chidzey:** When you say a trade deficient, do you mean there is a trade deficit for China or a trade deficit for us?

**Dr Brown:** A trade deficit for us and that is an important political issue. There are three issues with foreign reserves. I think that most economic good housekeeping means that you keep three months of import/export volumes. Two trillion dollars is 18 months' worth, so it is right that the Chinese Government were anxious that they had no foreign reserves 15 years ago or 20 years ago, so they have saved and indeed Chinese middleclass have save \$2 trillion or \$3 trillion. Enterprises have saved. That is one of the issues at the moment, that there are these massive savings. The problem with having so many foreign reserves which are non-convertible, they basically exist and \$1 billion of them are US Treasury bonds, so US debt, and then I think the rest of them are kept in a variety of currencies, some with other foreign debt. They have lots of Latin American debt for political reasons. Costa Rica changed its recognition from Taiwan to the People's Republic last year with £120 million of debt being bought from it by the Chinese. So, this amount of reserves is a political issue. What do the Chinese Government do with it? One thing they have done is set up a China Investment Corporation with \$200 billion and that has made spectacularly unsuccessful investments in which they have lost lots of money. One investment in Blackstone Hedge Fund, the investment fund of America, which lost \$1 billion in a month, and one in Morgan

Stanley which lost money. So, at the end of last year, the Head of the Chinese Investment Corporation, Lou Jiwei, in Hong Kong said, “We are not going to make any more investments in western financial institutions at the moment”. A government official said about Gordon Brown’s suggestion of them being involved in IMF bail outs, “We will not involve ourselves in the IMF when its voting rights are not representative”, I think six per cent of the voting rights are Chinese and developing countries, but very low, and the second thing that he said was, “Why would we want to become involved in an organisation which is then going to bail out western democracies?” like Iceland or East European countries. So, they are those issues, but they do have the money. The third thing that the Chinese have done with the money they have is taken very small shares in about 100 listed companies in London through an organisation called the State Administration for Foreign Exchange, so they have one per cent of Tesco and one per cent of BP and 1.7 per cent of Total, lots of different small companies, so very cautious, very, very cautious. The third thing that they have also done is become involved in lots of mergers and acquisitions. So, this phenomenon of China becoming an outward investor is actually a major issue and in Europe last year the UK was the biggest recipient of Chinese investment – we overtook Germany for the first time. Chinese outward investment and the Chinese foreign exchange reserves are politically and economically massively important.

**Q43 Lord Hamilton of Epsom:** Do you think that they would be prepared to put more money into the IMF if the voting structure was altered and they would then drop their reservations about bailing out western democracy?

**Dr Brown:** I think that it is a broader issue of the representativeness of most multi-lateral organisations like the World Bank and the IMF and particularly the UN. China has vetoed or stopped Japan’s application to become a member of the Permanent Five Security Council. I think that China will drive a hard, hard bargain for every re-organisation of these international

institutions because it has been dissatisfied with them for a long time. It was dissatisfied with the way that the IMF behaved during the 1998 Asian financial crisis and it has also been dissatisfied with some of the World Bank's operations in Asia. There has been talk in China at least of there not being a G8 or a G9 or a G20 but really a G2, which is America and China. So, there is a sense that China deserves a special place at the table and I think that they will drive a very hard bargain.

**Q44 Lord Hamilton of Epsom:** You have already made reference to the growing inequality and migration across China. Recent figures show massive growth in unemployment. How would you characterise the economic challenges in China with the present global downturn? This really brings us on to growth rates. There has been talk from the Chinese Government that they somehow have to hit a growth rate of eight per cent having been nearer ten in the past. Does that actually add up, does that mean anything or is this a wish rather than a calculation? What do you think Chinese growth is going to be in 2009 though I am afraid to ask? If it is too low, then the ramifications are going to be absolutely massive, are they not? How should this shape the EU's attitude towards China?

**Dr Brown:** On the issue of unemployment, in fact in the 1990s when there was big state owned enterprises, China laid off 60 million people. So, it can live with amazing amounts of unemployment statistically. The statistic at the moment I think has been that 20 million have lost their jobs in the last year because of the downturn and I think we can conclude from that that China was very reliant on the US economy and that surprises me because I thought that there would be more domestic demand within China, but in fact its reliance on the US economy is clear from the number of people who have been laid off in the Pearl River Delta which is the main manufacturing area. I think that there are also issues of under-employment. The unemployment statistics are very, very speculative. On the growth rate, I am pretty certain that they will reach eight per cent. As far as I understand, the fiscal stimulus package

of about 500 billion sterling which the Central Government has announced, about two thirds of that would be local government spending on infrastructure – I think they are going to build 200 airports by 2010 or something like that – and with that amount of money being pumped into the economy – and they calculate on a slightly different way; there is this controversy on how they calculate GDP growth – they will reach their eight per cent and the fact that the Premier Wen Jiabao said at Davos and said when he was in London in early February that it will be eight per cent means that it will be eight per cent. Whether we take that seriously or not ... It will be a growing economy, that is the main thing. It will not implode.

**Q45 Lord Hamilton of Epsom:** Somebody said to me the other day that they are training riot squads in China's 30 biggest cities so that they have people who can break up quite large crowds of people rioting and so forth. Is that true?

**Dr Brown:** Yes. They have The People's Armed Police who are an 800,000 strong civil defence group. They performed spectacularly badly in 1989 and that was one of the reasons why the Government then sent in armed troops and that is going to be a problem this year because it is the 20<sup>th</sup> anniversary of that. I think that the thing about the demonstrations at the moment is that they are very widespread and they are very visible. When you go around China, you can see them. I was in China in January and you can see people protesting, but people are protesting about very specific things like land and loss of land or not paying wages when they have been sacked from factories. They are not turning that anger it seems at the Government, but the problem is that if they do become dissatisfied with the Government, that will be a really big tipping point.

**Q46 Lord Chidsey:** I am intrigued by this 500 billion local government stimulus package which is quite powerful, but it does link into the question that I wanted to ask you which is a little more about the 45 per cent of the economy which I think you said was rural in China

and it seems from what we know that the massive unemployment that has been generated by the economic circumstances is probably having a great impact in the rural areas because of the returnees from the towns, I imagine a lot of skill. I wanted to ask you what sort of planning there is – it is difficult to say central planning I suppose – and how is the Chinese establishment dealing with this potential? Presumably, if nothing is done, people will be starving in their thousands which clearly is not a solution to the problem. I presume that there is not a recognisable state social economic support system as we would recognise it, so this is back to my point because you said that there was investment in infrastructure through local government, but is this going to mop up the labour resources that are returning from the cities or will they be inappropriately skilled? There must be some dynamics here that China is trying to organise to prevent the mass unrest rather than just simply shooting them which is clearly not the alternative or the option that they wish to pursue.

**Dr Brown:** 1989 was not a major issue in the end because it was an urban phenomenon. If it had become a rural phenomenon, the Communist Party would be out of power now and that has been proved by many studies. The problem with the current Government's challenges is that rural wages have stagnated, productivity has dipped slightly and China has pursued over the last 15 years a pro-urban policy which has led to all sorts of environmental problems and energy problems which we will talk about later. There were 200 million migrant workers and they have been the people building the cities with very little social welfare, no social security and no real stability. The Government have dealt with them in the current downturn with building disappearing by letting them go back to their towns because they are less likely to riot there. They will riot away from home but they will not riot where they are actually living. So, that is one thing that they have done. In the last year, they have put more money into education. China has 30 million more illiterate people now than it did ten years ago because of the failures of education in less-developed areas in China. So, that is the second. They

have put more money into education. The third fiscal stimulus package is to put more into healthcare. In 2003 during the SARS crisis when people did return to their villages briefly or their towns, there was no healthcare system. So, they have put more or are trying to put more money into healthcare. If they do that, I think that logically the middleclass will also maybe start spending because, on most studies, the middleclass in China save for education because they have to pay for their educational costs, the Government do not provide those, and they save for healthcare because, if there is any problem, they have to pay for that, it is all private. They are always saving for the rainy day and now the rainy day is coming and the Government are trying to build up enough sense of security in the social welfare system to basically give them that sense of reassurance. The fiscal stimulus package actually was already all planned. Most of it was already all planned apart from 100 billion extra before the current problems started. So, in a sense, this is part of a long-term ambition. The problem is that no-one knows where the extra money is going to come from and government borrowing in China is quite low, 25 per cent of GDP compared to 50 per cent here and 180 per cent in Japan.

**Q47 Baroness Symons of Vernham Dean:** You have given us some extraordinarily interesting statistics as you have been talking, but may I do a quick recap on some of the points you have made to make sure that I have them straight. You said that there is no state secondary education and I think you said that there is no free health service in the way that we would understand a free health service and that there are 30 million more illiterate people than there were ten years ago, that 200 million people live on less than a dollar a day and 20 million who have just been thrown out of work because of the recent downturn. I think those were all the figures that you have given us which does sound a pretty grim picture alongside this enormous amount of \$2 trillion sitting in reserves and one is bound to draw the conclusion that, if you are prepared to live with that sort of social deprivation, maybe reserves

in other countries would be a little greater, but that is a speculative point. You said that 45 per cent of the economy was rural. What sort of percentage of people still work on the land? You have spoken about a lot more people moving to the urban areas with the explosion in building etcetera, but how many actually still stay in the country? Lastly, on these questions of growth and rates of growth, money and how things are being planned for the future, how reliable are the statistics? We have a tremendous amount of scrutiny of each other's economies these days, but I have the impression, maybe erroneously, that China is not the most open country in the world when it comes to other people coming and having a look at what is going on. It would be nice to have some sense of the reliability of their own calculations.

**Dr Brown:** On the first question and it sort of also addresses the second question, the National Statistics Office produce a book every year, a statistical analysis, and that is the main source for most statistics and the Chinese Government would say that China is still predominantly a country where people live off the land and that over 54 per cent of the population are rural. In fact, of that 54 per cent, a large number work in what we call town and village enterprises and live in places that we would say were cities. Town and village enterprises have been the main non-state employer for the last 25 years. They can include anything from small restaurants to large factories that are now becoming international. So, it is very difficult to say who actually is still a farmer. The best analysis of that is probably if you look at particular provinces and then you can just about work it out with lots of different studies. There are a million kind of village level or county level what we would call post-code districts in Britain in China. You can get statistics down to quite a lot of detail for some of those areas. The statistic of 200 million people on less than a dollar a day the Chinese Government do not accept. They say that it is 23 million, but the World Bank has undertaken quite a lot of analysis of the western region of China and it says that the Chinese are using

a much lower level definition of poverty. They are saying that it is okay to live on 25 cents a day, but we say a dollar a day. That is the reason why there is that discrepancy. On the 30 million illiterate, that is a source from an academic, Yasheng Huang from the Massachusetts Institute of Technology, who took the 1996 government book on the kind of statistics to which I have just referred and he compared it to the one in 2007 and there is this discrepancy. There is a generation of people who are illiterate and there will be controversy over how you define that but the statistics that the Chinese Government produce are not consistent. The only thing that you can say is that they have got better, they have got more robust and, in many areas, it is the only evidence that we have. The Chinese Government now see the value of producing good quality data in some areas and so basically on social welfare issues, some economic data is good and it stands up. In other areas, particularly military spending, it is hopeless.

**Q48 Lord Jones:** Pollution by air and water. We do hear that it is very considerable in China and you may yourself have a view or assessment of how bad it is or whether it is getting better or worse. Do you think that the EU could be of help to China or is it now assisting? Does it advise? Is there a role for us there?

**Dr Brown:** Yes, definitely. The fundamental issue is that China has increased its energy needs massively, so I think that in everything apart from oil, it is now the world's biggest energy user and that is because it is a very energy-intensive economic model, lots of industry and major manufacturing bases. The second issue is that it is still reliant on coal. Seventy to 73 per cent of its energy is produced by coal and that is a big polluter. The mining of the coal, the transport of the coal, the kinds of coal which are very high in sulphur content, all of these things add to air-quality issues and that is an issue for Chinese people too because, in public surveys undertaken by the Chinese Government, the thing that people are most dissatisfied with in Chinese cities is air quality. Also, water quality. It is not widely known

but, in the north east of China now, there is a big drought. Beijing is a city without sustainable sources of water, a city of 10 million people without a river that gets its water largely from neighbouring provinces. So, this issue of quality of the air being linked to the economic model that China has is a long-term problem. The other issue is energy efficiency. China, according to EU statistics basically when they have been doing co-operation with China, per unit of production is six times less efficient than Japan and something like three or four times less efficient than the EU. So, it is one of the major areas of debate because I think that China sees the EU as being a source of a lot of good technology, maybe world leaders, and China has signed up, they ratified Kyoto and they want to be part of Bali. I think the issue is that they feel politically that this was a problem that was not created by them. It was created by industrialisation elsewhere and they are taking part in it at the end really but the expectation towards them is to do more than maybe anyone else. So, one of the things in the talks with the EU, as far as I understand it, is that they feel that there should be much more technology transfer and that these deals should not be commercial, they should be part of a gift really and the problem is that of course if we do not participate in that, it is now a global problem. I think that the US has claimed that 25 per cent of the pollution in California can be traced back to China and that must be true of the EU too. So, it is a shared problem and I think that China feels that therefore the solution is not one that they should pay for themselves.

**Q49 Lord Jones:** I have read that the geographers say that about 80 miles north of Beijing you can officially say that the area is arid and that it is expanding and moving south. Is there any sign that the leadership in China is taking any steps to counter what appears to be the growth of arid regions within their borders?

**Dr Brown:** Yes. The desertification north of Beijing, the Inner Mongolian area, is due to inappropriate use of land, to put land that was for grazing over for cropping. In the 1990s,

they tried to create a thing called the great green wall, planting something like a billion trees, but there is not enough water and much of that is already dead and gone, about a half of it. The central leadership of the Chinese Government are pretty tough on environmental issues. Wen Jiabao is a trained geologist and he understands the science of climate change probably better than any major leader. Their statements are that this is a massive problem and that they have to do something about it. So, the government has set their 100 biggest enterprises very tough targets for what they call green growth and they have asked if officials can be judged not on their economic performance but also on their green performance. The problem now is that, with the downturn, the Chinese Government are not going to think more than beyond a few months maybe, maybe a year or so, because they are going to have to put economic growth above everything else and, although they have very lofty environmental targets, they will not sacrifice those to social stability or an economic downturn that might end up meaning that they are booted out of power.

**Q50 Lord Jones:** Following that, with such a huge population and with aridity becoming a greater and greater problem, in the long term, is it ever possible that such a nation would not address that problem simply within its own borders? Does your organisation ever consider how it would wish to go elsewhere to get that help?

**Dr Brown:** In terms of energy, it has become a net importer of even coal although it has the biggest reserves of coal. Because of the geography of China, the manufacturing base is largely in the south and the coal is largely in the north, it is easiest to bring it from Australia. So, energy-wise, it has already become a net importer. In terms of water and water supply or other natural: It is self-sufficient in food at the moment and it is a big exporter of food and agricultural productivity is almost miraculous, it has become incredibly productive. China has within living memory in the 1960s, in 1964, starvation. It lost maybe 30/40 billion people in the great famines in the 1960s. I think that the Government are really aware that drought,

famine and some of the kind of climate change impacts, the big floods that happened only a few years ago, all of these are things that it needs to do something about. I think that it sometimes feels that it is almost overwhelmed by it. We have to remember that becoming the factory of the world and producing goods that have made us, the buyers of many of them, wealthy, it has also ruined much of its environment.

**Q51 Chairman:** Perhaps we should increase our pace, but perhaps I could ask for a very brief response. You mentioned Kyoto and of course one of the mechanisms within that is the clean development mechanism which China has had a part of. What is the view of that mechanism within the Kyoto mechanisms? Is it seen as pretty marginal as far as China is concerned or is it something worth keeping and developing beyond post-Kyoto?

**Dr Brown:** No, I do not think so. As I understand it, I think it is keen on that. It has also been involved in carbon trading and there was some sort of keenness about that. I do not know where it stands at the moment because I heard a lot of scepticism because I think it was seen as an idea that did not really solve the problem, which it does not. I think that China is pretty keen to sign up to any of these agreements with one stipulation, that it does not have to pay for them. That is the issue. It has been very keen to get EU clean coal technology. That is one of the biggest areas of EU-China environmental co-operation and that has been reasonably successful, but the sums are very, very small.

**Q52 Lord Anderson of Swansea:** You have already covered part of this, I believe, the energy and natural resources on which China seems to be acting aggressively in particularly in its relations with African countries. Can you say a little more about their strategy to meet the growing, or at least until the recent recession, energy demands within China and a little more about energy efficiency and the greenhouse gas emissions and look at that, if you would, first in respect of energy and secondly in respect of other natural resources. How do

you read for example the RTZ saga and I will come on to ask a little more about the dialogue with the European Union in these related fields of energy and natural resources.

**Dr Brown:** The Government produced a white paper on energy in 2007 which is the formal statement of its needs. By 2025, by their fairly conservative prediction, China will use almost as much energy as the rest of the world put together. This is something where China disagrees slightly with the US for instance in that the US says that it will remain heavily reliant on fossil fuels and there is no real sort of sign that it is going to be able to shift away from that. It is building 30 nuclear power stations by 2020, but that will still only produce something like three or four per cent of its energy needs. It is the world's biggest user of solar power but that is only one per cent of its energy needs. So, one of the things that the White Paper says is that it wants to diversify supply sources and diversify away from fossil fuels. That is a worthy aspiration but there is no real clarity about how it is going to do that with its current energy hunger. It is also very wary of being reliant on one particular territory for energy supply. There are three main areas of supply: one is to the north of China from Russia for natural gas, one is through central Asian states; and one is through the south west Malacca straits, the place where they import most of the oil from the Middle East. There are problems with all of those. Obviously with Russia, there are problems with it trying not to be reliant on an old competitor, so they have not signed any deal with Russia for the natural gas. With the others, they are trying to buy assets in Kazakhstan. They have bought some assets in Uzbekistan, so they are diversifying, and they have also done long-term deals with Iran. The problem with that is that they are putting a lot of assets in politically very unstable territories and I think they feel that that is because they have been locked out of more stable sources of supply. On the general issue of natural resources, the odd thing is that China should really be a resource-rich country. It has good deposits of copper and good deposits of other natural resources in Xinjiang and in Tibet, but, as I understand it, they are very difficult to mine and they need a

little technology in order to get them and it is very expensive at the moment. It is also the same with oil. The current oil field in Daqing on the coast supplies something like 50 per cent of China's domestic oil, but it has reached its peak and is probably not going to be producing beyond the next 20 years. China has explored in Xinjiang in the north-west whether there are issues of the Muslim population there and political instability and also in the Bohai Sea, but again that is very difficult.

**Q53 Chairman:** How do we read the RTZ summary in this context?

*Dr Brown:* RTZ is Rio Tinto?

**Q54 Lord Anderson of Swansea:** It is China's acquisition of it.

*Dr Brown:* I followed it a little but I think that the issue with that really is that a major state company in the resource sector with essential government support is basically getting a decent stake in a number of foreign mines and a number of foreign resources and the problem really with that is whether there is going to be a political price tag to it. I think the Rio Tinto shareholders are not happy that it was done, the increase in the shareholding by CHINALCO, quite a big increase to something like 40 per cent, because it was not offered to the shareholders first of all. To me, the interesting thing about that is that it shows that Chinese state owned enterprises have access to massive amounts of capital where there is definitely going to be a political parameter.

**Q55 Lord Anderson of Swansea:** Although in Sudan, they have been more than willing to co-operate with the international community. Can you tell us in respect of the energy and natural resources where the European Union comes in. What is the nature of the dialogue, the current outcomes and where we can co-operate?

**Dr Brown:** It has been a fairly steady and high level series of meetings. It has focused largely on very practical things like clean coal technology and like efficiency targets. I think that the Chinese Government view the EU as a good partner on environmental and energy dialogue because it becomes politicised very early when they talk to the United States. That may change under the new administration.

**Q56 Lord Anderson of Swansea:** And Hillary Clinton's visit presumably does give a different tinge.

**Dr Brown:** It does, yes. I think that the thing the Chinese are seeking with both their investment and their dialogues is technology. That is really what they are most focused on because they really lack a lot of the most important and newest technology to move forward.

**Chairman:** Perhaps I could ask Lord Anderson to move on to the next question but, before we do that, you were well prompted because I think that one of the things we need to make sure of on the answers and the questions is that we do remain to a degree EU focused. It is a whole fascinating area but we have to make sure that, as a committee, we bring ourselves back to that. Lord Anderson, would you like to move forward.

**Q57 Lord Anderson of Swansea:** Perhaps I may begin on the human rights question and other colleagues can continue on it. What is your assessment of the broad situation regarding the rule of law and human rights and how has this moved over the past decade or two? What is the role, following the indication from our Chairman, of the European Union in this? How can the European Union be most effective? I recall that I was part of a delegation in the early 1990s when the then Prime Minister, John Major, persuaded the Chinese to allow in a British Human Rights delegation led by Lord Howe of Aberavon and we could only, in our judgment, make progress by, as it were, leaving notes on the table and acting in a very subtle way rather than a full-frontal way. What, in your judgment, is the most effective way in

which the European Union and of course our allies can most effectively impact on the human rights situation in China?

**Dr Brown:** On the background as to the rule of law, China would say that it has built a system from scratch since 1979 importing a lot of it from Japan from the civil law there and they feel that they have built up something that is operative. The real problem is the political control of courts and that is something that there is no evidence is changing.

**Q58 Lord Anderson of Swansea:** What about legal aid and access of the defendants to the case against them and so on?

**Dr Brown:** I think generally people are becoming more and more willing to use the courts in China. In fact, in environmental litigation, there have been some good judgments made and lower levels of courts have sometimes come up with very surprising decisions. However, the issue is when it creeps into territory like minority rights, representation or wanting to register political parties, things like that. There is a media control by the Party. On human rights, the China Government's position remains that they are delivering economic rights and collective rights and that those have to come before individual rights and that is where things are locked. On the European Union and its role, the European Union is the biggest trading partner for China and that is a lot of power. The problem, as we found in last November, is that the Chinese Government are still very able to pick the Union apart. When Sarkozy met the Dalai Lama, the Chinese immediately walked away from the EU-China dialogue. Even though they knew that it was important to them to hold that meeting, they still said, "We don't care because one of your Member States" the Presidency obviously but a Member State, "went and did that, so we are going to walk away".

**Q59 Lord Anderson of Swansea:** How do we impact effectively?

**Dr Brown:** Unity obviously is very important, having unified lines on what we think about the human rights issue. It seems to me that the Chinese Government are very fearful and very nervous and that seems very strange, so a group of Chinese intellectuals in November last year produced a paper, *Charter 08*, simply asking for greater representation and they were immediately imprisoned. It shows that the Chinese Government overact and I think that the main thing the EU needs to do when these things happen is to be very consistent and unified in its reaction. If it decides that it is not important, say that it is not important; if it decides that it is important, collectively say that it is important.

**Q60 Baroness Symons of Vernham Dean:** One of the things that struck me during the period when I was a government minister is that one put human rights on an agenda and everybody accepted that there would be a part of an agenda dedicated to human rights but, when you come to dealing with it, there actually was not engagement. So, it left the comfortable feeling that, yes, human rights had been raised, but the uncomfortable feeling amongst those who had been in the room at the time that it had indeed been raised but had not been engaged with. Do you think that that is a fair assessment of the exchanges on human rights?

**Dr Brown:** Yes. Obviously, within the EU when consensus is forged, if it works, it can be very powerful, but if it is so watered down, then it becomes almost pointless. The Chinese Government become very defensive very quickly and feel that they have not been recognised for delivering wealth, lifting people from poverty, creating a legal system and creating all sorts of different forms of representation like local village elections and things like that. I think that the issue of Tibet is a particular problem because, for some reason, it is associated with Europe rather than with the US. It is odd because the US – Pelosi, the Head of the House of Congress – have been very assertive and yet Tibet seems to have been parked in Europe. It is an odd thing because the UK specifically had a different policy towards Tibet

than any other EU country, which was to recognise suzerainty or special influence but not sovereignty and that was changed last November, so now we are all at one. We all recognise the Chinese legal right to sovereignty in Tibet and yet there still seems to be a desire from the Chinese leadership for something more than that. They talk very different languages. That is why, when Sarkozy met the Dalai Lama, it became much more than just kind of irritation because the Chinese Government were willing to behave in an incredibly aggressive and almost self-destructive way because I think they regard sovereignty not as a legal issue but as a moral issue and they want to hear western leaders say not just that they have the legal right to be in Tibet but that they are doing morally the right thing, and therefore I think that western and Chinese leaders when they talk about this issue are simply talking different languages. When the French or the Czechs now, the Presidency of the EU, talk about Tibet, what the Chinese want to hear is basically a huge congratulation and to say, “You are doing the right thing and we were wrong to have these concerns all these years” and of course no western leader can do that. So, it is a really difficult area and it is difficult for the EU because of historic links probably just to think that it is a particular EU issue.

**Q61 Baroness Symons of Vernham Dean:** One thing that was very noticeable in the Olympic Games was the huge diversity of ethnicity amongst the Chinese. I confess to great ignorance; I had no notion that there were as many streams of quite clear different ethnicity within China. Are there human rights issues amongst these different groups? Are there differences in the way in which they are regarded and in which they regard each other? What is your assessment of how women are regarded in China? That is always a difficult question because everybody will argue more or less to the degree that women on the whole do not have quite the same rights in most countries as men. On the whole, what would your view be about the position of women?

**Dr Brown:** China says that it has 56 ethnic minority groups and the treatment of those is very different. The largest is the Hui group which is Muslim and very assimilated, so almost you cannot tell them apart from the dominant Han Chinese. There is a long history of resentment of the way that the Central Chinese Government have dealt with minority rights issues. Tibetans are not for instance allowed to use the Tibetan language in tertiary education and there is an immediate linguistic barrier and there are arguments about how far ethnic minority groups are able to associate and to create associations. It seems acceptable now for there to be non-governmental organisations for ethnic groups about environmental issues, protecting Tibetan antelopes and things like that, but, as soon as they are vaguely politicised, they cross a red line and there is a great deal of evidence that ethnic minority groups that try and create awareness of cultural issues or social issues are treated very harshly when trying to register and trying to be active. The issue of women is a very different one because China is sitting on a demographic time bomb. In some areas of China in the Guangdong Province, there are 144 men for 100 women and the overall figure in the statistical year book in 2008 is 106 men to 100 women and the single child policy over the last 35 years has resulted in a massive gender imbalance. You will get by 2025 a society in which there will be 100 million men who will never be married. There is also an age problem because you will get a society where every two people of working age will be supporting someone who is retired. That is something that we do not think about in our approach to China but it is a massive problem. It is represented politically because the in Communist Party of China with 76 million members, only 20 per cent are women and, in the leadership, the Central Committee of 203 strong political elite, I think there are two women. So, in terms of actual enfranchisement of women, the only area where you can see more equality is business; there are more women who are doing business but it is still predominantly a male-dominated society.

**Q62 Baroness Symons of Vernham Dean:** Is there still female infanticide?

*Dr Brown:* Not officially. Pre-birth screening has been made illegal. But I suspect it does happen.

**Q63 Lord Hamilton of Epsom:** May I turn to the more mundane areas of the legal system. The rights of property is something where inward investors have tremendous problem coming up against Chinese courts because they found that the court always found in favour of the Chinese almost whatever the argument was and that is why they are comfortable to have their companies registered in Hong Kong because of the more objective legal system. Has the legal system within China changed at all in those terms?

*Dr Brown:* I think that it does relate back to the EU in a way because one of the benefits of having had so much investment into China, \$600 billion of foreign investment into China and about one quarter of that from the EU, is that the Chinese have set up a reasonable legal system to protect rights on business interests, contract law, employment law and property because investors going in do not want that insecurity. In fact, although ultimately all the land in China belongs to the Chinese State, there are a variety of leases from 30 years for factories for foreign investors to 75 year leases for individuals and it is now possible for the middleclass to get mortgages and to have title to their property at least for reasonable lengths of time. One issue that has not been solved is the ability of farmers to use their land for security on debts. The Chinese Government last year tried to bring that in, but there was a great deal of opposition to it because Chinese farmers at least and small entrepreneurs have said that they are not able to get any credit, a similar problem in a way to here but for different reasons. They cannot get loans from banks and they had no security because their property was not considered adequate. The Chinese Government did not succeed last year. They may well try and do that this year. Also, one of the issues with the EU and China on legal dialogue is that I think that the Chinese have been much more interested because of the diversity of Europe in coming to look at different political and legal systems in Europe to try

and learn from them, not so much in the US. I think that that is one key area where that has been actual tangible interest in what Europe has to offer.

**Q64 Lord Hamilton of Epsom:** Does a farmer have a long leasehold on his land but the State ---?

*Dr Brown:* Yes, the State still remains the in effect landlord.

**Q65 Lord Hamilton of Epsom:** Will that ever change?

*Dr Brown:* They are trying to change it but it goes to the heart of communist control really.

**Q66 Lord Hamilton of Epsom:** If they start with the land, would they be more inclined to give away the freehold of land?

*Dr Brown:* Historically, land reform in China has been a massive problem. In the 1930s before the communists came to power, the KMT tried to bring about more equality in the holding of land and it ended up in revolution. So, the solution in 1949 was that the Government owned all the land, but the problem now is that people want to start using that land for more than just growing and building on. There is also the issue of land grab where government officials have taken land and built on it without giving people proper recompense.

**Q67 Lord Inge:** You talked about a Chinese delegation going to Europe and looking at our democracy system. Are you seriously suggesting that China is thinking about introducing some form of democracy?

*Dr Brown:* Yes. My view is that China will have to become a democracy because its leaders have promised that it will and also because it has such a diverse and uncohesive population in a way that I cannot think of any other system that will really accommodate all of those. I think that they have sent delegations to look at social democratic systems in Northern

Europe. They felt that it was great but that it was too expensive. They have sent delegations here to look at parliamentary democracy. The issue is that because of their unique complexity, no real system properly works.

**Q68 Lord Inge:** I think that is behind my question really.

*Dr Brown:* Some people say that Singapore is maybe a potential model.

**Q69 Lord Inge:** It is small.

*Dr Brown:* It is about the size of an average city. I think the likeliest is to do what Taiwan did and in a sense, although Taiwan is much smaller, there are more cultural commonalities and Taiwan kind of has successfully made the transition from marshal law in 1987 to a thriving democracy now and it did it with the KMT being able to maintain power. So, for me, the issue is that the Communist Party in China will reform only if it knows at the end of it that it will maintain power. The issue is whether it will allow opposition groups to register and that has always been the issue. The Communist Party can talk about democracy and can talk about intra-party democracy but, in 1998 when 24 people went to a government office in the centre province of Anhui and tried to register their party, the moment they tried to register an opposition party, they had crossed the line and that remains the same about any registration of political parties. It is not accepted.

**Q70 Lord Inge:** So, how do you get democracy?

*Dr Brown:* I do not think that it will be an easy process but I think that they will have to do it. The party issued a white paper on democracy in 2005 in which it said that the first phase was rule of law. When that phase had been fulfilled and there was a proper legal infrastructure, the second phase would be to introduce deeper village and town elections. They have had so far 970,000 village elections. There have been issues about how

transparent and well conducted they have been but they had those. Last year, they started to talk about introducing special democratic zones. That was put on hold but they did talk about it and five zones were looked at to hold elections for Communist Party officials. The issue is that the Party's vision of its democratisation will be a managed transition and I think that the actual reality will be that it will be a messy transition but they will do it, probably by about 2025.

**Chairman:** We will bring you back in 2025 and see how they did.

**Q71 Lord Selkirk of Douglas:** May I ask about China's relationship with the EU, how China and the EU view each other and to what extent their mutual perceptions have changed through the passage of time. What are the values, interests and ambitions held by China in terms of its European strategy? What priorities does China place on its relations with Europe? I would also like to ask an extension to what our Lord Chairman has already said and that is, to what extent is Tibet likely to remain a major problem in the development of good relations with EU? You did say in your remarks that China's legal right to sovereignty was recognised. May I ask, was it not the case that Tibet was independent before it was invaded, so what is the basis of the recognition of a claim to legal right? To what extent are the views that Tibet should be allowed some aspirations towards autonomy very strongly objected to by China and to what extent have the EU countries put forward their particular thought?

**Dr Brown:** On the first question, what China thinks of the EU is a massive issue. Within China, there is very strong recognition of individual countries in the EU, a very strong recognition of Britain, France, Germany and Italy, and there is a kind of shifting awareness of what the EU is. I remember one Chinese academic last year saying to me when the EU was 15 countries, "That made sense. There were 15 wealthy countries all banding together. Then it extended and it added countries which were maybe not as wealthy and we Chinese started

to become confused because we wondered why you would have a group of countries getting together where there were such dissimilarities?” I think the issue there is that there is confusion over what the EU is, the enlarged EU, the 27 strong EU. I think that a great deal of effort in China – and you will probably discover this as you go into this inquiry – is going on in a number of different places about what the EU is and what it actually offers to China. The issue a few years ago was about the EU lifting its arms embargo on China because of 1989 and I think that that was a moment of realisation because the Chinese Government had expectations that the EU would lift that embargo and then because the US gave the EU so much pressure, it was not lifted. I think that that confirmed to some of the sceptics in China that the EU was very soft. It was a huge market, the biggest market, for Chinese goods. It is a huge trading partner. Since the year before last, it has been the biggest trading partner. There it is important and the China understand the idea of this common market. They do not understand the EU politically and I think that they see the EU, as one Chinese official said to me in Beijing, as “very complicated because we will go to them and say that we are unified and we work together and then, for instance, when you have a big contract for a train line or something, you will get Germans fighting against the British and the Italians fighting against French, so what is this thing that says it is unified and yet fights like hell with itself?” They do not get that with the US obviously. Very quickly on the issue of Tibet, the legal position is very, very unclear and historic documents, as far as I understand, are very unclear. The Chinese Government have said that Tibet has a level of autonomy, but in many ways it obviously does not. There is no evidence that the Chinese Government will compromise on this. The UK Government argues that symbolically it could have maintained its recognition of suzerainty but not sovereignty, but in fact it had no real purpose anymore because it was so isolated. There is controversy over that. I think that the Chinese themselves have shown that they have no intent to recognise for instance a special status for Tibet legally, to make it

a special zone like it has with Hong Kong, to kind of give it more autonomy in terms of security personnel there. I think it is an issue where the EU can be tougher on China because it can say that it is very damaging for China's international image to have this. It is very damaging for China to be vulnerable in this way; it does not need to be like that. I think that that would be one area when the EU could probably really try and turn this debate in a more constructive way.

**Q72 Baroness Symons of Vernham Dean:** That leads very neatly into these different ways in which we view sovereignty. In the European Union, we are increasingly keen on issues about self-determination of different groups of people, whether you are looking at the way in which we have had the devolution issues in the United Kingdom or the increasing power of different groups in Europe generally, the Basques for example and whomsoever. How does the EU's position on these questions when we look at our own split geography and we look at our own issues around self-determination for different groups shape our relations with China? I was very taken with your point a moment or two ago that this is not just a political issue, that this is a moral issue for them and that they want others to join in the recognition not only of a political right but of a moral certainty over the rightness of that. How do you think those two contrasting views shape the relationship?

**Dr Brown:** It is true that the Chinese Government have sent delegations to look at the devolution as it has worked in Scotland and I think in Wales, and there were some suggestions ---

**Q73 Lord Jones:** Dozens of professors.

**Dr Brown:** There were some suggestions that the Northern Ireland situation is comparable to Tibet. The issue is that the Communist Party of China is obviously wanting to control things and it might play around with a solution that might have a little bit of indeterminacy but it will

not play around with something that might lead to a local election or a local assembly suddenly chucking up some unplanned design.

**Q74 Lord Jones:** Very wisely because that is what we have done ---

**Dr Brown:** I think that is because its position is very vulnerable. It knows that you are dealing with in Xinjiang, which is exactly the same as Tibet, in the north west, 18 per cent of the territory of China, very rich in natural resources, 55 per cent Muslim Uygur, very different culture and a different language. Everything is different. So, the Chinese Central Government know that it is almost like an either/or scenario. Either there is strong control and no compromise or they talk about some kind of deal where it becomes a slightly separate territory. Xinjiang was a separate sovereign country from 1945 to 1949, so within living memory. Then you have to deal with the fact that there are provinces within the traditional Chinese territory that are not really very Chinese: Inner Mongolia and Yunnan has something like 30 ethnic minorities. Even if you go to the difference between the north and south of China and then you get a nightmare and the whole thing breaks apart. I think it is preying on the Chinese leadership's mind that they have delivered unity since 1949 and that has been very, very costly, but it is an absolute imperative that if they do not defend unity, they are not legitimate leaders and any leader who talks even vaguely weak on this is doomed. Hu Jintao is the President of China for one reason. In March 1989, he allowed 170,000 armed police to go from Chengdu in Sichuan into Tibet and kill Tibetan protestors for which he got the affection of Deng Xiaoping and Deng Xiaoping in 1991 basically said that he will be the successor to the Leader of China/President of China. He did the killing. Basically, with that record, his qualifications for supporting unity are unblemished and I think that we should not underestimate just how powerful that is in the mindset of the Chinese leadership. I think what you said was right in that, yes, we can have discussions about the human rights in Tibet and things like that and I think that, if we pick our territory, we will get outcomes with more

transparency. Tibet closed in March because it is the 50<sup>th</sup> anniversary of the annexation and people cannot go in there. We can maybe guess outcomes in terms of more openness, seeing ethnic Tibetans getting more economic outcomes from the economic prosperity of China but I do not think that we will see any shift at all on the sovereignty issue and the issue of control.

**Q75 Lord Hamilton of Epsom:** What does the EU have to offer China as a partner and how can it best influence and learn from Chinese thinking and policy? How does the degree of coherence of the EU's policy impact on the EU's ability to engage and negotiate with China?

*Dr Brown:* The EU offers what China wants from most modernised industrialised economies; it wants intellectual property; it wants expertise; it wants management know-how and it wants to know how to modernise its own economy and therefore it looks at the EU and it looks at economies within the EU as being potential partners and models for that. I think the coherence of the EU's policy impact and the EU's ability to engage and negotiate with China is more mixed because on some areas, on trade negotiations mainly, we have been more powerful when we have gone in, but in other areas I think that China has been very good at picking apart divisions within the EU and it has done its research on the different economies within the EU and their support for different trade policies and how it can therefore create disunity. That was true when Lord Mandelson was the EU Commissioner and he tried to negotiate about market access. The EU does want greater market access from China. There are still a number of barriers and a great deal of national treatment of enterprises trying to go into China, but I think that the Chinese argue that, in them coming to Europe, they are also faced with a very uncohesive trading environment. I think that in one way we should practise what we preach but I do think that, in terms of trade, it has been a positive relationship.

**Q76 Lord Hamilton of Epsom:** Do China have a very big delegation in Brussels?

*Dr Brown:* Massive, yes.

**Q77 Lord Hamilton of Epsom:** Second only to the Russians?

*Dr Brown:* To the US, I think!

**Q78 Chairman:** What is the perspective of different EU Member States in relation with China and how do these different perspectives shape the conduct of European, foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy?

*Dr Brown:* I think that in the EU on the whole the UK, the Germans and the French have really been the leaders with policy towards China because they have had most common interests. In terms of investment in China, the UK is the biggest, Germany is second and I think the French are third. In terms of outward investments, that is almost the same. It is a very reciprocal relationship. If you invest in China, then you tend to get investment from China and in terms of political links too. Germany has been very good at sending their Chancellor every year for high-level visits from 1998 and I think that the French had a French year in China in 2003. It is quite unusual that they are in the doghouse at the moment; we are usually there because of historic memories over Hong Kong and things like that. I think that the Council and the Commission produced very comprehensive, strategic documents. I do not know how far they are properly implemented and I do not know how far, when talking about political issues in Beijing, the Chinese Government seriously talks to the Commissioner there, the delegation head or to the different embassies. Certainly during negotiations over WTO up to 2001, the role of the Commission was absolutely crucial and the outcome was reasonably successful and I think that is a good model.

**Q79 Chairman:** If – and I do not know whether they do, so perhaps you could tell us, - Barroso or Solana turn up at Beijing, are they seen as important people? Do they understand who they are?

**Dr Brown:** Yes, they definitely do. For instance, when you are talking about North Korea, the EU's role in the links with North Korea has been very good and that has been almost like a middleman between China and North Korea sometimes, so you can see specific areas where the EU is seen to have a definite political role and a useful political role. I think that it is more what the Chinese decide rather than what the EU decide and maybe that needs to change.

**Q80 Lord Inge:** May we move on to defence and I wonder if you can give me a feel because China is now spending considerably more money on defence but has the European Union been able to clarify what it thinks the Chinese increased expenditure on defence is really all about?

**Dr Brown:** I think that the best data on that is produced by the Americans still. They produce a Pentagon bi-annual paper on Chinese defence spending where they say that the official Chinese budget of I think \$48 billion is probably understated by about 300 per cent. It is probably way into \$160/\$170 billion. I think that the issue of the embargo is a very symbolic one because, as I understand it, most of the legal infrastructure is there to stop the sale of any sensitive equipment to China from the EU and so I think that the US, when it gained pressure in 2003/04 to stop the lifting of the embargo (a) did not want to be isolated and (b) was really flexing its muscle and showing that, in this area, it was the sort of lawmaker.

**Q81 Lord Inge:** If you look at what they were trying to spend the money on, as you say, the embargo had some impact on them but they were going for what I would call an internal

armed forces to one that was able to project military power, significant military power, not just playing with that title of projecting military power. Was that aimed at Taiwan or where was it aimed?

**Dr Brown:** Yes. Their major strategic objective is Taiwan and therefore, since 1998 when they got out of commercial operations, the People's Liberation Army has increased its technical capacity massively, more than we ever expected, and increased its fire power. So, it has over 1,000 weapons facing Taiwan and, when it shot the satellite out of the skies in 2008, it showed that it had much more capacity than had been expected and I think that was a sign of well, we wanted the People's Liberation Army to decommercialise but, as a result, we have ended up with a much more formidable fighting force.

**Q82 Lord Inge:** If you look to the future with their return to Africa if you like to an extent – and they may have to leave Africa because Africa fell apart and they are trying to buy it this time, so people say – do you think they will ever use military power for protective reasons in Africa?

**Dr Brown:** Yes. Last year, they did send two ships to deal with piracy in Somali but I think there was a problem in that they went and just looked after their own interests and did not work with other forces in the area. Through the UN, they have sent a lot of peace forces to the Sudan, I think about 30,000. They have become very proactive in some ways. It is not clear whether they are doing well and they have lots of assets abroad, so they need to protect them and become more proactive or they have some sort of bigger ambition and there is a controversy over whether this is welcome and China protecting its assets abroad is actually legitimate and some people feel uncomfortable about whether it is hiding some bigger geopolitical kind of ambition.

**Q83 Lord Inge:** They certainly do not understand the use of minimum force.

**Dr Brown:** Yes.

**Q84 Lord Selkirk of Douglas:** What is the United Kingdom's and the EU's assessment of China's role in East Asia including in the security field? What can you tell us about China's relations with its major main neighbours, including Japan, India and Russia? Those are really two separate questions in one. What is your assessment of the effectiveness of the Chinese Armed Services? For example, do they have the most powerful land army in the world? Also, you wrote an article *China is an opportunity and not a threat* and I wonder if you would like to develop on that theme.

**Dr Brown:** It is absolutely clear that China wanted to be a major regional player. Whether it wants to be a global player we will have to leave for another time, but it does want to be a regional player. Its relations with Japan and Russia are very contentious. With Japan, there is obviously an historic memory from the war and also a lot of competition. Japan has given China a great deal of technology and has been a big partner in its economic development and there has been probably some quite poor returns for that partnership for the Japanese and I think that the Japanese, because the economy is in such a major drop, are probably becoming much more ---

**Q85 Lord Selkirk of Douglas:** Can you explain that point when you mentioned a poor return for China ... Do you mean for Japan in China?

**Dr Brown:** Yes, for Japan. Poor political returns in terms of Japan not having a seat at the UN and a seat at the P5 and Japan being blocked in most of its attempts to be a more visible regional player because of China's uneasiness about Japan militarisation and all the rest of it and the talks about North Korea where China has been very much in the lead and Japan has had to follow. I think on those areas Japan feels that it has been blocked in some ways. In 2005 when China blocked the Japanese sitting on the P5, there were riots in Beijing and

I think that, with Russia, it is as difficult because they have such common interests. Russia has sold a lot of military equipment to China. Most of it can only be used in Taiwan across the straits. Russia has historically a very fractious relationship with China. I think that China's aspirations to be a regional power are not going to be particularly easy to deliver but, as you say, in terms of its military expenditure now and in terms of its military capacity and in terms of its economic capacity, it has become enormously influential and is seeking more and more signs and recognition of that influence.

**Chairman:** I suppose the one thing Japan does have is Premier Aso who is actually the first in the White House. I was in Japan last weekend and I think that is certainly a feeling in the United States of realisation that there has been an imbalance in the relationship and, as the second largest economy in the world, Japan perhaps still does count for something. Dr Brown, thank you very much indeed for a great tour de force and I congratulate you on your breadth of knowledge on all these subjects. Thank you very much, indeed.