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The UK’s Strategic Partnership with China beyond Brexit: Economic Opportunities Facing Political Constraints

Paul Irwin Crookes¹ and John Farnell¹

Abstract
This analysis examines the opportunities and challenges facing the United Kingdom (UK) government in building a closer economic partnership with China beyond Brexit. While showing how the goals of each side overlap in key areas of mutual interest, evidence is presented to explain how fundamental imbalances persist in trade and investment relations due to China’s economic management system. The authors further argue that political constraints imposed on the UK by the European Union (EU) and the United States (US) as economic partners will constrain the British government’s room for manoeuvre when negotiating with the Chinese. The analysis identifies potential modalities for achieving some improvement in UK-China bilateral links by drawing on the outcome of the Switzerland-China Free Trade Agreement but concludes that political factors will continue to limit outcomes and that a major transformation of UK-China economic relations is not a realistic prospect for the foreseeable future.

Keywords
Brexit, China, United Kingdom, EU, trade, investment, political constraints

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Introduction

This analysis explores the opportunities and challenges facing the United Kingdom (UK) government as it attempts to build a closer economic partnership with China outside the European Union (EU) after Brexit (Department for International Trade, 2017).

Evidence will be presented to show that, while opportunities exist for the UK to capitalise on important areas of mutual interest with China, political constraints persist that will make it difficult to achieve positive outcomes. Britain will not be able to ignore the concerns of its allies and trading partners in pursuing an independent agenda with China (Baker McKenzie, 2018; Seaman et al., 2017). For China, the compatibility of possible concessions to be made to the UK with the structure of China’s economic model will be assessed (Asia Society Policy Institute, 2017). Current evidence from China implies a consolidation of the China model and reluctance to make meaningful changes. While the predominant focus of this analysis is the potential for enhanced economic relations, there is a significant political dimension to all of this.

The analysis proceeds in three parts. The first section, “Economic Potential for Agreement,” evaluates what each side is looking for in a closer partnership. A second section, “Political Constraints,” describes the domestic and international constraints that will limit the scope for significant concessions. The final section, “A Potential Negotiating Approach,” identifies possible modalities for negotiations by drawing on the Free Trade Agreement (FTA) between China and Switzerland.

This examination concludes that UK will not secure its economic interests with China to an extent that justifies the rhetoric of the golden era discourse (Taylor, 2017). It may obtain modest concessions from the Chinese in narrow areas of the economy but on current evidence it is unlikely to build “a global comprehensive strategic partnership for the 21st Century” with China anytime soon (HM Treasury, 2016: 1).

Economic Potential for Agreement

(i) What does the UK want from China?

Current evidence suggests that Britain has three broad objectives: to reconfigure its trade relations with China in order to reflect UK capabilities in the services sector, to create an improved climate for two-way direct investment, and to pursue the objective of economic reform in China so far addressed in EU-China negotiations (Liu and Li, 2016; UK Trade & Investment, 2015).

Rebalancing Bilateral Trade

UK-China trade has grown quickly over the past two decades, with an eight-fold increase of UK exports to China over the period 1999–2015 and a ten-fold increase in UK imports from China over the same period (ONS, 2018). Nevertheless, China’s share of total UK exports was only 4 per cent in 2016 – modest for the world’s second largest economy (WTO Statistical Review, 2016).
UK trade with China is not only relatively small but also imbalanced. China exported twice as much to the UK in 2017 as the UK did to China, despite the rapid growth of UK exports in recent years, with the Chinese economy being the UK’s fourth largest source of imported goods, generating a significant trade surplus in China’s favour (ONS, 2018). This imbalance is exacerbated by the fact that trade in services with China, a major strength of the UK, is underdeveloped. While UK exports of goods to China accounted for 10 per cent of UK global goods exports in 2015, the comparable figure for services was 1 per cent (OECD, 2016a, 2016b).

While specific UK priorities for trade policy with China remain undefined, there are enthusiastic endorsements from official, semi-official, and media sources that highlight potential for future mutually advantageous opportunities. The UK’s 2015 Joint Statement on building a strategic partnership with China focused on boosting bilateral investment and promoting other forms of cooperation through continuing to expand two-way trade in goods and services and addressing business concerns regarding market access and regulations (Cooper, 2017; FCO, 2015).

**Promoting Two-Way Investment**

Conditions for international foreign direct investment (FDI), including legal protection and market access, are set by bilateral agreements since there is no international regulatory framework for FDI comparable with the role of the World Trade Organisation (WTO) for trade. Negotiations between the EU and China for a bilateral investment treaty (BIT) have been going on for years (European Commission, 2018). Current rules favour Chinese FDI into European economies rather than the reverse, because of China’s exclusion of inward FDI in many sectors, especially services, and restrictive conditions for FDI in others. In the first decade of this century, EU FDI flows to China grew rapidly but they stagnated after the economic crisis and have failed to recover, declining 23 per cent during 2016. Meanwhile, Chinese FDI into the EU accelerated sharply to reach EUR 35 billion in 2016, an increase of 77 per cent over the previous year. While totals have since declined from this peak they remain significant. The reduction is due to China’s foreign exchange controls to restrict purchases in overseas sectors such as real estate than to a reduced Chinese interest in European knowledge sectors, with nearly half of all such investments going into the UK, Germany, and France (Hanemann et al., 2019).

Britain and China have strikingly different investment policies and the opportunities for FDI in each economy are imbalanced in China’s favour. In the 2017 FDI Regulatory Restrictiveness Index, the UK was judged to have among the most liberal rules in respect of inward FDI (ranked eleventh most liberal of sixty-three states considered) in stark contrast to China, which ranked fifty-ninth (OECD, 2017). The UK wants to improve its investment access to the Chinese market in areas where it is most competitive, especially financial services. A key objective of Brexit is to directly manage bilateral investment relationships and repatriate powers to handle economic disputes, a pledge affirmed by Britain’s Trade Secretary at the end of 2017 (Parker, 2017).

There is currently no evidence to suggest that the British government will seek to renegotiate its 1986 BIT with China as a separate legal undertaking. Instead, one
possible approach would be for both sides to agree that an investment chapter become part of the negotiations for a UK-China comprehensive FTA. This would seem sensible, since the 1986 treaty is mainly concerned with investor protection and makes no mention of market regulation or sector access and ownership issues, in keeping with most BITs signed by China from that era (Shen, 2018). Creating an investment chapter has been the preferred approach for FTAs that China has concluded with industrialised economies such as Singapore, New Zealand, and Australia, while Switzerland’s FTA had an investment promotion chapter linked to a BIT signed with China in 2010 (Wenfei Law, 2013).

**Pursuing Economic Reform in China**

Britain will also have to take over from the EU in addressing other problems in its economic relations with China, such as technical barriers to trade, regulatory obstacles hindering commercial activity by foreign firms, unfair treatment compared to Chinese enterprises, and national security legislation that discriminates against foreign enterprises (European Chamber, 2017).

(ii) What does China want from the UK?

The leverage that the UK may possess to shift China’s position in future negotiations will in part depend on the extent to which the UK is able to meet China’s objectives for closer bilateral ties with Britain. These reflect the same priorities as China’s relations with other major economic partners: to build bilateral structures within an FTA that help to promote stable and sustainable economic growth to reinforce Chinese Communist Party (CCP) legitimacy (Naughton, 2016). But this broad objective can be broken down into a number of specific components.

**Achieving Market Economy Status**

The scope of China’s bilateral economic agreements has shifted over time, moving beyond a narrow focus on tariff reductions to encompass more wide-ranging issues such as trade in services and investment (Pan, 2014). This suggests that China is prepared to include sectors that match UK priorities within a future agreement. But it will impose one overriding condition: recognition of China as a market economy.

Under WTO trade defence rules specific treatment is accorded to exporters based in WTO member countries that are not recognised as market economies. In particular, the importing country may disregard their production price data and replace it with data from comparable producers in market economies, which usually results in a higher production price and a higher anti-dumping duty. But the importance of market economy status (MES) for China goes well beyond this technical issue. China considers that its WTO accession agreement of 2001 provided for automatic recognition of MES for China in 2016, whereas major developed economy members of WTO (notably, the United States (US), the EU, and Japan) regard MES for China as
conditional on the Chinese economy meeting specific conditions laid down in the WTO Anti-Dumping Agreement.

Achieving MES recognition is a critical part of the FTA negotiating process for China. Australia, New Zealand, and Switzerland have all negotiated FTAs with China that recognise it as a market economy. Conversely, the EU-China Summit meeting of June 2017 failed to issue a final communiqué because of disagreement over the inclusion of EU commitments to address MES, despite collaboration on climate change policy (Deutsche Welle, 2017). Any UK-China agreement is likely to be dependent on the UK recognising China as a market economy, which the UK’s other major partners would not welcome.

Access to British Technology

The Chinese maintain that trade and investment cooperation in high value, knowledge-rich sectors such as services and advanced technology holds the key to China’s future success. Analysis by the Centre for China and Globalisation (CCG) argues that China’s international engagement strategy prioritises the need to increase competitiveness through the acquisition of international management skills and high-technology assets (CCG, 2017). The Global Competitiveness Index confirms that the UK is a technology leader in areas of Chinese interest, such as capacity for innovation and the quality of domestic research institutions (World Economic Forum, 2016).

The Made in China 2025 initiative supports upgrading across numerous Chinese industrial sectors through a build or buy approach and helps to explain why inward technology-seeking FDI from China into advanced economies like the UK and Germany has surged since 2015 (Hanemann and Huotari, 2017; Kennedy, 2015). The UK’s knowledge base in advanced manufacturing and information and communications technology overlaps with China’s priorities in areas of weakness such as robotics, sensors, and radio frequency chips that could enable Chinese enterprises to compete at the highest level internationally (Wübbeke et al., 2016).

Commercially, mergers and acquisitions activity by Chinese companies has reflected UK expertise (China-Britain Business Council, 2016). In June 2017, China’s Shaanxi Ligeance Mineral Resources acquired Derby-based Gardner Aerospace for GBP 326 million, as China seeks to develop capabilities in advanced aero-engine manufacturing to match those of Airbus and Boeing (Aviation Week Network, 2017). Institutionally, the UK-China Research and Innovation Partnership fund helps to facilitate over GBP 200 million worth of project spending in 37 joint programmes and over 220 partnerships in fields such as biotechnology, healthcare, urbanisation, and agri-foods (Research Councils UK, 2017).

This evidence suggests that Britain is seen by China as a potential source of technology in priority areas for the Chinese economy.

Showcasing Chinese Infrastructure

The UK’s open attitude to inward FDI, even in politically sensitive infrastructure sectors such as nuclear energy, allows China’s energy majors to show what they can do
in a leading developed economy. It offers the Chinese not only stable long-term investment returns from funding projects but also a means of publicising China’s capabilities as an infrastructure leader. This is a key element in supporting China’s strategic push into developing countries. This underlines the importance of using China’s Hualong One reactor technology in the upgrade of energy facilities at Bradwell (World Nuclear News, 2017). The significance of this opportunity for China helps to explain the warnings from Chinese commentators during 2016 of the consequences for future UK-China cooperation if UK government approval for the project were to be withdrawn (Yuan, 2016).

China has an infrastructure footprint in Britain in other sectors, too. Major railway building projects such as HS2 include Chinese enterprises among the project’s train operation and fulfilment partners, while London’s current upgrade of its drinking water supply and sewerage system also has Chinese investment through a shareholding by China’s sovereign wealth fund in the UK utilities firm Thames Water (Peterson, 2017; Sakoui, 2012). In high-technology sectors, China is also visible. Huawei has held a key role in supplying network switching equipment for the UK’s telecommunications infrastructure in partnership with British Telecom that long predates current security controversies over Fifth Generation (5G) procurement (Mehta, 2013).

RMB Internationalisation

China is promoting its currency, the renminbi (RMB), as an alternative store of international monetary value to the US dollar and Euro. London remains a key part of this internationalisation strategy, despite question marks over whether the City can retain its leadership after Brexit (Leung, 2016; Liu and Li, 2016). Swift’s RMB Tracker series, that monitors the Chinese currency’s usage outside mainland China, has consistently shown London to be second only to Hong Kong as an international hub for the Chinese currency, and by far the most important European centre (Swift, 2019).

The gap between the UK and the next two most important European hubs, France and Germany, remains significant in terms of both customer-initiated and institutional payments traffic by value, although both continental rivals have seen growth in RMB activity since the UK’s Brexit Referendum. While a number of UK-based financial firms have moved personnel into Dublin, Paris, and Frankfurt, attempts by these other financial centres to replicate London’s depth of expertise and interconnections with American financial markets, especially in foreign exchange, are unlikely to be straightforward or rapid (Subacchi and Oxenford, 2017: 7).

Political Constraints

Despite these opportunities, significant political constraints will operate on both China and the UK to limit future growth in the scope and depth of UK-China economic relations.
(i) External constraints on the UK

From the EU

The EU will constitute a major constraint on British policy towards China after Brexit. It will influence the UK economy and limit options for international negotiations, particularly if the UK remains in a customs union with the EU. Studies show the dominant influence of EU demand and market size on the UK economy compared to that of third countries with which the UK may negotiate trade deals (Dhingra et al., 2017). In 2018, the EU accounted for 49.3 per cent of UK two-way trade, compared to 14.6 per cent for the US and 5.3 per cent for China (Department for International Trade, 2019).

Some EU-based constraints may be accepted voluntarily. The UK may choose to align its standards and technical regulations with the EU in sectors where the EU is a major or dominant market for UK exports (motor vehicles, foodstuffs, pharmaceuticals) or where EU regulation has replaced US regulation as the de facto world standard (chemicals). In emerging technologies, the UK may choose to follow European standards to assure its competitiveness in a large adjacent market. Wherever it aligns with EU rules, it may be reluctant to recognise different standards in agreements with countries like China.

EU pressure on the UK regarding its external economic relations after Brexit will be political as well as technical. Any advantages that the EU might be prepared to grant the UK under a long-term partnership agreement are likely to be made conditional on Britain’s compliance with broader principles of economic management. The EU sees risks in future UK divergence from EU competition rules, including those that affect international trade and investment. Recent internal EU discussions suggest a future strategy involving sector-specific conditionality backed up by retaliatory measures should the UK not comply (Barker and Brunsden, 2018; European Commission, 2018).

Such conditionality could, for example, apply to the question of UK treatment of state aid in China. The EU has pointed to the use of state subsidies used by China to promote the international success of its firms as an example of distortions that negatively affect EU-China economic relations (European Commission and EU High Representative, 2019; Vincenti, 2017). In March 2019, it adopted a regulation establishing a framework for screening FDI into the EU, as a response to the allegedly predatory nature of technology-seeking FDI from China in sectors such as robotics, chip design, and engine technology (Official Journal of the European Union, 2019). British attitudes, however, occasionally diverge from European regulatory norms (Potter, 2017). The UK government issued a White Paper in July 2018 that outlined scenarios for revised screening procedures for foreign investment in sensitive sectors; despite outlining tighter ownership rules on grounds of national security, the proposals do not appear to be as comprehensive as the EU’s approach (Glover and Pickford, 2017).

From the US

The US, too, can be expected to exert influence on the UK’s approach to post-Brexit trade and investment negotiations with China. Recent decisions by the Trump
administration to characterise China as a strategic competitor, to raise tariffs on Chinese imports, and to strengthen the remit of the regulatory Committee on Foreign Investment into the United States (CFIUS) are weaponising economics against Chinese policies (The White House, 2017).

Evidence already suggests that the US is ready to respond robustly to any foreign government, ally or not, that takes measures in respect of China that undermine US interests, such as by granting China MES, offering concessions that might reduce international pressure on China to abide by international rules, or permitting acquisitions of technology assets by Chinese state-backed firms.

The Trump administration has introduced new rules under Article 32 of the US-Mexico-Canada Agreement (USMCA) signed in November 2018 that empower the US to terminate the USMCA if the other parties choose to sign an FTA with what the US defines as a non-market economy, such as China. The document that outlines American objectives in negotiations to secure a US-Japan FTA contains similar restrictions (USTR, 2018a: para 32; 2018b: 17). It is reasonable to assume that Britain would face similar negotiating conditions and would then have to choose between closer cooperation with the US, a long-standing economic and security ally, and developing a new relationship with China (Plouffe, 2019).

(ii) Domestic constraints

**Domestic Constraints for the UK**

Internal political constraints on the UK’s policy towards China will emerge after Brexit. Inside the EU, the UK has promoted a liberal economic approach, with an emphasis on openness that has broadly favoured Chinese interests in EU decision-making (Summers, 2017). The UK-led opposition in 2016 to harsher trade defence measures against China and British objections to the removal of the lesser duty rule are examples (Oliver et al., 2017).

The repatriation of responsibilities after Brexit, however, will make the UK’s economic policy towards China more visible to a domestic audience and more controversial. For example, designing a closer economic partnership with China will involve simultaneously crafting trade defence instruments to deal with economic threats, determining whether (and when) to recognise China as a market economy, and balancing the needs of producers versus consumers in trade policy under the intense spotlight of public opinion (Owen and Walter, 2017).

Political issues such as national security and human rights considerations will also come to the fore, as the UK tries to find a middle way between achieving closer economic cooperation with China and maintaining a high profile as defender of the international legal order.

The protection of critical national infrastructure (CNI) is an essential part of creating robust defence capabilities that overlaps with what security specialists refer to as a “total warfare” discourse (CPNI, 2019; Mumford, 2013:41). CNI covers the financial system, telecommunications, and energy subsystems and China’s evolving relationship with the UK concerns each of these areas in ways that will pose dilemmas for the UK government. A nuanced evaluation will be required to balance the economic opportunities of
closer relations with China against the need to protect the UK against perceived vulnerabilities from the possibility of illicit interference by China’s party-state apparatus (Parton, 2019).

Striking the right balance for an effective and proportionate security response to China will not be easy, as the controversy over whether to use Huawei-designed equipment and software in the UK’s 5G wireless infrastructure has shown. The British government has sought a proportionate response, by creating a Single National Technical Authority to conduct apolitical assessments driven by technical analysis (CESG, 2019). The most recent review of Huawei products has revealed concerns about the resilience of software design but no evidence of overt interference. Nevertheless, the potential extraterritorial reach of China’s national security law, that obliges domestic firms to cooperate with Chinese security agencies if and when required, inhibits international trust and places technical assessments firmly in the political domain (Levy, 2019). At the time of writing, the UK government has not taken a definitive decision over Huawei’s participation in the domestic 5G network but unprecedented leaks of the discussions in the National Security Council in April 2019 suggest that opinions are divided at the highest level of government.

Discussions with China over human rights concerns at the EU and Member State level have long been contentious and have centred on the divergence between European prioritisation of political rights for individuals and Chinese emphasis on societal economic rights. The EU-China Human Rights Dialogue has been criticised as an exercise of questionable credibility “whose purpose is largely to secure another round of the dialogue, not to make meaningful change in China” (Human Rights Watch, 2017: para 5). The UK holds its own dialogue on human rights with China, welcomed by British politicians but a target for criticism in the UK media, which have questioned its effectiveness in delivering change (Phillips, 2017).

Once the UK has left the EU, London’s articulation of its normative principles and political interests will come under closer scrutiny. Ministers will need to find a balance between demands at home for stronger engagement with China and highly controversial issues such as democracy in Hong Kong, mass detentions in Xinjiang, and China’s role in the future of the international system, while taking account of the sensitivities of Chinese politicians over foreign criticism of China’s internal political system and the direction of Chinese policy (Blanchard, 2012; Tugendhat, 2019; Walker et al., 2019).

Senior officials in Whitehall remember the consequences of David Cameron’s decision to meet the Dalai Lama in 2012 and will have noted China’s sharp reaction to the possibility of the UK deploying a Royal Navy aircraft carrier to the South China Sea (BBC, 2012; Holmes, 2019). Difficult choices will have to be made in building a closer relationship with China after Brexit and British politicians will take full responsibility for the political and economic ramifications of their decisions.

**Domestic Constraints for China**

China also has domestic political constraints that limit what is possible as it maintains distinctive preferences for the further opening of its economy.
The political objectives of the CCP are to maintain the party’s leadership in power, reinforce social stability, and promote domestic economic development. These aims are interdependent and justify the primacy of state actors in the economy. Current evidence suggests that the party-state, far from being ready to release market forces under a neo-liberal model, is strengthening its own role (Eaton, 2016). In President Xi’s statement to the 19th National Congress of the Communist Party of China, the role of state activism in China’s economy received strong support (Dollar, 2017). China’s economic priorities lie with promoting state-owned enterprises (SOEs) as national champions that dominate key industrial sectors along with some favoured private firms. SOEs connect the CCP to the economic performance on which the legitimacy of the regime depends. Current analysis suggests that China’s reform preferences are to reinforce political levers and administrative tools that centralise economic control rather than to implement a legally transparent regulatory system (Grieger, 2016; Naughton, 2018). This trend only reinforces the reluctance of major Western economies to recognise China as a market economy.

Notwithstanding the steps towards further liberalisation offered by China in 2018 in response to US pressure, the breakdown of US-China negotiations for a resolution of their worsening trade dispute in May 2019 provides little evidence to suggest that Chinese policy will change markedly from the statist approach followed since 2012 by Xi Jinping. There is certainly no compelling rationale for China to make policy adjustments for the UK alone.

A Potential Negotiating Approach

Despite these political constraints, there are possibilities for limited two-way concessions that could improve current UK-China economic relations and take into account the importance for the UK of promoting services in an economic agreement with China.

The Swiss-China FTA

The Swiss FTA with China of 2014 offers a possible template for the UK. While Switzerland is a considerably smaller economy, its focus on high-end manufacturing, advanced services, and technological innovation means that the underlying structure of its competitive advantage is similar to that of the UK.

In terms of reciprocal tariff reductions on goods, the Switzerland-China FTA will lead to the abolition or substantial reduction of import customs duties on both sides, but its implementation is asymmetrical. For Swiss duties on goods from China, the majority of product lines in the FTA were rated at zero as soon as the FTA entered into force. By contrast, most tariffs on Swiss products exported to China will be eliminated over five to twelve years (Brunschweiler and Troller, 2014: 5–6).

The services chapters of the Swiss FTA with China show promising possibilities. While most of them offered little more than WTO norms, two concessions stood out. The first was in financial services, in respect of ownership of joint venture securities firms, where special terms were accorded to the Swiss which matched the conditions
available to companies based within the Shanghai Pilot Free Trade Zone (FTZ) but which were applied nationally (Shanghai Pilot Free Trade Zone, 2013: 20). The second concession secured by Switzerland was protection for Swiss acoustic trademarks that went beyond trade-related aspects of intellectual property (TRIPS) standards, together with stronger enforcement of intellectual property violations of Swiss geographical indicators (Wenfei Law, 2013).

The UK should note that these negotiations were neither swift nor straightforward. Switzerland granted MES to China in 2007, opened FTA negotiations in 2011, and only secured final agreement after nine rounds of talks in 2013, with the FTA coming into force in July 2014.

A Possible UK Strategy

The UK could emulate the Swiss tactics, focusing on specific sectorial concessions in an FTA but covering a greater number of service sectors. Such an approach could seek to build on conditions already available in Chinese FTZs to a narrow number of industrial and technological business areas but have them apply to UK wholly-owned companies and joint ventures across China. The possibilities for the UK to exercise leverage on China are likely to remain limited, confined to a few specialist sectors in which Britain remains a globally competitive leader, such as scientific research, securities trading, and biotechnology product development. The UK would also need to make clear to China from the start that these are its key priorities and to stick to them – an important lesson learnt by the Swiss. Such a framework could form a starting point for a focused engagement with China.

Yet achieving even this modest outcome would remain politically difficult, for three reasons.

First, it is hard to see what additional market access the UK could offer to China in order to leverage significant advantages in return. It is already one of the most open economies and the domestic and international pressures referred to earlier will tend to inhibit further negotiating leverage with China.

Seen from the Chinese standpoint, it is also unrealistic to suppose that China would be ready to offer the UK, a relatively small economy compared with China’s principal trade and investment partners such as the US and EU, privileged access to its market. In 2018, UK GDP was just over GBP 2 trillion compared with a combined EU-27 GDP of EUR 13.5 trillion, implying a natural gravitational pull on China to prioritise a deal with the much larger continental market (Eurostat, 2019; ONS, 2019). The Chinese are renowned for their transactional approach towards international negotiations and it may therefore be “fanciful to imagine that Britain on its own could succeed in dismantling anti-competitive practices and barriers to entry when intense pressure from the US and the EU has failed” (Richards, 2017: para 8).

Finally, the UK also comes to the negotiating table with specific political baggage that may undermine its case for special treatment from China. It is a close ally of the US, whose current administration has characterised China as a strategic competitor. It has been a critic of China’s human rights record, a protagonist implicated in humiliating China for
more than a century, and a nation that occupied part of China until 1997 and continues to
have treaty commitments to that territory under international law. Last but not least, the
UK has recently chosen to leave a 46-year-old economic partnership with a neighbouring
market of over 400 million continental consumers and is now looking for new friends.
This is a difficult starting point for talks about a future of closer collaboration.

Conclusions

This analysis has shown that the challenges facing the UK in forging a closer economic
relationship with China after leaving the EU are considerable. Unlocking the door to a
mutually beneficial partnership will be a formidable task. The UK will have to come to
terms with the constraints placed upon its own room for manoeuvre as well as the
political obstacles within China to further economic reform.

Other European economies have shown that incremental and partial progress towards
better economic relations with China is possible. The UK has technological know-how
and assets that China needs, together with a broadly open attitude towards foreign
acquisitions. Drawing on the experience of the Swiss, this analysis has identified a
potential strategy for the UK that could yield a concrete, if modest, dividend. A major
transformation of UK-China economic relations is not, however, a realistic prospect for
the foreseeable future.

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