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# ROLE OF AN INDEPENDENT UNITED KINGDOM IN THE INDO-PACIFIC REGION.



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Role of an independent United Kingdom in the Indo-Pacific Region

By Robert Bates

# EXECUTIVE SUMMARY

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The United Kingdom will complete its departure from the European Union in December of this year. In doing so it will unlock opportunities in areas of foreign and economic policy that were otherwise unobtainable. Nowhere is this magnitude of potential more significant for an independent UK than the Indo-Pacific region; a part of the world experiencing significant economic dynamism, yet simultaneously afflicted with a volatile geopolitical context.

This report intends to put forward a positive vision of British engagement in the region. A vision defined by commercial prosperity and a value-determined foreign policy. It will confidently set out the inherent national strengths at the disposal of domestic policy makers, as well as the areas in need of renewed focus.

The current approach to the Indo-Pacific is piecemeal and ill-defined. The lack of an overarching strategy has reduced the efficacy of current regional undertakings, and has led to uncoordinated diplomatic and economic efforts. To rectify this, British principles should become the lodestar for its activity, rather than the pursuit of ephemeral commercial openings.

A Free and Open Indo-Pacific strategy - akin to the strategies of other states - should become the bedrock of British decision making - espousing the values of free trade, the inviolable nature of state sovereignty, and the importance of multilateral dispute settlement.

A normative approach to international relations provides two key advantages: economically it provides coherence of action that is essential for the creation of meaningful bilateral trade relations; whilst strategically it will align the United Kingdom with other regional democracies such as India and Japan.

As the UK reclaims its sovereignty from Brussels, it must ensure that it does not allow itself to become dependent upon Beijing. The economic model pursued by successive governments has seen an unnecessary outsourcing of key strategic industries to the People's Republic of China. Not only has this made the UK worryingly dependent on Chinese imports and investment, but it has also reduced the available policy space required to effectively condemn Chinese indiscretions.

The UK should not view its action in the Indo-Pacific region as merely compensatory. By simply trying to plug perceived trading shortfalls that have resulted from Brexit, policy makers will lack the required assertion to actively pursue British interests. The EU's trade deals with Japan and South Korea were unsatisfactory for the UK as they failed to address key priorities around services and data flows. As this report will argue, the UK Government must ensure that it seeks to go further than both of these trade agreements and seek to truly harness the British belief in free trade.

The report views the small business community as the biggest beneficiary of a well executed Indo-Pacific strategy. With a renewed energy injected into the UK Government's export policy, and greater assistance available for first-time exporters, the potential exists for a dramatic uptake in the number of businesses that choose to look overseas. As the Eurozone continues to stagnate, and its share of global GDP continues to plummet, the Indo-Pacific provides fertile pastures for a rejuvenation of Britain as a trading nation, and the rectification of its global trading deficit.

# RECOMMENDATIONS

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**Adopt a Free & Open Indo-Pacific strategy to align the UK with other democratic states.** The UK government should express its undiluted support for the values of inviolable state sovereignty, free trade, and peaceful dispute settlement. This is a necessity to counter Chinese aggression and also serves to reduce the ‘psychic distance’ between the UK and its future trade partners.

**Recognise the United Kingdom's unique capacity to become an ‘engaged partner’ of the Indo-Pacific.** There is strong support amongst the nation states of the Indo-Pacific for a stronger, sustained UK presence in the region. British strategic assets capabilities, diplomatic and military alliances, and areas of expertise allow for this to be achieved.

**Reduce the United Kingdom's exposure to China.** The Covid-19 crisis has laid bare the threats posed by the Chinese Communist Party as an unreliable partner. Britain must undergo a reassessment on its dependency in three key areas; pharmaceutical imports, Chinese FDI, and the perceived value of the Chinese export market.

**Resist the future ‘Europeanisation’ of the United Kingdom's foreign and security policy.** It is only through a complete separation with the EU's external action that the UK will unlock the necessary policy space to improve its trading prospects in the Indo-Pacific.

**Endeavour to create a “special relationship” between the United Kingdom and India.** The current relationship is falling far short of its potential and would benefit from a renewed focus on certain natural areas of convergence.

**Diverge from Europe and its trading instruments.** An independent Britain can do lots to improve the EU's FTAs with Japan and Korea. Similarly, the UK's utility in financial services provisions should be deployed with greater confidence.

**Make exporting to the region attractive for SMEs.** UK SMEs are in a strong position to benefit from renewed relations with the Indo-Pacific. However, this must entail a reassessment of current government support and what more can be done to promote exporting.

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# FOREWORD BY JOHN LONGWORTH

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The United Kingdom's withdrawal from the diminishing market that is the European Union is the greatest opportunity for this country to prosper and to restore its role in the world as a champion of trade, democracy, the rule of law and strong diplomacy.

Emerging markets round the world are desperate for trade agreements with the UK. The British government must enthusiastically engage with these opportunities while at the same time ensuring that British family owned and family run businesses are able to benefit.

The independence of the United Kingdom has been democratically won by millions of Britons who voted to leave the European Union. We must now ensure that independence is safeguarded and not diluted.

This paper provides a good overview of some of the strategic opportunities and challenges the United Kingdom faces as it embarks on strengthening relationships with countries and markets in the Indo-Pacific region, not least with China.

We should be working extremely hard to strengthen our ties with India, a Commonwealth country, as well as other growing economies such as Vietnam, Taiwan, and South Korea. These countries have similar levels of economic development as our own and should be at the forefront of trade talks with the United Kingdom.

Brexit is exciting. For the first time in forty years the United Kingdom is looking far and wide for opportunities to trade, learn, exchange, support and explore. We hope this paper makes a contribution to that journey.

**John Longworth**  
**Chairman**  
**Foundation for Independence**  
**Independent Business Network**

# FOUNDATION FOR INDEPENDENCE CORPORATE INTRODUCTION

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The Foundation for Independence is committed to ensuring the United Kingdom remains an independent global nation.

We believe that the United Kingdom's best days are ahead. At this crucial moment in our country's history all focus and determination should be on realising the opportunities and potential of our people, business and industry.

To that end the Foundation believes that the key to the United Kingdom remaining an independent nation is to ensure we have a strong independent trade policy, far reaching diplomatic links, a commercial mindset and strong defence.

Our departure from the European Union is a key moment in the history of this country. It signals to the world that the United Kingdom is back on the world stage as an independent player in its own right.

Countries the world over have looked to the United Kingdom in the past as a beacon of liberty, hope, democracy and prosperity. In a world with many threats and challenges, as well as opportunities we must continue to show that leadership and be a hope to those seeking freedom and prosperity.

The success of the United Kingdom's economy will be key to realising the hopes and aspirations of our people and the success of our country as an independent state. We have established the 'Independent Business Network' to be the voice of businesses who are excited by the future prospects for our country and that body will play its role in championing British ambitions and commercial gains.

This paper will be the first in a series of papers exploring opportunities for the United Kingdom around the world and the development of mutual bilateral trading relationships. Blue sky thinking is required and there should be no boundaries or restrictions on the bold ambitions and ideas for our country.

**Brendan Chilton**  
**Chief Executive**



# INTRODUCTION

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The purpose of this report is to add cohesion to the UK's relationship with the Indo-Pacific region. Current action in the area, although driven by the correct intentions, is piecemeal and lacks any relationship to an overarching strategy.<sup>1</sup> Following 47 years of EU membership it is understandable that the UK has yet to develop its own specific vision for the region, but the construction of one is now a geopolitical and economic necessity. It is unquestionable that the Indo-Pacific will be one of the world's most significant areas in the foreseeable future; Chinese aggression against the Rules Based International System is at its most potent in the South China Sea. Whilst the growth of Southeast Asian and East Asian economies will give the region significant clout in guiding future economic trends. In nominal GDP terms, 6 of the world's top 15 economies will be major players in the Indo-Pacific region.

This report views an independent British foreign policy as inseparable from an independent trade policy. For the UK to experience an uplift in its regional commercial prospects, it must put down solid roots in the region. Diplomatic, cultural, and security-focused relationships must all be seen as intrinsically linked to the trading relationship. The proceeding sections set out first principles that are prerequisites for successful British action in the Indo-Pacific. Section 4 discusses what a British Free and Open Indo-Pacific strategy would look like. The UK's unrivalled capacity to uphold a strong, visible profile in the region is discussed in Section 5. In Section 6, the urgent need to decouple from China is looked at and what measures an independent UK can take. Section 7 outlines the need for Britain's future foreign and security policy to be unencumbered by 'Europeanisation'. Section 8 pushes for the UK and India to pursue a special relationship" with one another. Section 9 identifies multiple ways for the UK to improve on trading infrastructure put in place by Brussels. Section 10 puts forward the case that SMEs should be the primary concern of policymakers when discussing the region, before Section 11 concludes.

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1. For example, the recent Freedom of Navigation operation near the Paracel Island that was undertaken by HMS Albion was a welcome move. However, its impact was diminished because it could not be related to an overarching framework of action.

# ADOPT A FREE & OPEN INDO PACIFIC STRATEGY

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The adoption of a Free and Open Indo-Pacific (FOIP) strategy should be the metaphorical constitution of UK activity in the region. It should be the set of guiding principles that prescribe the necessary action for any given situation. It would help to ensure a consistency of British action which has hitherto been lacking. This would provide greater confidence in the UK from its allies, and a greater understanding by adversaries of what motivates specific UK responses.

It would also align the UK with the region's other democratic states. India, Japan, the United States, Australia, South Korea, and even Taiwan all have strategies that could be recognised as akin to the FOIP proposal. The key themes across these nations' FOIP strategies are: support for multilateral bodies such as UNCLOS, an unwavering respect for the sovereignty of all states, the importance of free trade for global prosperity, the peaceful resolution of disputes through intentional fora, and the importance of open investment in Southeast Asia. Given the current supremacy of China's Belt and Road Initiative, particular credence should be given to this last point. For too long the BRI has been the only infrastructure game in town for Southeast Asian states. The primary intention of this policy is to multiply Chinese hegemony and influence through the creation of "debt colonies". A multilateral FOIP strategy must offer governments a viable alternative to over-reliance on this geopolitical weapon.

The 2015 Strategic Defence and Security Review stated that the Asia-Pacific region exerts "considerable influence on the future integrity and credibility of the rules based international order".<sup>2</sup> This makes it an area of the world where the UK's posture should be a normative expression of its values. It should be seen as a canvas onto which these values can be projected with the greatest impact.<sup>3</sup> This would better align with the country's desire to be an internationally confident player - after all, nearly 2/3 of the country believe the UK should embrace 'great power' status<sup>4</sup> - and would associate the UK with values that, for many countries in the region, are the guarantors of food security, the continued development of their economies, and of domestic stability.

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2. UK Government: '[National Security Strategy and Strategic Security and Defence Review 2015](#)'.

3. Ian Story argues that the South China Sea is a perfect canvas onto which Britain can display its 'Global' credentials: '[Britain, Brexit, and the South China Sea Dispute](#)'.

4. Chatham House: '[Public and Opinion-Formers want UK to be a "Great Power" in International Affairs](#)'.

## Improving Trade

A fundamental defect with the trading models that have plagued the Brexit debate since 2016 is their exclusive use of purely quantitative methods. Meta-trading models too often exist within a silo that does not take into consideration the more intangible underlying factors of international trade.<sup>5</sup> It fails to engage with other disciplines, such as international relations, that also have much to offer our understanding. Too often there is an exclusive empirical focus on geography and GDP as the sole determinants of trade flows, as if trade were taking place between two culturally neutral blocks.<sup>6</sup> This is an excessively rigid realist approach to trade and misses the role that political, cultural, and historic links can play in reducing the “psychic distance” between two states.<sup>7</sup> These features are argued to have a “significantly positive effect on the magnitude of international trade flows”,<sup>8</sup> and retrospective studies have shown that similar geopolitical priorities have a causal effect on the flow of trade between two states.<sup>9</sup> This is a result of the relationship being underwritten by improved trust, transparency, and predictability. However, thus far policy makers have afforded little economic importance to augmenting such links.

The UK’s FOIP strategy should be seen as means to rectify this. It would go beyond simply signing Free Trade Agreements (FTAs) with surging economies, and would lay the foundations for a more comprehensive engagement with the region; diplomatically, culturally, and economically. This would be a form of ‘critical geopolitics’,<sup>10</sup> which stipulates that the UK’s “position” in the world is not pre-determined by geography as much as it is by internal aspirations, and the successful enactment of these aspirations.<sup>11</sup> It moves beyond the outdated territorial paradigm of ‘geopolitics’, and reconceives of it as the nexus between a state’s interests and its strategic ability to self-reliantly defend them.

This requires an internal ideational shift that can only be accomplished by a gradual assertion of UK interests in other areas of the world. The UK’s “national

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5. The highly publicised [‘EU Exit Analysis: Cross Whitehall Briefing’](#) used a computable general equilibrium model that, as the report itself admits, “cannot capture all the dynamic economic effects” of trade flows.

6. For a comprehensive critique of the ‘gravity-like’ model used by the Treasury see: [‘Alternative Brexit Analysis’](#) and [‘The Treasury Report on Brexit: A Critique’](#).

7. A greater understanding between states reduces confusion at multiple transaction points, and impacts on the perceptions of both exporters and importers. See Lars Hakanson’s study: [‘The Role of Psychic Distance in International Trade: A Longitudinal Analysis’](#).

8. J. Mohlmann et al: [‘Intangible Barriers to International Trade: A Sectoral Approach’](#).

9. J. Morrow et al: [‘The Political Determinants of International Trade: The Major Powers, 1907-1990’](#).

10. The argument that spatial geography is far less important than political geography in determining where a country’s interests lie has grown out of the work of Gerard Toal.

11. D.Scott: [‘US Strategy in the Pacific - Geopolitical Positioning for the Twenty-First Century’](#).

role conception” - a crucial strand of international relations role theory- becomes defined by the behaviours, and commitments it is expected to fulfil, by both internal and external actors.<sup>12</sup> Dedication to a FOIP strategy that would mandate intimate cooperation with Pacific states, leadership of economic trends, and guardianship of the Rules Based International System, should be seen as the starting pistol for this process.

An outcome of this would be the gradual perceptual shift amongst domestic opinion-formers, business communities, and the general public, that this region is (metaphorically) closer. The UK government’s stated aim is to increase the value of exports to 35% of UK GDP.<sup>13</sup> For this to be obtainable, markets further afield need to be acknowledged. Such a policy would also - building on the work of international relations academic, Ted Hopf - facilitate a reassessment by Indo-Pacific states’ of how their positionings vis-a-vis the UK factor into their own identity.<sup>14</sup> Viewing the UK as a more important partner, as an ‘engaged partner’, has ramifications for the type of interactions that policy-makers in these countries are prepared to take with it. The most valuable forms this can take are an increase in trust, a readiness to cooperate to overcome common hurdles, and greater predictability as to the other side’s behaviour. All prerequisites for a truly comprehensive trade relationship.

Central to this ambition should be the creation of a strong framework for cooperation with the Association of Southeast Asian Nations (ASEAN), as will be discussed in the following section. The bloc is undertaking extensive integration reforms, such as the creation of the ASEAN Economic Community (AEC) in 2015, and is becoming an increasingly important part of the regional architecture. Negotiations towards the Regional Comprehensive Economic Partnership are moving apace between the ASEAN members and selected partners. It is a trade deal which would cement the centre of gravity in Southeast Asia with the bloc.

Significant progress is also being made towards an ASEAN Political-Security Community (APSC), and an ASEAN Socio-Cultural Community (ASCC).<sup>15</sup> Whilst partner countries are encouraged to help with this development, the UK has hitherto failed to take up the mantle. This has meant a litany of missed opportunities to guide the process, inject British voices into the room, and help share expertise.

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12. K.J. Holsti: [‘National Role Conceptions in the Study of Foreign Policy’](#).

13. GOV.UK: [‘Fox launches ambitious new Export Strategy to boost British businesses’](#).

14. T. Hopf: [‘The Promise of Constructivism in International Relations Theory’](#).

15. [‘ASEAN Community Vision 2025’](#).

If sought, the UK would be almost guaranteed to be given a role in sponsoring the AEC's, structural and institutional development, in a similar fashion to Australia and Germany. This would give the UK a hands-on role in influencing the "development of norms and standards in the new AEC",<sup>16</sup> and its blueprint for financial integration.<sup>17</sup>

Assisting the development of ASEAN community building would open up collaboration between UK and ASEAN stakeholders in a wide range of policy sectors. It would also prevent certain states, in desperate need of technical assistance, from becoming completely dependent upon Chinese infrastructure support. Indonesia, Vietnam, and Cambodia have all received over \$100bn in BRI investment each.<sup>18</sup> For instance, Germany has participated in programmes with ASEAN on forestry, infrastructure, and energy efficiency.<sup>19</sup> The UK undoubtedly has a similar role to play in overcoming certain shortcomings in Southeast Asia's market provisions. The Asian Development Banks forecasts that \$210bn needs to be invested in infrastructure every year for a decade to match current growth rates,<sup>20</sup> opening the door for UK know-how in project financing and consultancy services, as well as exports in manufacturing goods. Progress towards an ASEAN Single Shipping Market could also be bolstered by consultation with the UK on the problems posed by legislative restrictions, infrastructure inadequacy, and customs procedures.<sup>21</sup>

The UK should also do more to help address regional concerns on important issues such as terrorism and climate change.<sup>22</sup> This would help associate the British brand with support for the ASEAN population. It is also fitting behaviour of an 'engaged partner', and an important aspect of the 'Global Britain' role performance. General theories of 'soft power' espouse that "being seen as a force for good has an economic payoff" and is found to increase exports by 0.8%.<sup>23</sup> By improving British presence in the vicinity, the attractiveness of British values can be further extolled. Working with ASEAN multilateral forums to decry

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16. This was the attitude of Australia. [The ASEAN-Australia Development Co-operation Programme](#) was viewed as a structure that would help the institutional development of ASEAN whilst simultaneously providing multiple points for Australian influence.

17. The ASEAN '[Strategic Action Plan for Financial Integration by 2025](#)' sets out clear milestones and objectives for progress. A role in aiding this institutional development would undoubtedly be available for British experts.

18. LSE: '[China's Belt and Road Initiative and Southeast Asia](#)'.

19. [Overview of ASEAN-Germany Development Partnership](#)

20. UK-ASEAN Business Council: '[Working towards a more connected ASEAN in 2020](#)'.

21. J. Tongzon: '[Achieving an ASEAN Single Shipping Market: Shipping and Logistics Firms' Perspective](#)'.

22. These were both issues that ranked highly amongst the population when asked what their main security concerns were: '[The State of Southeast Asia: 2020 Survey Report](#)'.

23. This is per 1% increase in the level of 'trust' and is reported in a piece published by the World Economic Forum: '[Why Countries with a Positive Global Influence Export More](#)'.

atrocities and examples of gross domestic instability, and taking part in infrastructure programmes through the overseas aid budget, help promote competitive economic competition. And would generate a deep-seated endearment that cannot be accomplished through superficial trade talks. In this regard, the UK's new ASEAN ambassador offers real potential to push such messaging.

High visibility of the closeness between two governments can in many instances act as a torchbearer for their societies as a whole, and therefore their trading perspectives. The FOIP should be seen as a way to align Britain with the nations it hopes to do more business with. The USA's policy towards India under Barack Obama, and continuing under Donald Trump, has utilised public-facing statements to promote a sense of common endeavour between the two sides, specifically within the Pacific.<sup>24</sup> This has led to a huge surge of favourability within India towards America. 62% of Indians now prefer a closer trading relationship with America than their neighbour, China, a clear sign of how political commonalities can trump geography in determining trade preferences.<sup>25</sup>

The UK should therefore seek to use high profile visits (both military and political) with India, South Korea, and Japan in a more synergised manner. The opportunity to undertake a sustained programme of rhetorical alignment, and emphasis of shared ambitions, has a noticeable role to play in promoting trade. The specific nature of the UK's relationship with India is discussed in a later section. With Japan, the Strategic Partnership between the two sides is one such forum at which this can be undertaken, as is the upcoming FTA negotiations. Efforts should be made to present it as more than just a deal about tariffs and NTBs. "Improving geopolitical links and cementing diplomatic ties" through new political forums are secondary benefits that also derive from bilateral FTAs.<sup>26</sup> As is the ability to carry out 'issue linkage', which sees the scope of negotiations grow to incorporate other areas of interest for both sides beyond commerce.<sup>27</sup> Such 'issue linkage' should also focus on mutual areas of cooperation to support both side's FOIP strategies. The British media affords such trade talks a symbolic prestige that gives them a certain visibility - with foresightedness there

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24. E.Basu: 'Joint Statements as Sites for Diplomatic Communication: U.S - India Strategic Dialogue Joint Statements 2010 to 2016'.

25. Pew Research Centre: ['While India's public view Trump positively, there's less enthusiasm for his trade policies'](#).

26. A. Kapling: ['Preferential Trade Agreements as Instruments of Foreign Policy: An Australia-Japan FTA and its Implications for the Asia-Pacific Region'](#).

27. This is a prevalent feature of FTA negotiations. It was attempted by the EU in the current Brexit negotiations when they attempted to link trade to the Elgin marbles. See, P. Poast: ['Issue Linkage and International Cooperation: An Empirical Investigation'](#).

are opportunities for media strategies to be deployed in a significant way. Meanwhile, the UK's relevance in South Korean politics, as a crucial component of the sanctions campaign against North Korea, as well as the new Foreign Minister Strategic Dialogue, should both be seen as justifiable ways to promote this messaging. The UK should also consider the aptness of supporting a G7 invite being extended to Seoul, as is currently being muted. Currently Japan finds itself somewhat isolated as the only Asian state, and at the recent G7 meeting was outvoiced by European and North American concerns. The UK could see this as an opportunity to form a new coalition for itself, alongside South Korea and Japan, that would advocate for the Indo-Pacific's specific circumstances.

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# RECOGNISE THE UK'S CAPACITY TO BECOME AN 'ENGAGED PARTNER'

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The UK should be confident in its ability to maintain a sustained and visible presence in the Indo-Pacific. It is unique amongst European states in that its circumstances actually lend themselves to achieving such a feat and becoming an 'engaged partner' of allies in the region.<sup>28</sup>

The UK already has a ready-made network of alliances in the area through the Five Powers Defence Agreements, and close relations with the Japan-Australia-USA trilateral alliance. It has a connected chain of military bases at Diego Garcia, Brunei, and Singapore, offering seamless access and deployment into the region. The potential to cooperate further with Singapore, Japan, and Australia to establish base access agreements is regularly commented upon, owing to the strong bilateral relations that the UK has with them.<sup>29</sup>

The UK's naval strength is such that it can plausibly pursue a Freedom of Navigation Policy in the South China Sea (SCS). The proposed policy put forward by the Henry Jackson Society should form the template for this action. The new Elizabeth II-Class aircraft carriers and in particular the Type-26 frigates are more than apt for such a role, and can be used to peacefully assert the rights of all nations to traverse the seas. The UK has a clear interest in upholding this principle. Moreover, because one third of global shipping traverses through the SCS, it is the cornerstone of several nations' trading policies. This would make FoN participation alongside Britain a mutually beneficial act.<sup>30</sup> Similarly, the forward deployment of UK Bay Class landing ships would help to ensure the universality of the Malacca Strait and the Royal Route upon which many rely.<sup>31</sup>

This should be coupled with a collaborative role with the nascent 'Quad' security coalition of the US, India, Japan, and Australia;<sup>32</sup> using Britain's global leadership in cyber-security and its experience of developing other nations' capabilities,<sup>33</sup> its

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28. A strong appraisal of Britain's unique ability can be found here: ['To What Extent Should the UK's Armed Forces Once Again be Prepared to Routinely Operate East of Suez?'](#).

29. Policy Exchange: ['UK Defence from the "Far-East" to the "Indo-Pacific"'](#).

30. New York Times: ['US Warship Enters Disputed Waters of the South China Sea as Tensions with China Escalate'](#).

31. The Henry Jackson Society: ['The South China Sea: Why it Matters to "Global Britain"'](#).

32. John Hemmings believes that the UK should align itself with the 'Quad' in the region: ['Charting Britain's Moves in the South China Sea'](#).

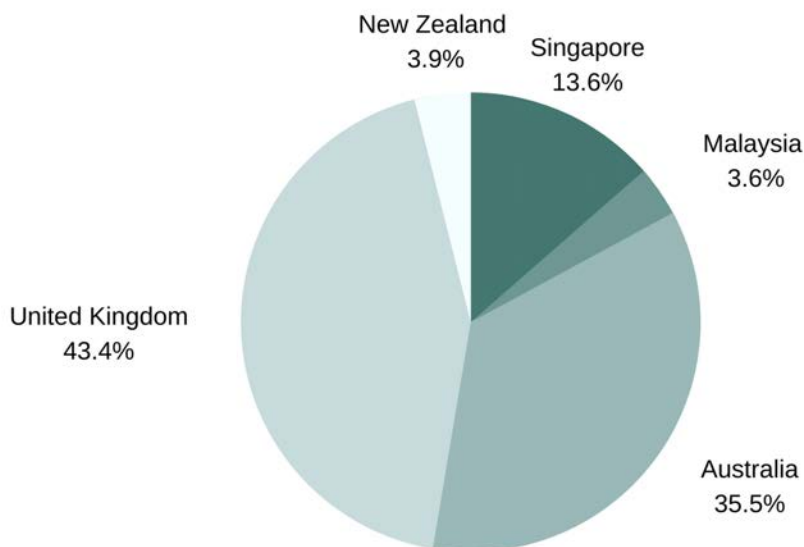
33. At the [2019 International Cyber Security Capacity Building Conference](#), RUSI Senior Fellow, Conrad Prince, asserted that the UK had the capacity to leverage its expertise in this area.



recent defence treaties with two members,<sup>34</sup> and support from members of the Japanese Government,<sup>35</sup> to craft a role for itself in defining the group’s scope. In doing so the UK will be aligning itself with “Asia’s democratic security diamond”,<sup>36</sup> and adding further propulsion to the redevelopment of its bilateral relationships with the other members. The alliance is expected to become a key bulwark against Chinese aggression in the region and would benefit from a broadening of its membership base.

Rekindling the UK’s relationship with the nations of the all-Commonwealth Five Powers Defence Agreements (FPDA) - Australia, New Zealand, Singapore, and Malaysia - should be viewed as a priority. Even recently UK Defence Secretaries have been unjustifiably lacklustre about the national benefits that cooperating with these states can have. As SouthEast Asia’s only security partnership the FPDA has grown into a crucial guarantor of the region’s stability,<sup>37</sup> and its collaboration with other states through the ‘observer programme’ has drawn third parties towards its thematic objectives. In particular, the ASEAN bloc clearly envisages the centrality of the FPDA in preventing future instability.

**Five Powers Defence Arrangements: National Defence Budgets**



Source: National Budgets

34. The UK has recently revisited its defence cooperation with [Australia](#) and [India](#), and added extra emphasis to both relationships.

35. Japan’s Minister for Defence has specifically pointed out that the UK has a naval role to play in the Indo-Pacific: [‘The Indo-Pacific: A Passageway to Europe?’](#).

36. Prime Minister Shinzo Abe: [‘Asia’s Democratic Security Diamond’](#).

37. Australian Government: [‘Joint Ministerial Statement of the 10th FPDA Defence Ministers’ Meeting’](#).

As the FPDA's largest member, and biggest spender on defence, the UK unavoidably assumes a leadership position and should not shirk this fact. UK experts in capacity-building can be vital in improving the counter-terrorism capabilities of alliance members, or preparing government bodies to deal with humanitarian disasters, instead of being unsparingly deployed to ill-conceived CSDP missions. Joint training exercises, such as Exercise Suma Warrior, and Bersama Lima, can be built upon to incorporate cutting-edge military equipment and greater troop numbers for a truer reflection of UK capabilities - boosting certainty in the UK as an essential ally. At the value level these measures will help in providing millions with greater personal security. At the political level the UK will have become 'baked in' to the region's security architecture, ubiquitous in several of the nations' security and defence reviews, and seen as an indispensable regional actor.

As the region endures increasing tensions, these building blocks will ensure that the UK has a strong claim to be a viable actor in proceedings, rather than seen as an unwelcome extraterritorial interference. This is a subtle reimagining of the role that Burkean 'vicinity' plays in international relations. Greater commitment to - and habitual intercourse with - a region affords greater rights to partake in the region's affairs.

It should not be assumed that Britain would be 'unwelcome' in crafting a greater role for itself. Strong support exists amongst both the governments and populations of the Indo-Pacific for the congenial presence of democratic states. We know, for example, that 97.2% of the ASEAN public see a structured relationship with the UK as desirable.<sup>38</sup> Littoral member states such as Vietnam and Singapore are particularly keen for Britain to become a major player. There is currently no top-tier framework for the relationship between the UK and ASEAN to develop within. This is because during the UK's EU membership, domestic policy makers gave little explicit attention to the bloc. Interaction with it was outsourced to the EU level. It was the EU that established the Dialogue partnership with ASEAN, it was the EU that coordinated with ASEAN in a Joint Working Group towards an FTA, and it has been the EU that has attempted to position itself as a useful security partner for ASEAN.<sup>39</sup>

Achieving dialogue partner status may be unobtainable at the moment, but the exact definition of the relationship is not as important as a demonstrable commitment to it. For instance, even a sectoral partnership, akin to the one that

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38. Reported in the ASEAN Studies Centre's '[The State of Southeast Asia: 2020 Survey Report](#)'.

39. An Overview of the EU's efforts towards ASEAN is set out in this piece published by Carnegie: '[Defining New Grounds for Cooperation Between the EU and ASEAN](#)'.

exists between ASEAN and Norway provides a regular committee forum, and the ability to establish further mechanisms as long as the political will is there.<sup>40</sup> It was also from a sectoral partnership laying cooperative foundations that Canada was able to commence FTA negotiations.<sup>41</sup> The likelihood is that once a formal character is given to diplomatic links that further interfaces can be affixed such as the Defence Ministers' Meeting Plus (something that would be made worthwhile for the ASEAN-11 by our increased participation with FPDA), cooperation at multilateral forums, and more contact between regulators.

Japan has also made no secret of its support for the UK to become an 'engaged partner' of the Indo-Pacific.<sup>42</sup> Tokyo sees another strong ally in the region as both an economic and geopolitical asset in strategy to contain China. The UK-India defence partnership and joint maritime exercises also aims to improve the UK's regional presence with operations in both the Indian and Pacific oceans. Meanwhile, whilst not a native of the region Australia has a strong domestic interest in maintaining the openness of its neighbouring oceans. It is therefore encouraging that the Defence Minister has called for the UK to become "more militarily engaged" in the Pacific region.<sup>43</sup> Ultimately, being given consent to help with the security of the region is just as important as possessing the hard power capacity to actually do so. The willingness of other resident states to allow Britain into the region is a crucial prerequisite - and is abundantly present.

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40. [ASEAN-Norway Sectoral Dialogue](#).

41. It was out of the Canada-ASEAN Dialogue Partnership that exploratory talks towards an FTA emerged: ['Canada and the Association of Southeast Asian Nations'](#).

42. Prime Minister Shinzo Abe has been vocal in his support for UK membership of the Comprehensive and Progressive Trans-Pacific Partnership. Whilst Britain should not join this framework, the discernible enthusiasm from Japan is indicative of a desire to increase UK presence in the Pacific.

43. The Daily Telegraph: ['Australia Urges Britain to be "more militarily engaged" in the Asia-Pacific region'](#).

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# REDUCE BRITAIN'S EXPOSURE TO CHINA

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## China's place in the international system

The current Covid-19 crisis has laid bare the unsavoury nature of the Chinese Communist Party (CCP) and has led to an increased scrutiny of China's actions. In recent weeks the PRC has suppressed democratic protest in Hong-Kong, undermined the credibility of the WHO, made hostile excursions into other state's EEZ, pushed ahead with illegitimate claims of sovereignty over island archipelagos, and continued with the use of illegal trade practices. China can confidently be described as a 'revisionist' state - one that challenges, rather than adheres to, the status quo.

With this in mind, the Indo-Pacific is the arena within which the future wrangling of international ideals will take place. Many nations in the region have already taken measures to defend well-established international principles in the face of such Chinese 'revisionism'.<sup>44</sup> This has been in the form of internal legislation, of military alignment, or of appeals to international bodies.<sup>45</sup>

The idea of an 'international society' within the overarching anarchic international system is a conceptual tool that allows for a greater understanding of the tension in this region. The 'society' consists of states with similar values, that recognise the inviolable nature of certain norms, and have a proclivity to work more with like minded states.<sup>46</sup> In recent decades, China has drifted outside of this 'society' and as a result 'status-quo nations' have increasingly turned away from it and shown a natural desire to cooperate more with those who extol similar Western ideals. India, Japan, Indonesia, and Malaysia have all shown a palpable shift towards the United States in recent years as a result of this. Undeniably this has been driven by the 'external Chinese threat' to fundamental pillars of the geopolitical equilibrium and a resistance to its local hegemony. Threats to state sovereignty, food security, and open highways of trade have meant that realist

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44. Defined in IR as efforts by a state to reinterpret well-established norms in a manner that gives them greater flexibility to pursue self-interest.

45. India has amended its FDI rules to slow Chinese investment, Japan has become a more active supporter of the 'Quad', the Philippines took China to the Permanent Court of Arbitration in 2016.

46. This is from the 'English School' of international relations. Working on the premise that no institution can steadfastly guarantee the containment of all actors, states align themselves with those who have similar notions of statehood, and the accompanying trappings.

considerations of 'state survival' are now being given greater preeminence by some smaller states.

### The current UK approach

Unfortunately, the UK's lack of a wider Indo-Pacific approach has meant that it has hitherto failed to appreciate that this is the milieu within which many Indo-Pacific states are having to operate. It has failed to play its role within the 'society'. China has been viewed as a purely economic exertion, with little consideration at the normative level about the consequences of alignment and how it is perceived by others. For instance, former Chancellor Philip Hammond said in 2017 that the UK was a 'natural partner' for the Belt and Road Initiative (BRI), despite other regional powers such as Japan having serious misgivings about its intended purpose.<sup>47</sup> In 2015, the UK was one of the first European states to join the Asian Infrastructure Investment Bank (AIIB) despite serious concerns in Washington. Similarly, the domestic inclusion of Huawei at the heart of the British 5G network, and the 'Osborne doctrine' prescribing China as the UK's most valuable Asian partner, have put greater distance between the values that the UK is displaying, and what its regional allies want it to be doing. This blind courtship was pointed out by the foreign affairs select committee in April 2019: "The UK's approach [to China] risks prioritising economic considerations over other interests, values and national security".<sup>48</sup>

In part such passivity can also be attributed to EU membership. The EU has been unable to present itself as a valuable partner to the states of the Indo-Pacific.<sup>49</sup> Its lacklustre approach to Chinese indiscretions is the result of many Eastern European states having received large scale investment from China - "Beijing seeks through investment to prevent the EU speaking with a unified voice".<sup>50</sup> The most blatant example of this was Brussels' inability to condemn China's disregard towards a Permanent Court of Arbitration ruling in 2016 because Hungary, Greece, and Croatia would not support a common position.

The Cameronite belief that the UK could considerably boost its exports to China through fostering a "golden era" of bilateral relations seems somewhat naive. In 2014 the FCO was working from the assumption that UK exports to China would be exceeding £30 billion by 2020 as a result of a stronger relationship.<sup>51</sup> They are

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47. Reuters: '[Britain says it's a natural partner for China's new Silk Road](#)'.

48. House of Commons' Foreign Affairs Select Committee: '[China and the Rules-Based International System](#)'.

49. M. Duchatel: '[Europe and Maritime Security in the South China Sea: Beyond principled statements](#)'.

50. Chatham House: '[The Rise of China and the Future of the Transatlantic Relationship](#)'.

51. Commons Library: '[The UK's trade relationship with China](#)'.

currently at only £22.6 billion.<sup>52</sup> This is because China's whole economic model is designed to satisfy most of its market demand internally. For example, 76% of China's GDP growth came from domestic consumption in 2017/2018.<sup>53</sup>

This relatively low economic exposure to the world is a symptom of China's aversion towards the whole international system. It is the economic manifestation of Chinese 'revisionism'. In 2019 McKinsey's Global Index discovered that the world was twice as exposed to China, as China was to the world.<sup>54</sup> A plethora of barred trade-distorting practices are deployed to give domestic companies unequal access to China's domestic markets. These include domestic content requirements ("localisation barriers"), forced Intellectual Property seizure from foreign investors, and state subsidies. The Chinese Council also directly runs over half of China's Fortune 500 companies.<sup>55</sup> Whilst these practices operate outside the parameters of WTO treaties, China's tariff regime also flies in the face of the WTO prevailing winds.

### Approaching Chinese revisionism

The UK must rectify its stance. It must view itself - as part of its Free and Open Indo-Pacific strategy - as a patron of the region's stability. Tapering its application of its values to China, so as to facilitate "special relations", only beckons in the erosion of the international order upon which so much of British commercial prosperity depends.<sup>56</sup> It legitimises China's decoupling from the system, and sets a precedent that no norm of international relations is inviolable.

The recent British initiative of 10 democratic states cooperating to decouple from Chinese 5G dependency, the so-called 'D10', is a great example of Britain's strong diplomatic coalition building. Depending upon the trajectory that this grouping follows, and given that its membership are all also members of the G20, there is scope for a greater enforcement of global economic norms. The group consists of three evident cleavages; Anglosphere states (Australia, the US, Canada), European states (France, Germany, Italy), and Indo-Pacific states (Japan, India, South Korea). With the UK successfully adopting a FOIP, it would have a foot in each of these camps that no other state could boast (perhaps excluding the US), and would be attuned to the geopolitical circumstances of all D10 members.

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52. Commons Library: ['Statistics on UK trade with China'](#).

53. McKinsey Global Institute: ['China and the World: Inside the dynamics of a changing relationship'](#).

54. Ibid

55. Progressive Policy: ['Confronting China's Threat to Open Trade'](#).

56. ['Maritime UK: State of the Maritime Nation Report'](#) outlines the importance of an open system of oceans for UK prosperity. For instance, 95% UK goods exports - by volume - are transported by sea.

Other measures should use Britain's recent leadership at the UN - organising multilateral condemnation of Chinese human rights abuses - as a blueprint for future diplomatic assertiveness. The UK has shown itself to be an invaluable norm promoter at the international level - forcing a greater acknowledgement of certain overlooked atrocities. The 'Responsibility to Protect' and the sexual exploitation of girls, are both issues that have been elevated to internalised norms in a large part because of UK skill. The same should be done to uphold democracy in Hong Kong, and preserve the relative autonomy of Taiwan.

UK military equipment should also be used as the arrowhead for coalitions of nations to form behind to condemn certain indiscretions. The 'ship rider' programme, originally proposed by Admiral Scott Swift is one way that this could be done. Elsewhere, the Netherlands have hinted that they may be happy to partake in UK-led voyages. Both would be peaceful assertions of FoN, and would place the UK at the forefront of international efforts.

Meanwhile its permanent seat at the UN Security Council, and membership of a multitude of other multilateral bodies, affords the UK a degree of visibility unavailable to most other nations. These positions allow the UK to promote a form of "institutional balancing" to be put in place that reasserts (through bodies such as the UN) the normative duties that befall all states, especially around issues of sovereignty and human rights. The use of "norm/rule building to constrain other state's behaviour" is best practiced through multilateral channels as it perceptually mobilises the international community as a whole.<sup>57</sup> Failure to adhere would bring reputational damage (internal and external) and legitimation issues for the Chinese Government. Something which it has shown itself to be cognisant towards.

Certain changes can be made at the WTO that also increase the pressure upon China. For instance, it should no longer be afforded the benefits that a 'developing country' is given. The WTO's dispute settlement mechanism is often criticised, and in many instances has been ineffectual. But it is still a forum of which the UK should make use. Owing to the retaliatory trade policy of the CCP, many smaller states are unwilling to unilaterally take action against China. Using multilateral forums to create a coalition of nations should be seen as a useful way of emboldening these states to participate in collective action. Such a strategy would be most successful when led in tandem with other powers, in particular the US and Japan.

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57. K.He: ['Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia'](#).

## Reducing UK dependency on China

Since 2002, the UK, like many other Western states, has found itself lulled into a position of economic dependence on China. In part this was based on good faith that assumed the CCP would be an honest actor within the global trading system. It is also the result of an excessive rush towards globalisation, whereby domestic industries that are essential for national security have been increasingly deprecated in the pursuit of marginal economic gains. Whilst it is arguable that this process has affected most industries, there are two areas of particular concern owing to their direct link with national security: the import of pharmaceuticals and Chinese direct investment in infrastructure. The UK's perception that it *needs* the CCP's blessing to access the Chinese market has also meant UK foreign policy decisions are often decided by calculations of China would respond, and is another area of perceptual dependency.

### Pharmaceuticals

The UK needs to reassess its dependency on China for a swathe of pharmaceutical products. Most pressingly amongst these is Active Pharmaceutical Ingredients (APIs). The actual therapeutic substances in the product. Current estimates state that 40% of global API use is accounted for by Chinese companies, and the UK has not been immune from this growing reliance.<sup>58</sup> The last 20 years have seen a significant offshoring of production capacity to the PRC. The country has achieved this dominance in the global market through dubious environmental and workers' rights standards, a tendency to forego internationally adhered to Good Manufacturing Practice, and strong domestic support for companies like *Zhejiang Huahai Pharmaceutical*.<sup>59</sup>

This dependency has negative connotations for the sovereignty and policy space of the UK vis-a-vis the PRC, as well as compromising the nation's health security. It is therefore imperative that moves are made to improve the domestic production capacity, and to diversify the sources from which API is acquired. An internal shift should derogate specific pharmaceuticals from the prevailing winds of free trade. In much the same way that food production continues to be protected in FTA and GATT discussions by notions of "agricultural exceptionalism", the national importance of pharmaceuticals, warrants efforts to ensure that national capabilities do not become run down into extinction.<sup>60</sup>

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58. CPhI Worldwide: ['Global API Industry Snapshot'](#).

59. Its 2018 reports show that the company received \$44 million in state subsidies in 2018.

60. Food security has long been established as the most sensitive national issue, alongside defence. This has meant that most governments have treated it differently to other sectors. "Agricultural exceptionalism" is the recognition that once a nation's capabilities in a sector become worn down, they are almost irretrievable.



The UK should play its strong hand in a more integrated manner, so as to encourage investment in the development and manufacture of these products within the British isles. According to the Association of the British Pharmaceutical Industry, Britain’s “unique connection between industries, the healthcare system, regulators, academia and a skilled technical workforce” puts it in a strong position to reshore large amounts of API production. This could be done through ‘Centres of Excellence’ that deploy key strengths of the UK’s technology and R&D sectors as a complete package.<sup>61</sup> These hubs would oversee the development of new medicines from concept, to production - boosting the attractiveness of the UK as a destination for investment. This is a fortuitous ecosystem that very few other Western countries have the luxury of being able to fall back on.<sup>62</sup>

The MHRA should work with the relevant agencies of like minded countries, especially within the Anglosphere, to share ‘best practice’ on the role that advanced manufacturing can play in reshoring pharmaceutical production. As alluded to by Janet Woodcock at the US Food and Drug Administration (FDA); The “FDA believes that advanced manufacturing technologies could enable US-based pharmaceutical manufacturing to regain its competitiveness with China”.<sup>63</sup> The benefits of cheaper, speedier production would go some way to offset the perceived savings that are made by manufacturing in China. Added to this, the UK has a skilled domestic workforce and a tranquil political climate not present in the PRC. Britain’s role as the world-leader in advanced manufacturing, and Industry 4.0, is pivotal to this, and offers great utility to many partners in generating a clear plan on how to accomplish decoupling.<sup>64</sup> The UK should also search for forums that can allow it to bolster the capacity of allied and aligned countries. Sharing regulatory and manufacturing know-how with the likes of the Five-Eyes alliance, and other states such as South Korea and India, would widen the choice of upstream partners that the UK could potentially procure from.<sup>65</sup> Indeed, given the existing trust between the UK and these nations, there are considerable cost and time savings to be made on a reduced need for regulatory facility checks, and a reduced need for excessive licencing documentation. The MHRA follows a ‘risk-based’ approach to inspections<sup>66</sup> which

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61. ABPI: [‘Manufacturing Vision for UK Pharma: Future Proofing the UK Through an Aligned Technology and Innovation Roadmap’](#).

62. For an overview of the difficulty Australia faces, see: Herbert Smith Freehills: [‘Manufacturing Medicines in Australia: Examining the need for increased domestic capacity’](#).

63. US Food and Drug Administration: [‘Safeguarding Pharmaceutical Supply Chains in a Global Economy’](#).

64. Brookings: [‘Global Manufacturing Scorecard: How the US Compares to 18 Other Nations’](#).

65. Thomson Reuters: [‘Beyond India and China: Examining Pharmaceutical and API Positions in Asia’](#).

66. Pharmaceutical Online: [‘How FDA and MHRA Decide Which Drugs Facilities to Inspect and How Often’](#).

clearly leads to a greater direction of resources towards Chinese plants, and their higher contamination risk.<sup>67</sup> Greater government focus on ensuring the drugs entering the UK are of a high quality, rather than cheap, is a necessary first step to recalibrate the priorities of market actors.

## Chinese investment

The decision to allow Huawei a role in the UK's 5G network was evidently misguided, and critics of the company's state-ownership have been vindicated in their concerns. It is now clear that China has viewed investment in UK domestic sectors as a means to increase its influence, and acquire advanced technology to improve its own economy. A comprehensive government review must be undertaken to assess the control that Chinese companies have over crucial areas of infrastructure.

In 2014 it was reported that Chinese investment in UK infrastructure would reach over £105 billion by 2025.<sup>68</sup> Whilst events since then may have stymied this flow to some extent, the general steepness of the trajectory is worrying. Arguably this wave of investment has been because of governmental defects. The lack of a long-term cohesive infrastructure policy has plagued British politics for decades. "Decisions on economic infrastructure are inconsistent and subject to constant change. New projects are dreamt up, reframed, scrapped and reinvented".<sup>69</sup> The result has been a vacuum of inaction within which state-sponsored Chinese actors have been able to enter. A recent example of this was the last minute attempt by China's state-run railway firm, China Railway Construction Corporation (CRCC), to seize a role for itself in the construction of HS2.<sup>70</sup> This predatory approach to issues of domestic debate shows the faults that emerge from a lack of long-term vision. The HS2 project was rightfully under intense cost-related scrutiny, and owing to its lack of a place in a more joined-up strategy, was subjected to risks of being abandoned. The bid by the CRCC was an opportunistic attempt to seize on internal government discord. Likewise, had such a strategy been put in place, it is unlikely that the UK would now be in the unsavoury position of its steel works being largely Chinese owned. In many ways the takeover of British Steel, by the firm *Jingye*, shows that Chinese investment

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67. It has long been documented that Western regulators are overwhelmed in their efforts to scrutinize Chinese manufacturing processes, see: ['Tainted Drugs: Ex-FDA Inspector Warns of Dangers in US Meds Made in China and India'](#).

68. Financial Times: ['China Set to Invest £105 billion in UK Infrastructure by 2025'](#).

69. Institute for Government: ['How to Design an Infrastructure Strategy for the UK'](#).

70. BBC: ['UK in Talks with China Over Construction of High-Speed Line'](#).

has often been used as a crutch to plug gaps that have been allowed to grow by UK indecision.<sup>71</sup>

The UK is actually strongly positioned to safely finance much of its infrastructure needs without becoming dangerously dependent on Chinese investment. It has shown global leadership in the past with its innovative Public Private Partnership model, and should make use of this technical acumen to replace the now defunct PF2. The strong enthusiasm from the current government to provide public funds for infrastructure should also not be wasted, and should be seen as a means to truly unlock funding from the domestic private sector. This should be coupled with a long-term infrastructure sovereign wealth fund that has long-been called for by politicians and professional bodies alike and would reduce our reliance on preying investment.<sup>72</sup>

The UK should follow the likes of Spain, and the United States, in strengthening its FDI screening process to offer greater protection to essential industries from takeover by state-owned enterprises. The UK currently has no overarching legal framework to monitor inward FDI, leaving itself somewhat exposed to minacious investment. One such model to follow would be the ‘Investment Canada Act’, that “provides for the review of investments in Canada by non-Canadians that could be injurious to national security”.<sup>73</sup> This would give the UK greater sovereign ability to protect critical infrastructure from Chinese buyout, whilst having little negative impact on overall IFDI flows. This would be a marked change from the system that the EU FDI Screening Regulation put in place. Continuing within this structure could have plausibly seen the UK willingly forego control over vital parts of its infrastructure, on the basis that it judged the health and autonomy of industries at a European rather than national level.

Going forward, Britain needs to distance itself from the Chinese Belt and Road Initiative. Even recently Boris Johnson has viewed it as something that the UK should be seeking to benefit from.<sup>74</sup> There needs to be an emphatic separation, rhetorically and politically, from the BRI and it is now self-evident that no Memorandum of Understanding should be signed between the UK and Chinese governments on this topic. Undergoing this separation allows for a fundamental reassessment of the UK’s priorities, and an opportunity to cooperate more overtly with entities that share the same concerns about Chinese “debt trap diplomacy”. For example, in April 2019 the US, Canada, and the EU pledged to

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71. BBC News: [‘British Steel: Takeover by Chinese Firm Completed’](#).

72. Reform: [‘Time to Think Big: A UK Sovereign Wealth Fund’](#).

73. Government of Canada: [‘Investment Canada Act’](#).

74. The Diplomat: [‘How Boris Johnson will Approach UK-China Relations’](#).

work more closely to “to advance shared development objectives and underscore the participants’ commitment to providing a robust alternative to unsustainable state-led models”<sup>75</sup>. Unhelpfully, many key players in Europe such as Portugal and Italy have already committed significant political capital to the BRI, suggesting future discord within the EU over this matter, and an increasing ineffectiveness of its efforts.

## Export dependency on China

For decades now, the policy of the UK Government has been to seek access to the Chinese market at all costs, which has led to it being less assertive in the face of Chinese indiscretions. Policymakers should not fear Chinese retaliation for a more hawkish presence in the Indo-Pacific. UK exports to China are founded upon tenets that are more likely to persist beyond the CCP’s caprices and whims of granting any favourable market access. They traverse the political level and are demanded directly by the consumers.<sup>76</sup> The ‘trade complementarity’ between the UK and China will naturally continue to grow regardless of artificial measures put in place by the CCP. The imports of the country, with its growing affluent population, will ultimately shift towards services and higher end produce that cannot be satisfied internally. Currently just 15% of the UK’s exports to China are in services, compared to nearly 47% globally. By 2030 China will be a solidly middle-class economy - with 89% of consumers having a disposable income of at least £1,500 - meaning that services will undoubtedly constitute a greater share of its imports.<sup>77</sup> Similarly, Barclays found that Brand Britain is incredibly strong within China, with an average 3.8% premium attached to goods that display the Union Flag, and 61% of people being more likely to prefer a British product over alternatives.<sup>78</sup> The implication being that UK goods are less likely to suffer as a result of price-inflating tariffs and NTBs.

### Case study: Taiwan

Despite the province of Taiwan having a larger economy in nominal GDP terms than 21 EU member states, the UK’s trade relations with it are still determined by Beijing rather than Whitehall.<sup>79</sup> The CCP’s policy of diplomatically isolating the province has chronically restricted the number of avenues through which greater commercial UK-Taiwan cooperation can be promoted. Taiwan should therefore be seen as a litmus test for the extent to

75. Belt and Road News: [‘US, Canada, and EU offer ‘Robust Alternative’ to Belt and Road’](#).

76. [‘Chinese shoppers to buy more British goods online’](#); [‘High demand for UK brands: China online shoppers’](#).

77. The Economist: [‘The Chinese consumer in 2030’](#).

78. Barclays: [‘Brand Britain: Export Opportunities for UK Businesses’](#).

which the UK Government is prepared to take back control of its foreign policy, and unshackle itself from misguided ideas about economic reliance on China.

The UK Government should seek ways to increase the number of forums at which officials of both sides can have conducive contact. Taiwan was recently barred by the PRC from partaking in a crucial WHO meeting, and has long since struggled to find a voice in any multilateral institution.<sup>80</sup> The current UK position on this issue is somewhat weak, stating that it will only support Taiwanese accession to international bodies when there is a clear “precedent”. This ultimately leaves the decision at the behest of the CCP. In light of the recent crisis, the UK should adopt legislation that is similar to the US’ ‘Taipei Act’, which stipulates a greater commitment to promote Taiwan participation in international fora, especially when it is determined to be in the UK’s national interest.<sup>81</sup>

Taiwan is Britain’s second fastest growing export destination, which reflects the growing strength of its economy. On top of this, there are many unexplored areas that offer great potential going forward. Taiwan’s “five plus two” industry innovation plan identifies seven areas of the economy that the government intends to focus on, many of which correlate with British areas of strength.<sup>82</sup> Artificial intelligence, green energy, and biotech are all industries within which Britain plays a leading global role. President Tsai Ing-Wen has expressed particular interest in cooperating with Britain on offshore wind energy,<sup>83</sup> an area for which Taiwan currently has an investment programme of up to \$20bn by 2025.<sup>84</sup>

There has also been talk from Taiwanese officials about the pursuit of a bilateral trade agreement. This may be further than the UK government could plausibly be expected to go, but shows a desire for the commercial relationship to be intensified. Low-key forums such as the TW-UK Bilateral All in Healthcare Workshop are a valuable way for key industry and scientific relationships to be built. But, they would benefit from a political dimension being added to them to discuss ways that academic exchange can be used to bolster trade.

79. The statistics for this claim are drawn from the [International Monetary Fund’s website](#).

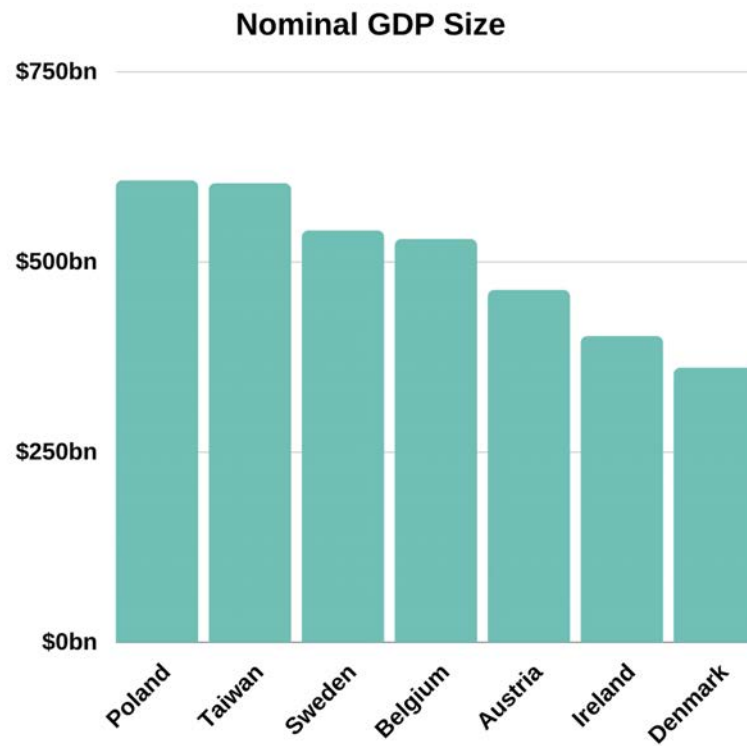
80. Reuters: [‘Taiwan Says it did not Receive WHO Meeting Invite’](#).

81. The Diplomat: [‘Trump and the Taipei Act’](#).

82. Taiwan Ministry of Economic Affairs: [‘Amendment to the Statute for Industrial Innovation’](#).

83. GOV.UK: [‘UK and Taiwan Sign MoU on Offshore Wind Industry’](#).

84. Taiwan Business Topics: [‘Financing Offshore Wind Power’](#).



Source: IMF World Outlook 2018

*In nominal GDP terms, Taiwan's economy is only slightly smaller than Poland's. When comparing GDP-PPP this gap shortens even further. Far from being a backwater province of China, Taiwan is a significant export opportunity and should be treated as such by UK policymakers.*

# RESIST THE 'EUROPEANISATION OF BRITAIN'S FUTURE FOREIGN AND SECURITY POLICY'

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Rejecting the interoperability, and consequent integration, of Europe's armed forces that the European Defence Agency institutes must remain a primary intention of the UK Government. In doing so they will face demands from EU negotiators to respect the Political Declaration's commitment to the contrary.<sup>85</sup>

This was something Prime Minister Johnson's renegotiation egregiously failed to rectify despite great publicity about the loss of sovereignty it would entail. Until otherwise agreed, therefore, the risk remains that British armed forces become submerged in plans to "facilitate interoperability and joint effectiveness of armed forces" amongst European nations.<sup>86</sup> This is a process that would see the voluntary degradation of UK independent capacities. Doing so would detract from British engagement in regions further afield, causing a host of missed opportunities. It is important for policy makers to view military independence from Europe not as an end in and of itself, but as a means for greater geopolitical, and therefore economic, proactiveness.

The freedom of action that is created by disentanglement from Common Security and Defence Policy (CSDP) operations is vast. It allows for a redeployment of top-tier resources that are too frequently confined to CSDP structures. In some instances this pertains to high-calibre vessels being sent to missions over which the UK has little strategic control, and that bring little discernible benefit. HMS Diamond participating in the disastrous Operation Sophia is one such case. In other instances, the UK's contribution is focused on providing high-quality expertise for EU missions through "staff in Brussels, staff in missions, deputy heads of missions...planning, logistics, reinforcing the staff and direction for missions".<sup>87</sup> Given most EU missions amount to little more than replicas of NATO mandates (Operation Althea in Bosnia is a primary example) the UK should view them as offering little discernible worth. It must therefore avoid committing to a 'Framework Partnership Agreement' that will only serve to consume its intellectual and strategic bandwidth, and require the participation of UK assets.

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85. [Political Declaration setting out the framework for the future relationship between the European Union and the United Kingdom](#), Part III, Chapter 3, Paragraph 102.

86. European Commission: ['Foreign Policy, Security and Defence part of the Draft text of the Agreement on the New Partnership with the United Kingdom'](#).

87. Diplomat Angus Lapsley was one of many witnesses who, when speaking to the House of Lords EU Select Committee, stressed the qualitative contribution that the UK makes to CSDP missions: ['Brexit: Common Security and Defence Policy Missions and Operations'](#).

More important still is for the UK's outward facing ministries - DIT, Defence, and the new Foreign, Commonwealth, and Development Office - to develop distinctive, unmitigated, relations with the likes of India, Japan, South Korea, and the ASEAN bloc. It is only when unencumbered by the principle of 'sincere cooperation' and able to adopt self-articulated external positions, that this can be achieved.

A necessity is for the UK to resist future 'Europeanisation' of its foreign policy.<sup>88</sup> Whilst the institutional restraints of the Common Foreign and Security Policy will be lifted at the end of the transition period, the proposition of a "regular thematic dialogue" is far more than a talking shop.<sup>89</sup> These partnerships are viewed by the EU as "a means of influencing the dialogue partners' behaviour and actions", rather than a way of creating a mutual understanding between two equals.<sup>90</sup> The germ of a risk still exists, therefore, that UK foreign policy is still determined within the paradigm of alignment with Europe. Indeed, studies of the OSCE have shown that non-EU actors who commit to intense level interactions with the EU generally go through a process of convergence towards EU positions.<sup>91</sup> If this were to be the case, and establishing "agreed statements, demarches, and shared positions" with the EU were to become behaviourally the norm for the FCO, then perceptively the UK would struggle to delineate itself from 'Europe' in Indo-Pacific third countries. The symbolic challenge that the EU poses to conventional notions of diplomacy is marked.<sup>92</sup> Being seen as unquestioningly supportive of EU positions reduces the efficacy that states feel we offer them.

Under the May administration, FCO and DIT staff were being actively directed towards European postings, and away from Asian ones. This demonstrated that priorities lay with "shoring up existing European trade links at the expense of building new trade links with emerging Asian markets", as they had done since the 1970s. That it still continues is a symptom of the inertia many institutions continue to demonstrate. The Queen's Speech set out that this current government would "reassess the nation's place in the world, covering...defence to diplomacy and development".<sup>93</sup> This is very encouraging, and should entail a

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88. Intimate coordination towards global affairs between the foreign ministries of European nations has seen an instinctive process of verification-seeking emerge. See, C. Major: ['Europeanisation and Foreign and Security Policy - Undermining or Rescuing the Nation State?'](#).

89. [Political Declaration](#).

90. This is how it is viewed by the German Federal Foreign Office: ['CFSP - Instruments'](#).

91. F. Marciacq: ['Foreign Policy Coordination and Diplomatic Action in the OSCE: Differential Patterns of Europeanisation in non-EU Europe'](#).

92. For a comprehensive discussion of the EU's growing 'symbolic power' in foreign policy see, R. Adler-Nissen: ['Symbolic Power in European Diplomacy: The Struggle Between National Foreign Services and the EU's External Action Service'](#).

93. [The Queen's Speech 2019](#).



fundamental resetting of diplomatic reflexes. These reforms would help herald a significant and enduring ideational change to the civil service that is much needed.

The modern discipline of diplomacy has become much more multifaceted in recent decades. Diplomatic services around the world are becoming increasingly professionalised in the function of commercial diplomacy. This mainly consists of carrying out market research, developing contacts with other countries' business leaders, and helping to put in place channels of communication between parties on both sides. The relatively static nature of European economies - i.e. the lack of emerging trends or restructures - means that there is not much left to be learned about their makeup. Commercial diplomacy in Europe has a much smaller potential for improved returns than the Indo-Pacific and this needs to be reflected in where UK staff are deployed. Whilst Southeast Asia saw a fall of 30.1% in its staffing levels between 2012-2017, Europe's only dropped by 1.4%. Currently, 23% of the FCO's staff are deployed in Europe, but only 13.9% are for the entirety of Southeast Asia and the Pacific.<sup>94</sup>

Instead, the FCO should be focused on providing more comprehensive research on the environment of emerging markets in the Indo-Pacific. The existing networks of UK businesses that are established in the region offer vital insight. Similarly, consultation between officials and policymakers is conducive to a cooperative approach towards bilateral trade. The benefits of this are borne out empirically. "Embassies and consulates are shown to be very effective in stimulating trade between countries of different income levels" where there are greater differences that can be bridged through cooperation and formal communication. Whereas economic diplomacy "is less relevant for north-north trade" as the long-standing level of familiarity between the two states and their populations does not require as much governmental guidance.<sup>95</sup>

It has been shown by Bagozzie and Landis that "diplomatic missions and military alliances signal lower discount rates, increase political transparency, and enhance issue linkages among trading partners. These enhancements in turn work to stabilize trade flows...and significantly reduce trade volatility".<sup>96</sup> Considering the UK has been running a bare bones presence in many Indo-Pacific states for a long time, there is a considerably high ceiling of growth that

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94. British Foreign Policy Group: ['Running out of Credit? The Decline of the Foreign Office and the Case for Sustained Funding'](#).

95. S. Moons et al: ['Does Economic Diplomacy Work? A Meta-Analysis of its Impact on Trade and Investment'](#).

96. B.Bagozzi & S. Landis: ['The Stabilizing Effects of International Politics on Bilateral Trade Flows'](#).

could be unleashed through a greater diversion of resources away from Europe. This was supported by Visser who has shown that “diplomatic representation increases exports in differentiated goods by an average of 24.1%, and in homogenous goods by an average of 20%” through network search functions.<sup>97</sup> With a renewed resource focus on the Indo-Pacific UK businesses would be set to benefit, in the words of Sir James Bevan, from “active British diplomats working to try to open the doors for them”.<sup>98</sup>

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97. R. Visser: [‘The Effect of Diplomatic Representation on Trade: A Panel Data Analysis’](#).

98. Sir James Bevan was speaking to the House of Commons’ Foreign Affairs Select Committee and was quoted in its report: [‘Building Bridges: Reawakening UK-India ties’](#).

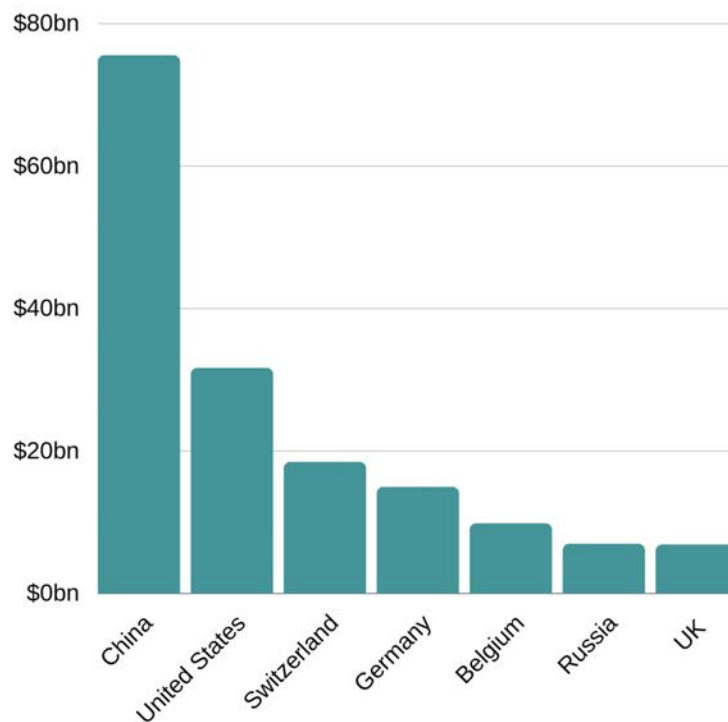
# LAY THE FOUNDATIONS FOR A UK-INDIA "SPECIAL RELATIONSHIP"

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## The need to enhance the relationship

Any accurate assessment of the current UK-India relationship will lament the fact that it is currently falling far short of its potential. Britain now languishes far outside of India's top ten trading partners at 17th,<sup>99</sup> and has been described as "a small trading and investing partner to India".<sup>100</sup> That is not to say that the bilateral trade of £20.5 billion is utterly insignificant, and that the bridges that have formed out of two-way investment flows are not important tributaries of exchange.<sup>101</sup> But given the intimate historic, cultural, linguistic, and judicial compatibility of the two sides, the UK should be aiming to do more.

Indian Imports by Origin Country (2018)



Source: OEC

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89. This was reported by the House of Commons' Foreign Affairs Select Committee in its publication:

['Building Bridges: Reawakening UK-India Ties'](#).

100. The Commonwealth: ['Brexit: Opportunities for India'](#).

101. GOV.UK: ['India-UK Sports Alliance to Showcase Bilateral Trade'](#).

India's relevance on the world stage is obvious, and is only set to grow for several decades to come. It has been estimated that in five years time there will be a middle class - a consuming class - of 583 million,<sup>102</sup> with an average disposable income of between £2,000 and £10,000,<sup>103</sup> with the potential to become a \$10 trillion economy by 2030;<sup>104</sup> and entering the top 10 most important outward FDI countries for the period 2019-2021.<sup>105</sup> In financial services many markets are still largely uncovered, meaning that the growth of the future is set to prise them open. Insurance is one such example, with a penetration rate in India of just 3.4%,<sup>106</sup> compared to 14.3% in the UK,<sup>107</sup> suggesting awareness, or affordability, of such services is currently embryonic. Along similar lines, in 2018, 40% of loans given to MSMEs were forced to be taken from the informal market. This equates to a \$270 billion demand for capital being unaccounted for by established players.<sup>108</sup> Clearly such shortcomings derive from domestic issues at a state and national level. Shaping the offerings of UK financial services, and services more broadly, to these specific circumstances cannot be done from afar or as an afterthought. It requires comprehensive planning and engagement from business leaders, and different tiers of government - particularly given the uniqueness of the Indian business environment. With this in mind, it is essential that the relevance of India in British political discourse is granted something resembling parity with the likes of the EU and USA.

### Improving the stature of India as a trading partner

The government has made clear that a UK-India FTA is not its immediate priority, and has chosen instead to secure comprehensive deals with other nations first. Given the complexities of India's regulatory system, it is arguable that at this stage more can be gained through short-term trade boosting measures, than could be through an explicit FTA anyway.<sup>109</sup> There are instances of problematic NTBs in a wide range of sectors, such as pharmaceuticals (expected to worth \$100bn by 2025)<sup>110</sup> that dramatically affect Indian imports. It is

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102. E.Beinhocker et al: '[Tracking the Growth of India's Middle Class](#)'.

103. Parameters used by the McKinsey Global Index: "[The bird of Gold": The Rise of India's Consumer Market](#)'. Although compiled in 2007, the disposable income bracket used is still a useful conceptual tool.

104. This is the stated ambition of India's Defence Minister, Rajnath Singh: '[Aim is to Take Economy to \\$10 Trillion by 2030: Rajnath Singh](#)'.

105. UNCTAD: '[World Investment Report 2019: Special Economic Zones](#)'.

106. Statista.com: '[Indian Insurance Penetration](#)'.

107. Statista.com: '[UK Insurance Penetration](#)'.

108. Omidyar Network, Boston Consulting Group: '[Credit Disrupted: Digital MSME Lending in India](#)'.

109. According to the UK-India Business Council "a continued focus on ease of doing business will pay more immediate dividends", see: '[UK and India Bilateral Investment Relationship](#)'.

110. India Brand Equity Foundation: '[Indian Pharmaceuticals Industry Report](#)'.

currently the case that India imports less than 3% of its pharmaceutical products, with many areas of its market resultantly being serviced by low quality domestic produce.<sup>111</sup> UK regulators like MHRA should be reassessing what more can be done to help pull Indian standards towards global benchmarks, making it more comfortable to both import and export to India. Bilateral investment, and seeing India become more welcoming to inward investors, can also be talked about more lucidly if it is kept separate from the more contentious FTA negotiations. The UK has been one of the largest sources of FDI into India since the turn of the century which gives it significant sway.<sup>112</sup> On top of this, leveraging the UK's expertise in research and development, and the much needed value it offers to a stagnating Indian capital goods sector, can be mutually beneficial. More should also be done to deploy British digital acumen to help India with its final phase of implementing the WTO's Trade Facilitation Agreement; in particular difficulties with its Single Window, and Advance Ruling systems, as well as helping it to move towards paperless trading.<sup>113</sup> These may seem ancillary moves, but they can have a real impact on individual transaction costs of around 20% in some cases.<sup>114</sup>

As headline-grabbing FTA negotiations with the USA and the EU progress, a similar emblematic process must also be conceived of with India, and then transmitted to the British public. It must be a form of interaction that highlights the less palpable, but equally valuable, commercial strides that are being taken through reductions to technical barriers to trade. India's recommitment to the Commonwealth - as a vehicle for economic collaboration - is an incredibly timely opportunity to do just this. It is an organisation with great visibility, and long established cooperation in many areas. New forums such as the 'Connectivity Agenda' that aim for the "cross-fertilization" of ideas to reduce TBTT, place the sizable economies of the UK and India on the same path.<sup>115</sup> Much more should also be made of the 'Commonwealth effect', that can reduce the cost of intra-Commonwealth trade by up to 19%, when compared to trade between non-Commonwealth states of a similar size. Through this phenomenon, exporters to India are bolstered by a set of bilateral commonalities that make doing business a much smoother affair than it would otherwise be.<sup>116</sup>

The Joint Economic and Trade Committee (JETCO) is also greatly understated,

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111. India imported approximately \$2.53billion worth of pharmaceutical goods in Financial Year 2020, according to [Statista.com](https://www.statista.com).

112. PWC: ['UK Investment in India: What Does it Mean for Both the UK and India?'](#)

113. Tech UK: ['A Vision for UK Digital Trade Policy'](#) identifies that the UK would be well served to help countries develop their paperless trading capacities and makes it a key recommendation.

114. Y. Duval et al: ['Impact of Implementation of Digital Trade Facilitation on Trade Costs'](#).

115. The Commonwealth: ['The Connectivity Agenda'](#).

116. The Commonwealth: ['Experts Praise \\$1 trillion "Commonwealth Advantage"'](#).

and is arguably the UK's only of its kind that has a Joint Trade Review. It is a forum within which UK suggestions, and the priorities of its businesses, are presented to Indian government officials, and that necessitates the conception of a joint agenda. Its high level nature, and its expansion in recent years, bestow added value onto the recommendations that derive from it and arguably help shape the considerations of Indian legislators. In place of an FTA, the Alliance of British Insurers has identified JETCO as a useful forum to reduce regulatory barriers.<sup>117</sup> Engagement between the government and the business community should seek to convey that this profound access does exist. This would be beneficial to UK businesses, and would also increase the depth of insight conveyed within the Committee - encouraging unlocking candidness from both sides.

### **The UK is already India's partner of choice**

The Modi administration is intent on sweeping reforms to the Indian economy. Ambitions to reach the top 20 in the Ease of Doing Business by 2025, removing unnecessary duplicates of regulatory bodies, tackling the chronic problems caused by labour laws, and serious infrastructure investment are all ambitions that will make investment and exporting much easier for UK companies. He has also displayed a recognition that the UK is an important partner in helping him to achieve these ambitions. Britain's role in aiding with the development of the 2016 Insolvency and Bankruptcy Code,<sup>118</sup> the multitude of Memorandums of Understanding which aim to 'share best practice' in areas from healthcare to defence manufacturing,<sup>119</sup> and a growth of joint working groups stemming from JETCO in areas like smart cities, show a preparedness to permit the UK an instrumental role in India's future if it wishes to take it.

Indeed, the UK is already the natural partner of choice in certain key areas. Infrastructure private financing in the country has been modelled off the UK's PFI templates, for example,<sup>120</sup> and Britain's 'Green Growth Equity Fund' is playing a role in boosting India's use of renewable energy sources.<sup>121</sup> The Indian Ministry of Finance predicts that investment in infrastructure will need to run at \$200 billion

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117. Association of British Insurers: ['House of Commons Foreign Affairs Committee Inquiry Global Britain and India'](#).

118. A. Kamalnath: ['Corporate Insolvency Resolution Law in India - A Proposal to Overcome the 'Initiation Problem''](#) identifies the roots of this code in UK practice.

119. Many can be found on the GOV.UK website: ['UK-India Memorandums of Understanding and agreements'](#).

120. UK methods have undoubtedly shaped the debate about private financing in India, see S. Sheikh, M. Asher: ['Case Study of the Private Finance Initiative in the UK: Insights for India'](#).

121. [UK-India Partnership on National Investment and Infrastructure Fund: Green Growth Equity Fund](#)

a year for the next 20 years to match the pace of the economy.<sup>122</sup> According to Sujay Bose, the CEO of India's first sovereign wealth fund, the National Investment and Infrastructure Fund: "the UK, and specifically the city of London, can play a major role in India's [future infrastructure strategy] while at the same time creating substantial value for its residents and markets by providing access to global expertise and international financial markets".<sup>123</sup> It is clear that India's decision makers see real utility in UK knowledge to help with its levelling up agenda.

### 'The human bridge'

Strong relations beget stronger investment flows, and as the destination of India's OFDI shifts from developing to developed economies anyway, the UK should aim to impress its virtues upon Indian businesses taking their first steps in branching out from a pretty complex domestic environment. It is already the case that Europe receives  $\frac{3}{4}$  of Indian investment into developed states, with the UK receiving a large share of this.<sup>124</sup> But as OFDI continues to surge way into the future the UK should make use of closer diplomatic ties to advertise the country's Ease of Doing Business (currently the highest out of the large European nations).<sup>125</sup> Flattering impressions already exist. For instance 74% of wealthy Indians, a section of society that is the chief determinant of OFDI, view the UK favourably from a lifestyle, and business, perspective.<sup>126</sup> London is also the most attractive city for 53% of India's fastest growing 63 companies.<sup>127</sup>

As the nature of Indian OFDI becomes increasingly sectorally diverse, and is driven by R&D and technological capability considerations, the government should make use of the forums available to disseminate greater information about UK offerings. Indeed, attempts should be made to improve the UK's attraction in less tangible qualities such as skills, which are currently not seen as a major draw for potential investors.<sup>128</sup> Using forums such as the UKIBC to enlighten Indian investors to UK strategies in upskilling, and building upon educational flows like UKIERI (something the Modi government is very keen on),

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122. Economic Times: '[Budget 2019: India must spend \\$200 billion on infra annually; harnessing private investment a challenge, says Economic Survey](#)'.

123. '[India and the UK: Partnering for Infrastructure Development](#)'.

124. This share of FDI was recognised by both sides as an accurate representation of India's OFDI into the UK. The figure was cited in the 2018 Joint Trade Review which ultimately came to be leaked.

125. The World Bank: '[Doing Business 2019: Training for Reform](#)'.

126. Knight Frank: '[The Wealth Report 2019](#)'.

127. Grant Thornton, Confederation of Indian Industry: '[India meets Britain Tracker: The latest trends on Indian Investment in Britain](#)'.

128. The UK's skillbase was perceived to be struggling from a lack of funding, see EY: '[Tipping Point: EY Attractiveness Survey](#)'.

can help to tackle misunderstandings that may be seeing investment held back. To this end considerations should also be made about changing the posture of the DIT from ‘facilitator’ to a more proactive ‘promoter’ Investment Promotion Agency, as the US has done (the current budget split is about 20/80 towards simple ‘facilitation’).<sup>129</sup> After all, it is clear that Indian investors who are presented with a more positive picture are more confident in investing in R&D, as seen with the Centre of Excellence established by Infosys in Nottingham.<sup>130</sup>

Increasing the confidence and trust between two peoples through stronger bilateralism helps to reduce the amount of “missing trade” that is lost owing to transaction costs.<sup>131</sup> A greater understanding of the country they are doing business in also minimises search requirements, excessive legal exertions, and network finding. Familiarity with Britain is particularly strong amongst the younger generations, with 74% of educated Indians knowing a ‘great deal’ or ‘fair amount’ about its culture.<sup>132</sup> Being on the radar of an upwardly mobile and ambitious group, ‘the business leaders and politicians of tomorrow’, is clearly a longterm necessity and is further helped by the 1.2 million Indians living in Britain.

Education constitutes a vital long term strand of this. By 2030, there will be 130 million Indians who are at university age, yet the UK’s Tier 4 Visa system currently works against them.<sup>133</sup> As a close partner of India, it will become more axiomatic that these hurdles should be addressed. There are also current deficits within India’s research capabilities which leave significant scope to increase the UK’s contribution. Only 1% of Indians in higher education pursue research. Pushing for mutual recognition of masters degrees, expanding online education, and overseas university branches, seem intuitive and can further enhance cultural links. Work by Dekker, and commented upon by the British Council, found that a 1% rise in the positive perception of a country equates to a 0.6% rise in the level of exports.<sup>134</sup> ‘Brand Britain’, and the high-trust relationships it creates, is an economic asset currently underdeveloped in India.

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129. [‘Mapping of Investment Promotion Agencies in OECD Countries’](#). Here the OECD calculates that, owing to its primary functions, and its deployment of resources, the DIT would be classed as a ‘facilitator’. Arguably, the UK is the only country of its size and stature that has an IPA in the ‘facilitator’ category.

130. University of Nottingham [‘strategic partnership with Infosys to provide cross-campus technical development and support’](#).

131. The theory asserts that the reason real world data differs from the results that are produced by purely theoretical models is owing to human fallacy. Hesitancy, excessive caution, misinterpretations of cultural characteristics all have a cost impact that unaccounted for. See, D. Treffer: [‘The Case of the Missing Trade and Other Mysteries’](#).

132. British Council: [‘India and the UK: A 2050 Vision’](#).

133. The Conversation: [‘Why India’s universities can’t keep up with the masses’](#).

134. British Council: [‘The UK’s Soft Power Challenge’](#).



# SEEK OPPORTUNITIES TO DIVERGE FROM EUROPE

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A clean break from Europe allows the UK to offer real utility to the Indo-Pacific. It gives the UK the chance to promote its key selling points, most notably around financial services, in a way that was not possible as an EU member. Not only should a 'level-playing field' continue to be viewed with scorn for its encroachment of UK sovereignty, but it would also considerably reduce the UK's ability to differentiate itself as a trade partner.

## Deploying financial services acumen

Access to the UK's strong digital financial services sector is important to help address ASEAN shortcomings in capital availability. Not only are 70% of Southeast Asia's adult population 'underbanked' or 'unbanked', but 80% of SMEs are also struggling to obtain loans that improve their viability.<sup>135</sup> The anticipation is that the Southeast Asia market for digital financial services, in particular fintech, will be worth up to \$60billion by 2025. According to KPMG, "much of the addressable market will be led by businesses incubated in leading Fintech hubs and financial services jurisdictions - this is the UK's opportunity".<sup>136</sup> Much of this market is also being unaddressed by domestic providers. For example, only 21% of Indonesian Fintech firms are gearing their products towards the 180 million people 'without' a bank account. This is despite 69% of them owning a mobile phone and therefore having the wherewithal to use online banking products.<sup>137</sup>

This really is an opportunity. But will only remain so if the UK can continue to stay at the cutting edge of innovation, and regulation formulation. It is therefore a necessity that the government maintains the fertility of the UK's fintech 'sandbox' - the laboratory for new fintech innovation that has helped produce the most 'unicorns' in Europe.<sup>138</sup> Submitting to a 'level-playing field' with the EU would jeopardize this, as the EU would not allow the Financial Conduct Authority (FCA) to waive consumer protection commitments even for the purposes of promoting innovation. If we also see the EU continue to exceed the Basel III standards on capital requirements, as seen with CRR and CRD IV, there is a strong risk that a

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135. Bain & Company: ['Fulfilling Southeast Asia's Digital Financial Services Promise'](#).

136. KPMG: ['Fintech: Transforming Financial Services in the UK'](#)

137. Asian Development Bank Institute: ['The ASEAN Fintech Ecosystem Benchmarking Study'](#).

138. London Tech Week: ['The UK Capital Leads Europe in Fintech Unicorn Race'](#).

a 'level playing field with the EU' would put the UK at a chronic disadvantage with the rest of the world.<sup>139</sup> Entrepreneurial British SMEs would struggle to access the necessary funds in the early stages of their development, and become removed from global pacesetters.

In many ways this regulatory and financial services leadership is the UK's unique selling point to Southeast Asia. It is through its unrivalled dominance in these fields that the markets of the future can be drawn towards UK 'best practice', and opened up for easier access. The FCA's relationship with the Monetary Authority of Singapore, recently encapsulated through a cooperation agreement, is evidence that British insights are actively sought.<sup>140</sup> This is an augmented relationship that will also benefit from a government-to-government 'fintech bridge' signed between the two sides. Singapore's unofficial leadership in the regulation of financial markets of Southeast Asia makes it especially important that the UK continues to act as a fagelman for its regulatory decisions. As AEC financial services integration harmonises standards across member states, levels will begin to become crystalised.

## Upgrading EU FTAs

The DIT clearly imagines a UK-Japan FTA that is little different from the Economic Partnership Agreement (EPA) between the EU and Japan, with just a few amendments added. This would be a missed opportunity. As it is likely to be the first substantial trade deal struck by an independent UK, it should be seen as an assertion of the new 'Global Britain' role performance, not just a 'continuity' FTA. This takes on extra importance given Japan's imminent involvement in a myriad of regional deals such as RCEP, that make it a valuable entrypoint to the region. A UK-Japan FTA should be presented as the initiation of the UK's pivot eastwards. It should seek to exceed the EPA in terms of ambition. The UK is estimated to only enjoy 50-60% of the economic gains enjoyed by other member states from this deal.<sup>141</sup> This is due to large amounts of negotiating capital having been spent on opening up agricultural access for continental farmers. A UK-specific deal should make improvements in a whole swathe of areas. The removal of unnecessary testing from certain sub-sectors of the Japanese healthcare sector would improve the access for UK pharmaceuticals. As Japan is set to have one of the fastest ageing societies over the next twenty years, UK

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139. These excessive reforms would put additional hurdles in the way of SMEs seeking loans by making banks more reluctant to lend, see Euler Hermes Group: ['European regulatory changes will make banks less willing to lend to SMEs'](#).

140. [The Cooperation Agreement Between the FCA and MAS](#) is a mechanism through which British insights have streamlined access to Singaporean officials

141. Initiative for Free Trade: ['Remodelling the EU-Japan EPA After Brexit'](#).

firms in life-sciences have a key role to play. Improving copyright protection for British companies would also be an upgrade on the EPA. As would agreement that UK accountancy firms only need to file accounts under one set of regulatory guidelines, rather than the currently mandated two.

A key initiative of the EPA was the creation of a Joint EU-Japan Financial Regulatory Forum at which senior officials from both sides seek adherence to particular legislative principles from their counterpart. The first of these meetings was held in October last year, but as this was not a mixed agreement, UK voices were absent from the room. Using the upcoming FTA negotiations to construct something similar would give the UK an exclusive bilateral forum within which it would have considerable leverage owing to its superiority in this area.<sup>142</sup> It would be a platform for officials at all levels to impress upon their Japanese equivalents the virtues of UK methods. The Japanese have already shown that they view the UK's standards in financial services as 'best practice' by their voluntary adoption of the UK's the Stewardship Code for corporate governance.<sup>143</sup> Indeed, Japan is currently lagging behind its competitors in a range of metrics such as access to capital, the practicalities of starting a business, and the protection of certain investors. This can be seen by the sharp rise of financial services imports over the last decade.<sup>144</sup> The FCA, a globally preeminent body, holds substantial gravitas to rectify these Japanese deficiencies, whilst simultaneously improving access for UK firms.

The UK successfully managed to carry over the EU-South Korea FTA as part of a 'continuity' deal. The discussion now needs to be had as to whether the framework that was conceived by Europe is suitable for the UK's long term interests. As the largest economy of the Four Asian Tigers, Korea maintains a dynamism which warrants a flexible framework being put in place, and that allows for economic trends to be approached with bilateral communication. The UK-Korea fintech bridge, signed in 2016, is one such building block. As is the creation of the Senior Economic Dialogue, agreed in September 2019.

A key success of the UK's initial negotiations with Korea was that it secured a three year transition period before the implementation of Rules of Origin is to become compulsory. Once in force, these rules will require 55% of all products exported to Korea to have originated within the UK. This gives greater time for the process of reshoring to take place.<sup>145</sup> Indeed, the process of reshoring has

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142. CFA Society: ['Tokyo as an International Finance Centre'](#). A comparison between the UK and Japan is made within this publication. Whilst London is described as a "world leader" financial services centre, Tokyo is merely an "established transnational" centre.

143. Chatham House: ['The UK and Japan'](#).

144. Between 2009 and 2018 it rose from 3bn to 7bn: ['Japan Financial services imports, 2005-2018'](#).

145. It is currently estimated that cars made in the UK and then exported to Korea have 41% of their component parts originating in the UK.

become an increasingly popular business decision for UK manufacturers over the past few years. Even before Brexit many companies were attaching greater value to the time-saving and flexibility that it brings.<sup>146</sup> It is now the case that 70% of British manufacturers would consider reshoring aspects of their operation. Deals such as the UK-Korea FTA, which introduce measures that encourage this process to take place, help to make it an even easier decision. The extensive time before this deadline allows for business decisions to be made in a calm and reflective manner. A feature that will ensure robust supply chains with longevity. Indeed, the upheaval of Covid-19 is likely to also expedite this process.

South Korea is an increasingly middle class economy, with an average GDP per capita of over \$30,000. Despite this, the country's services sector contributes just over half of GDP and has a markedly low level of total-factor productivity, meaning that there is a real opening for foreign actors to enter the market.<sup>147</sup>

There is a critical difference in the approach towards services liberalisation between the EU-Korea FTA and the US-Korea FTA. The EU deal, which the UK has just rolled over, used a negative-list approach that explicitly states which sectors the parties commit to liberalise. The US deal, on the other hand, uses a positive-list approach that assumes all sectors will have a level of liberalisation committed to, unless otherwise provided for. This less ambitious approach to services trade goes some way to explain the relative under performance of UK services exports to Korea, when comparing it to the UK's exports to the rest of the world.<sup>148</sup> The audiovisual sector is the prime example of how the EU-Korea is underwhelming from a UK perspective. Whilst the US were able to achieve a degree of liberalisation, especially in mode 1 and mode 2 provisions, the EU made no effort to prise open this sector. As the largest audiovisual market in the EU, it was Britain that bore the brunt of this negotiating decision.

As an older generation FTA, the EU-Korea deal lacks certain provisions that are essential for trade in 2020 and beyond. For instance, Korea has been put through a protracted period of legislative wrangling so as to achieve the necessary data recognition by the EU, largely as the result of an under evolved official forum in this area. Whilst the temptation may be there to simply 'bank' the current deal and move onto other objectives, this would be shortsighted. The UK still has much to gain from greater liberalization efforts.

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146. EY: '[Reshoring Manufacturing - Time to Seize the Opportunity](#)'.

147. SSRN: '[Productivity Analysis on the Services Sector in Korea: Evidence From Industry-Level and Firm-Level Data](#)'.

148. Just one third of the UK's exports to Korea were in services sectors, compared to 47% of the UK's overall exports. See, [ONS Data](#).

# MAKE EXPORTING TO THE REGION ATTRACTIVE FOR SMES

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## Problems with the UK's export policy

The UK's relative export underperformance is not the result of systemic issues with its business community, but rather the result of a poorly executed trade policy. Little is done that encourages British SMEs to consider entering overseas markets. DIT figures concede that two thirds of current exporters actually do so passively. They do not specifically target customers in other countries, but merely respond to orders if they come in.<sup>149</sup> More should be done to promote a proactive culture towards exporting. For this to be effective, markets must be presented as accessible, rather than the government simply relying on SMEs to stumble onto openings.

Perceptions of how easy it is to export are often more important than the reality in determining whether a business will look to expand into new markets. Despite the successes of the 'Exporting is Great' campaign, many British SMEs are still saddled with a misguided pessimism about their prospects - particularly to nations beyond Europe and the US.<sup>150</sup> Addressing this, and presenting Indo-Pacific nations as obtainable markets, is an important part of the future UK export strategy.

Companies that are currently not exporting face self-constructed perceptual barriers. HSBC has pointed out that potential exporters deem the barriers to exporting to be a lot more disbaring than they actually are.<sup>151</sup> This "lack of information, or information asymmetries, is a major reason behind reduced trade participation of SMEs and low utilisation rates of FTAs" according to research by the UK Trade Policy Observatory.<sup>152</sup>

As recently as January 2020 the EAMA has said that the government has much

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149. [DIT National Survey of UK Registered Businesses' Exporting Behaviours, Attitudes and Needs 2018](#)

150. This was quantitatively played out by H. Breinlich et al: '[Information, Perceptions and Exporting: Evidence from a Randomized Controlled Trial](#)'.

151. HSBC: '[Exporting for Growth: The SME Perspective](#)'.

152. UK Trade Policy Observatory: '[The Representation of SME Interests in FTAs: Recommendations for Best Practice](#)'.

more of a significant role to play in promoting export opportunities,<sup>153</sup> whilst the UK Indian Business Council (UKIBC) notes that the government and media have thus far played only a minor role in encouraging British companies to look at exporting to India.<sup>154</sup> Given these institutions play important roles in other countries' export campaigns, it suggests more can be done through media management strategies, social media advertisements, and business workshops to improve awareness - as has been argued for by the British Exporters Association.<sup>155</sup>

Yet there is evidence that many institutional habits need recalibrating before this step takes place. In 2018-19, UK Export Finance gave support to nearly six times as many European exporters, as it did to those doing business in India, and was found to be hesitant to offer support to first time exporters.<sup>156</sup> It has also been found that only 42% of UK SME exporters actually choose to use government agencies like UKEF for help with exporting.<sup>157</sup> Given the benefits that easier access to capital can have for small businesses, these bodies need to improve their communication at a grassroots level. They should also consider ways to make life easier and simpler for the end user. Time is the most valuable asset for small business owners, and this should be acknowledged with a more streamlined process.

Whilst preparing its negotiating position for a UK-Japan FTA, the DIT put out a 'Call for Input' from the UK business community. This was a qualitatively and quantitatively disappointing exercise, and consisted of little more than an online portal and an email address.<sup>158</sup> The OECD has stressed that countries produce better quality FTAs by actively engaging with exporters, and would-be exporters. Roadshows, workshops, and regional business councils should have all played a more significant role at this preliminary stage.<sup>159</sup> Not only would negotiators have received an understanding of trade concerns that cannot be gleaned from an inbox, but it would have also given SMEs a sounding board at which to explore the possibility of exporting. Enthusing UK SMEs to consider exporting is crucial, and they should be brought into the process of FTA negotiations from the outset.

## Exporting to the Indo-Pacific

New UK FTAs in the region should be tailor made for the UK's small business

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153. EAMA calls for "an ambitious awareness campaign" in its publication: '[Support for Exports Based on Evidence Submitted by EAMA to the International Trade Committee Inquiry Into DIT's Support for Exporters](#)'.

154. UK-India Business Council: '[UKIBC's Doing Business in India Report: UK Perspective](#)'.

155. British Exporters Association: '[UK Export Finance: 100 Years Underwriting Exports](#)'.

156. Civitas: '[Boosting UK Exports: Improving Export Finance for Small Businesses](#)'.

157. HSBC: '[Exporting for Growth: The SME Perspective](#)'.

158. GOV.UK: '[UK-Japan Free Trade Agreement: The UK's Strategic Approach](#)'.

159. OECD Trade Committee: '[Engaging and Consulting on Trade Agreements](#)'.

community, and presented as such. This will require the creation of a clear ministerial portfolio to act as a focal point for the negotiating process. The FTA texts should include binding SME chapters that go beyond European efforts. These deals, such as the EU-Japan Economic Partnership Agreement, do include an SME chapter but with a relatively non-committal tone. The UK's model FTA should also include the creation of a specific SME Committee that has parity with the likes of the Agriculture and Manufacturing Committees. Such a committee has been included in several US trade deals and provides a forum for businesspeople from both sides to convene alongside negotiators. The UK-South Korea continuity FTA, being a replica of an FTA from 2009, is currently lacking such SME provisions that could entice British SMEs to consider themselves suitable for exporting. This should be added at the soonest opportunity.

Other, more practical steps, should be taken to address knowledge gaps that SMEs will undoubtedly encounter when trying to decipher the implications of a FTA. Greater focus should be given on improving this aspect of the government's trade policy. Practical, cost effective, methods have been amply suggested, such as easy-to-use websites with FAQ sections, and manual handbooks. These should be made more visible at different points in the business journey, such as registering with Companies House, or when enquiring about various government programmes.

Priority should also be given to addressing measures that disproportionately affect SMEs, such as the liberalisation of data flows. As the bedrock of future international commerce, a range of industries are set to become dependent upon the open flow of data, yet for many small businesses it is a significant hurdle. In 2018 65% of SMEs were concerned about their data management compliance, and 33% of business leaders doubted their ability to comply with GDPR standards. Ultimately, such doubt reduces the confidence businesspeople have in their infrastructure and reduces the likelihood of them undertaking more adventurous marketing strategies.

The current EU-Japan EPA adopts Europe's more doctrinaire definitions of data privacy rather than the more business friendly Japanese alternative, the Act on Protection of Personal Information (APPI). The UK's renegotiation with Japan should focus on the more laissez-faire concept of "Data Free Flow With Trust" that is winning the hearts and minds of governments around the world - it is something of which Prime Minister Abe is incredibly supportive. Creating UK-Japan 'adequacy guidelines' that emphasise business-supporting standards would reduce transaction costs for exporters to Japan, and present it as a place

where innovation and tailor-made customer facing strategies can really be deployed. Once conceived these guidelines could be placed at the heart of future UK FTAs as a tool specifically designed to help small business.

Ultimately, they would also give a more accredited flavour to the discernible liberal enthusiasm demonstrated at bodies like the G20, WTO, and the 'Osaka Track' process towards data processing. Given the lack of formal leadership from elsewhere, they could become the framework that a critical mass of countries come to operate within.

### **The e-commerce markets of the Indo-Pacific**

The growth of the global e-commerce market has been great news for SMEs. It removes the need for physical presences within the market space, and allows access to parts of the globe which have long been unobtainable. In many cases, e-commerce is the only route through which exporting becomes viable for SMEs. A sustained presence of economic diplomacy in the Indo-Pacific region will create more platforms at which UK ministers and officials can attempt to make this access easier. Under the auspices of the EU's trade policy, the UK government was unable to take direct action on the priorities of SMEs. Issues around domain names, electronic payment services, local certification, and in some cases the need for a local presence, may be but a small inconvenience for large companies, but for small online retailers they could be disbaring. British officials having closer interaction with local legislators not only allows for points of impressionability, but also allows for greater feedback to then be relayed to the British SME community.

The UK already has vast digitisation of its economy, is considered a "digital elite" economy,<sup>160</sup> the UK e-commerce market is the most intense in the world (with 38% of consumers buying online at least once a week, compared to 26% in the US),<sup>161</sup> is the world's third largest overall market,<sup>162</sup> and has been ranked the 6th most advanced by the Digital Competitiveness Ranking (2019).<sup>163</sup> UK SMEs clearly have a real pedigree of operating in this industry, with strong online presences across a variety of technology platforms and devices. This places them in a strong position to capitalise on emerging Indo-Pacific online markets.

ASEAN's six largest nations are anticipated to have an e-commerce market size

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160. This is according to a report by Mastercard and Tufts University, reported here: ['UK Leads Europe as one of the World's "Digital Elite" Economies'](#).

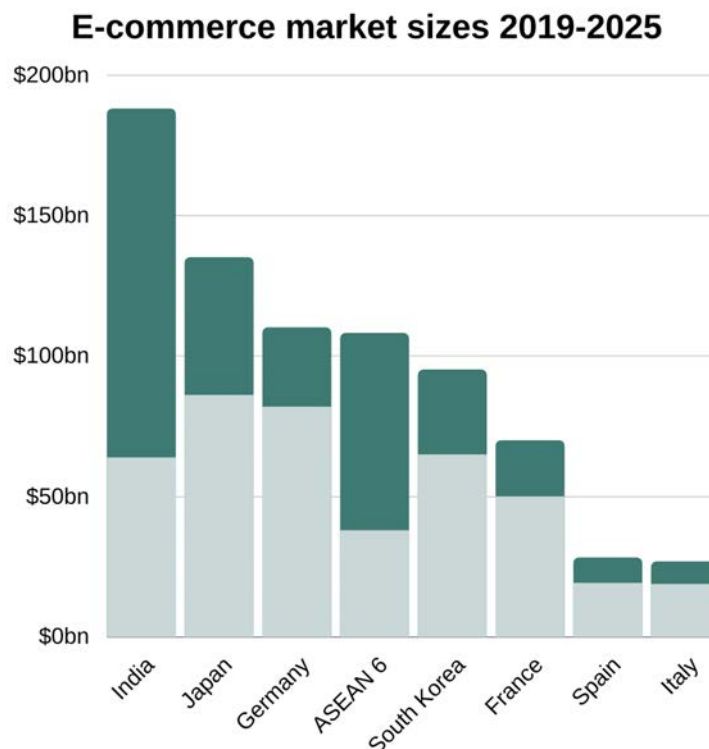
161. Episerver: ['2020 Online Shopping Habits and Retailer Strategies'](#)

162. eShopWorld: ['Global Ecommerce Market Ranking 2019'](#).

163. IMD: ['World Digital Competitiveness Ranking 2019'](#).



of at least \$108 billion by 2025.<sup>164</sup> The main drivers of this growth are what have been termed the ‘Discovery Generation’, who, according to a joint Facebook - Bain & Co. report, currently hold very few predetermined preferences when searching new product markets, and are more appreciative of ‘brands’ at this early stage of online shopping.<sup>165</sup> Eventually it is expected that the initial volatility of customer loyalty will subdue and that dominant players become established. Becoming embedded in the market at an early stage is therefore essential and requires nimble marketing. Elsewhere, estimates place the South Korean e-commerce market at \$65bn, with a 5-year compound growth rate of 5%, and an e-commerce penetration of 88%,<sup>166</sup> whilst Japan’s e-commerce marketplace is already worth \$86 billion alone.<sup>167</sup> Markets of these sizes, that incorporate increasingly wealthy populations, compare very favourably when put next to the more sluggish European markets that have already reached a relative saturation point. This can be seen in the table below, showing that the markets of the Indo-Pacific are not only more substantial, but that their rate of growth is greater when compared to European states’.



Source: Statista

164. Google, Bain & Company, Temasek: [‘e-Economy SEA 2019’](#).

165. Facebook, Bain & Company: [‘Riding the Digital Wave: Capturing Southeast Asia’s Digital Consumer in the “Discovery Generation”](#)’.

166. EcommerceDb: [‘eCommerce Market South Korea: Market Size and Growth Rate’](#).

167. [‘The Ecommerce Market in Japan’](#).

# CONCLUSION

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Reclaiming an independent position in the world allows for a new intensity of relationship to be pursued with the nations of the Indo-Pacific.

As this report has demonstrated, the political and economic departures from the European Union are the beginning of the process. What must now follow is an 'ideational Brexit' that regards Britain as a more than a 'European power'. Putting in place a clear approach to the Indo-Pacific, with a FOIP strategy and an 'engaged' stature, should be seen as a means by which this can be achieved.

It would reset the horizons of policymakers, and businesses, by encouraging greater attention to the region. It would also heighten the international stature of the UK. Dialling up the intensity with which London approaches the governments of India, Japan, South Korea, and the ASEAN bloc will enable the UK to craft a major role for itself in future global debates.

Whilst the region may currently be seen as slightly esoteric and irrelevant, it is the theatre within which the values most important to British prosperity will face the greatest threat. Free trade, open sea lanes of communication, rules-based dispute settlement, and the use of global institutions, will all come under increased fire from the CCP. Upgrading Britain's awareness of the region is more than just a fanciful overindulgence. It is a foreign policy necessity.

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