What the Integrated Review and the 14th Five-Year Plan have in common

By Torsten Weller, China Policy Analyst

The UK’s Integrated Review mirrors many of the top priorities of China’s 14th Five-Year Plan
The ‘tilt towards the Indo-Pacific’ will require greater engagement with Chinese businesses, not less
The UK and China are already cooperation in R&D and green development and more investment in these areas is expected to strengthen ties

Summary

The UK government published its long-awaited Integrated Review of Security, Defence, Development and Foreign Policy on March 16th. The nearly 100-page long document, titled ‘Global Britain in a Competitive Age’, outlines the government’s foreign policy strategy for the next five years as well the Prime Minister’s vision for the UK in 2030.

Among the main items: by the end of this decade the UK aims to be a science and technology superpower, as well as a global hub for services, and the digital and data economy. Spending on R&D should reach 2.4% of GDP by 2027, while the government will invest at least £800 million to set up the Advanced Research and Invention Agency (ARIA) to fund high-risk/high-reward research.

Furthermore, the UK wants to become a leader in green technologies and sustainable development, while achieving carbon neutrality by 2050, ten years ahead of China. The government wants to invest £12 billion to support a green industrial revolution and create up to 250,000 highly skilled green jobs by 2030.

Although the IR maintains that the UK’s defence strategy continues to be centred on the Euro-Atlantic area, and that Russia remains the country’s ‘acute direct threat’, most of the media coverage focused on the IR’s so-called ‘tilt’ towards the Indo-Pacific region.

According to the IR, this ‘tilt’ implies greater economic and diplomatic engagement in the region, supported by the UK’s membership of CPTPP and its status as an ASEAN dialogue partner. The IR states that the Indo-Pacific already accounts for 17.5% of UK global trade and 10% of inward FDI. The UK government wants to deepen this connection via new trade agreements, dialogues and partnerships in science, technology and data.

With regard to China, the document’s position appears to be contradictory. One the one hand, it labels China as the ‘biggest state-based threat to the UK’s economic security’ and a ‘systemic competitor’. On the other, it emphasises that the UK will ‘continue to pursue a positive trade and investment relationship with China and seek cooperation with Beijing in addressing global challenges such as climate change.’

In fact, most of the IR’s goals will likely require more engagement with China, not less in the coming years. This is particularly true if the UK wants to strengthen its commercial ties with the Indo-Pacific and benefit from the region’s vast growth potential, as explained below. Even the review’s domestic goals, like its

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aspirations to global leadership in advanced technologies and green technologies, will imply more exchanges with Chinese researchers and businesses, many of which already lead in these areas.

The Role of China in the UK’s tilt towards the Indo-Pacific

The UK’s tilt towards the Indo-Pacific will only succeed if it takes China’s predominant role in the region seriously. Unlike Europe, where economic power is distributed among several countries, the Indo-Pacific region’s economy has one dominant actor: China.

Even with India included, the People’s Republic is -- by far -- the largest economy in the region. Last year, China’s GDP reached nearly £11 trillion, more than three times the size of Japan’s economy, and 5.7 times the GDP of India.

China’s economic growth was also the third highest in the region, with an average annual GDP increase of 6% between 2015 and 2020. What’s more, it was one of the few economies which managed to grow during the pandemic. Only Bangladesh and Vietnam have had faster growing economies than China in the last 5 years. By contrast, Japan’s economy stagnated and -- following a 4.8% drop last year -- has not grown at all since 2015.

GDP in 2020 and average GDP growth (2015-2020) of major Indo-Pacific countries

Source: IMF, World Bank ©CBBC

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In terms of bilateral trade, China outranks every other major economy in the region. In 2019 – the last year before the pandemic – British exports in goods and services to China totalled nearly £37 billion, almost triple the amount sold to Japan, the world’s third largest economy.

*UK Total Exports in 2019 to major economies in the Indo-Pacific Region*

China is the most important trading partner for nearly every country in the region, including India, Japan, South Korea, and Australia. Its middle class – now over 700 million strong\(^3\) - will ever more become the region’s predominant consumer market.

This is especially true for countries like Vietnam which are following China’s export-oriented development model. Thus in 2019 China was already the largest market for electronic appliances made in Vietnam, buying over £13.5 billion worth of these goods, nearly £1 billion more than customers from the US.

Chinese travellers have also become the biggest source for the region’s tourist spots. For example, nearly 11 million Chinese travelled to Thailand in 2019, more than visitors from all ASEAN countries combined\(^4\). Chinese firms are meanwhile at the forefront of the region’s growing consumer market. Alibaba-owned Lazada has emerged as the South-East Asia’s largest online retailer\(^5\).

If the UK wants to tap into the growth markets in the Indo-Pacific region, it will have to accept China’s strong economic pull and the clout of its businesses in these markets. It will have to learn how to compete with Chinese businesses and to operate in an environment deeply shaped by Chinese technology and investment.

Consequently, the IR’s proposed tilt towards the Indo-Pacific will make commercial ties with China even more essential.

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\(^3\) How Well-off is China’s Middle Class? | ChinaPower Project (csis.org)
\(^4\) https://www.thaiwebsites.com/tourists-nationalities-Thailand.asp
The IR and the 14th FYP

It is not just in the Indo-Pacific where the UK will have to engage with China. The IR’s ambitious development goals for R&D investment and green technologies are unlikely to succeed without international cooperation. This will also surely include working with China, whose own recently-published 14th Five-Year Plan lists many of the same areas as top priorities for the country’s development in the coming decade.

For example, China wants to increase overall spending on R&D by at least 7% per year until 2025. Its seven core research pillars also include advanced AI, quantum technology, and engineering biology, all areas included in the IR.

China’s R&D spending per GDP is already higher than that of the UK. Already last year, China spent 2.4% of its GDP on research and development compared to only 1.7% in the UK in 2018, per the latest available figures provided by the ONS. In absolute numbers, China invested £274 billion in R&D last year, compared to £22 billion in the UK.

China is also projected to overtake the United States as the world’s leading investor in R&D by 2022 and has already become the world leader in the number of published research articles. China’s research footprint in computer science is more than twice as high as the UK’s. Between 2015 and 2019, over 30% of papers in this field were published by Chinese scholars, compared to around 15% by British researchers.

For sure, the UK has not just been a passive bystander in China’s rise as a science behemoth. UK universities, through cooperation and their attractiveness for Chinese students and researchers, have played an active part and have benefited from frequent exchanges with their Chinese peers.

A recent report by King’s College London and the Harvard Kennedy School found that the number of research papers co-authored by British and Chinese researchers has increased from around 750 in 2000 to over 16,000 in 2019, accounting for 11% of all UK papers with a foreign co-author. While this is still lower than the number of papers published with US collaboration, it is higher than co-authorship with German researchers.

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7 http://www.cnbc.com/2021/03/01/chinas-spending-on-rd-hits-a-record-378-billion.html
8 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2018
9 http://www.cnbc.com/2021/03/01/chinas-spending-on-rd-hits-a-record-378-billion.html
11 https://www.kcl.ac.uk/policy-institute/assets/china-question.pdf
12 https://www.kcl.ac.uk/policy-institute/assets/china-question.pdf
Global Challenges and cooperation with China

Cooperation will also occur in other areas, not least in the development of green and sustainable technologies, another UK top priority outlined in the IR.

China is already the largest market for renewable energy and especially wind energy. Last year alone, China increased its wind energy capacity by 60%, enough to power three times the number of UK homes. The 14th Five-Year Plan further includes plans to expand China’s offshore wind capacity by building new wind farms along its Eastern and Southern shoreline.

By 2030, the global offshore wind power capacities are expected to have grown sevenfold, with China accounting for 25% of the increase. The UK is expected to add the second largest amount, adding 16%, followed by the US with 11%, according to recent research by GlobalData, an analytics provider.

Chinese energy providers are already heavily invested in British clean energy projects from nuclear energy to wind farms. In 2017 China Resources National Corp acquired a 30 percent stake in the Dudgeon offshore wind farm, investing £600 million in the project.

China General Nuclear is also involved – via its cooperation with France's EDF – in the construction of next generation nuclear power plants in Hinckley, Sizewell and Bradwell. In total, Chinese investment supported 25% of average electricity demand in the UK in 2020.

While some see these close ties as a danger to the UK’s critical national infrastructure, the rapid expansion of renewable energy in the coming decade also offers vast new opportunities for British and Chinese companies to work together.

This also applies to other global areas. In Mali, British and Chinese troops are already patrolling together. In the Middle East, investors from the UK and China are cooperating on renewable energy projects, and in Africa, the UK has long engaged in trilateral projects with China to reduce poverty and promote economic development.

All these initiatives underline that a ‘Global Britain’ which wants to be a ‘force for good’ will have to work together with a China that is becoming an ever more active contributor to UN Peace Missions, green infrastructure projects, and development aid.

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13 https://www.theguardian.com/business/2021/mar/10/china-leads-world-increase-wind-power-capacity-windfarms
15 https://www.chinadaily.com.cn/a/201712/21/WS5a3a97b2a31008cf16da27d5.html
17 https://www.telegraph.co.uk/news/2021/02/01/british-troops-mali-commanded-chinese-officer-emergesas-first/
19 https://assets.publishing.service.gov.uk/media/57a0898140f0b6497400000f0/PB103.pdf
CBBC View

CBBC welcomes the Integrated Review’s emphasis on a positive trade and investment relationship with China. Yet the review’s ambiguous definition of China as the ‘largest state-based threat to the UK’s economic security’ overlooks China’s importance for most of the IR’s other goals.

Greater trade relations with emerging economies in the Indo-Pacific region cannot succeed if businesses ignore China’s predominant position in these markets. Progress in advanced technologies such as AI and renewable energies will be based on joint projects by British and Chinese researchers and investors. And Britain’s global engagement – from UN peace missions in Africa to green energy projects in the Middle East – is evolving alongside, not against Chinese involvement.

As former diplomat Lord McDonald said at a recent parliamentary hearing of the International Relations and Defence Committee, there is no British prosperity, whether in the Indo-Pacific or elsewhere, without a trading relationship with China.

About the author

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