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COMMENTS OF ITIF

to the

UK Parliament Foreign Affairs Committee

London, United Kingdom

In the Matter of: Call for Evidence for the UK Government's China Audit	)	Public Inquiry

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INTRODUCTION AND SUMMARY

The Information Technology and Innovation Foundation (ITIF) welcomes the opportunity to submit comments in response to the UK Foreign Affairs Committee's call for evidence on its inquiry into the process and outcomes of the UK-China Audit—an inquiry led by the Foreign, Commonwealth and Development Office (FCDO) to better understand how the UK should respond to the challenges and opportunities posed by China—the precise remit of which is yet to be published.[1]

ITIF is a U.S.-based nonprofit, nonpartisan public policy think tank, committed to articulating and advancing pro-productivity, pro-innovation, and pro-technology policy agendas around the world to spur growth, prosperity, and progress.

[1] The UK Government's China Audit, "Call for Evidence," accessed 5 May, 2025, https://committees.parliament.uk/call-for-evidence/3644/.

WHAT EVIDENCE BASE SHOULD THE GOVERNMENT HAVE DRAWN UPON WHEN CONDUCTING THE CHINA AUDIT?

1. ITIF's "Can China Innovate?" series provides a comprehensive, sector-specific evidence base for understanding China's technological capabilities and strategic positioning.[2]

2. The "Can China Innovate?" series, produced by ITIF, offers one of the most in-depth and policy-relevant examinations of China's innovation strengths across critical advanced technology sectors. The series assesses China's progress in 10 key sectors: robotics, chemicals, nuclear power, semiconductors, display technologies, electric vehicles (EVs) and batteries, artificial intelligence, quantum computing, biopharmaceuticals, and machine tools. Each report evaluates not only the maturity of Chinese capabilities but also the implications for global competition and national resilience.

3. For example, the analysis of China's EV and battery sector shows that China accounts for 62 percent of global EV production (and over three-quarters of EV battery production), presenting a significant risk to the UK and European vehicle manufacturing industry and supply chain stakeholders.[3] The report on nuclear power illustrates China's unmatched speed in designing and deploying fourth-generation nuclear reactors.[4]

4. China is heavily investing in semiconductors, although it still lags behind global leaders in critical subsectors, such as design and manufacturing equipment.[5] This insight is vital for calibrating supply chain risk assessments. In addition, China is closing the gap with the United States in AI, underscoring the need for strong safeguards and allied coordination. While China lags in quantum computing, it's coming close to par with global leaders in quantum communications and quantum sensing.[6]

5. The UK government could also review ITIF's report, "The Hamilton Index, 2023: China Is Running Away With Strategic Industries."[7] The report considers 40 leading nations' global market share and location quotients (LQs) in 10 advanced-technology industries: pharmaceuticals; electrical equipment; machinery and equipment; motor vehicle equipment; other transport equipment; computer, electronic, and optical products; information technology and information services;

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[2] Robert D. Atkinson, "China Is Rapidly Becoming a Leading Innovator in Advanced Industries" (ITIF, September 2024), https://itif.org/publications/2024/09/16/china-is-rapidly-becoming-a-leading-innovator-in-advanced-industries/.

[3] Stephen Ezell, "How Innovative Is China in the Electric Vehicle and Battery Industries? (ITIF, July 2024), https://itif.org/publications/2024/07/29/how-innovative-is-china-in-the-electric-vehicle-and-battery-industries/.

[4] Stephen Ezell, "How Innovative Is China in Nuclear Power?" (ITIF, June 2024), https://itif.org/publications/2024/06/17/how-innovative-is-china-in-nuclear-power/.

[5] Stephen Ezell, "How Innovative Is China in Semiconductors?" (ITIF, August 2024), https://itif.org/publications/2024/08/19/how-innovative-is-china-in-semiconductors/.

[6] Hodan Omaar, "How Innovative Is China in AI?" (ITIF, August 2024), https://itif.org/publications/2024/08/26/how-innovative-is-china-in-ai/.

[7] Robert D. Atkinson and Ian Tufts, "The Hamilton Index, 2023: China Is Running Away With Strategic Industries" (ITIF, December 2023), https://itif.org/publications/2023/12/13/2023-hamilton-index/.

chemicals (not including pharmaceuticals); basic metals; and fabricated metals. A location quotient measures the contribution an industry makes to a nation's economy (GDP) compared to the contribution the industry makes to the global economy. (This reveals countries' comparative specialization or concentration across industries.)

6. For these 10 industries, China's LQ was 1.47, compared to an LQ of 0.87 for the United States, and 0.67 for the United Kingdom, which exhibited the lowest advanced-industry LQ of any of the 40 nations assessed in the report. The only two industries for which the UK posted an LQ above 1 were Other Transportation (essentially the aerospace sector) and IT and Information Services. The UK performed below average in all other advanced industries and has been receding further in most advanced industries over the past two decades. In contrast, China's share of global output across these 10 industries has increased from less than 5 percent in 1995 to about 25 percent as of 2020. The report graphically illustrates how competitive China has become in advanced-technology industries, and how competitors—notably the United States and the United Kingdom—are faltering considerably.

7. This evidence allows for a more strategic and differentiated approach, identifying which sectors warrant decoupling, risk mitigation, or (in the very rarest of cases) targeted cooperation. ITIF's research provides a structured, comparative analysis for informed and balanced decision-making.

WHAT SHOULD THE GOVERNMENT'S OBJECTIVES BE FOR THE UK-CHINA RELATIONSHIP IN THE SHORT TERM AND THE LONG TERM?

1. The UK finds itself in a "prisoner's dilemma." If everyone else collaborates with China it makes some sense for the UK to do so, even though the result would be a transformation to a CCP-led global order and a weakening of Western advanced-technology industries. The Chinese government knows that which is why it tries to "divide and conquer" allies, in part by dangling benefits in front of individual countries that agree to collaborate with China. But it is in the interest of the democratic West to stand together to resist CCP domination.

2. ITIF believes that China (as presently governed by an authoritarian, communist regime) should fundamentally not be viewed as a partner to the UK or any other democratic nation. Indeed, the PRC itself has adopted an adversarial rhetoric and stance toward democratically aligned Western nations. The PRC has implemented a mercantilist economic and trade strategy that is fundamentally antithetical to the commitments it established with its partners at the WTO.[8] The PRC has failed to conduct its economic affairs based on market principles, led by private enterprises, and in accordance with rules that adhere to the foundational principles of the WTO, including national treatment, reciprocity, and non-discrimination. China represents a power trader, a country whose economic and

[8] Stephen Ezell, "False Promises II: The Continuing Gap Between China's WTO Commitments and Its Practices" (ITIF, July 2021), https://itif.org/publications/2021/07/26/false-promises-ii-continuing-gap-between-chinas-wto-commitments-and-its/.

trade policies and programs are designed not only to advance its power but also to intentionally degrade that of its adversaries, even at a financial cost to its own economy.[9]

3. The PRC coerces and plays unfairly, as it holds out the opportunity of its vast market to allure nations with business opportunities, playing them off against one another. All with the goal of becoming the new global hegemon, including in advanced-technology industries. The UK should not be seduced by the siren song of China and should stay strong and defend freedom, even if the European Union (EU) were to decide to go along more with China. As such, the UK should define and enforce red lines on dual-use and strategic technologies, including artificial intelligence (AI), quantum computing, and advanced semiconductors, while building long-term strategic alternatives to China and strengthening like-minded nations' tech alliances.

4. In the long term, the UK should reduce its dependencies on China in critical sectors by developing indigenous capabilities and strengthening strategic partnerships with allies. It should actively try to support the development of high-tech sectors in like-minded countries across the world to present both an alternative source of supply and demand to tech-based sectors to China. It should pursue long-term cooperation frameworks with fellow democracies to bolster supply chain resilience and advance alternatives to China-led standards in global governance and technology development. The UK's objectives should reflect a shared transatlantic and Indo-Pacific strategy to counter authoritarian-driven techno-economic competition.[10]

5. In doing so, the UK should join with the United States and other willing partners on relevant AI, semiconductor, and other advanced technology export controls on China. The UK government should also strengthen its foreign investment screening practices and constrain Chinese entities' ability to purchase (and even invest in) UK firms competing in advanced-technology industries.

IN WHICH AREAS CAN, AND SHOULD, THE GOVERNMENT ENGAGE WITH CHINA? WHERE SHOULD THE GOVERNMENT DRAW RED LINES?

1. ITIF believes democratic countries should engage in "strategic trade" with adversarial countries, particularly China. China seeks dominance in virtually all advanced-technology industries, which goes fundamentally against the UK and democratic countries' interests. ITIF does not advocate for a full decoupling from China, but it does advise that the UK recognize China as a "power trader" that intentionally seeks to damage the UK's advanced industries and economy to fulfil its own agenda.

[9] Robert D. Atkinson, "We Are in an Industrial War. China Is Starting to Win." *The New York Times*, 9 January 2025, https://www.nytimes.com/2025/01/09/opinion/china-industrial-war-power-trader.html.

[10] Stephen Ezell, "An Allied Approach to Semiconductor Leadership" (ITIF, September 2020), https://itif.org/publications/2020/09/17/allied-approach-semiconductor-leadership/.

I. Strategic Trade With China

2. China aims to rewrite the rules of and be at the top of the global trade system. That objective fundamentally threatens the UK's interests, as it will mean ceding dominance in fields where the UK and like-minded countries are at the frontier, such as AI and quantum.

3. Strategic trade means a rules-based economic cooperation, excluding advanced industries where China seeks to advance its authoritarian techno-economic agenda. Under this framework, UK firms should be able to sell their products in Chinese markets. However, this should occur according to WTO rules; namely, without UK firms being compelled to transfer their technology or IP to China or produce locally. Trade with China could include textiles, footwear, and retail products. UK firms exporting advanced manufacturing and dual-purpose products (such as jet engines) should occur on a case-by-case basis—i.e., under WTO rules, not collaborating with Chinese competitors, and even banning the latest available version of the technology if needed (as the United States does with AI chips that must not fall into the hands of China's military).

4. Conversely, Chinese firms should be allowed to sell in British markets, except in cases where those Chinese entities have benefited from unfair trade practices such as subsidies, IP theft, forced technology transfer, or closed domestic markets. PRC-supported companies that do not follow WTO rules should be blocked from entering the UK market. In coordination with like-minded countries, the UK needs to develop defensive trade tools to counteract when Chinese firms that have cheated are trying to compete in British markets or take UK firms' market share in third-party countries.

5. Collaboration in some global agendas may be desirable and in the UK's interest, such as nuclear non-proliferation and combating communicable diseases in developing countries. Even if China leads in green technologies, cooperation in areas such as EVs or solar panels is not a given benefit for the UK. First, China is the world leader in coal emissions and continues to expand its coal production plants. Second, China's technological leadership in many of these sectors has been built upon its lack of commitment to WTO rules. The UK should be mindful that from an industrial standpoint, China seeks dominance in clean energy technologies such as nuclear, EVs, solar panels, wind, etc.; it supports its firms in these sectors with unfair trade practices such as IP theft or excessive industrial subsidization, and thus China represents a fundamental competitive threat to UK firms that would compete in these sectors.[11]

II. Cautious People-to-People Exchange, Particularly Among Researchers

6. The UK needs a strategy for dealing with the challenge of Chinese students and researchers operating at UK universities. International scientific collaboration can certainly produce benefits, but too often, Chinese players have abused the relationship, stealing or porting IP or tech back to Chinese entities. The UK government should distinguish between basic scientific research activities that produce

[11] David M. Hart, "The Impact of China's Production Surge on Innovation in the Global Solar Photovoltaics Industry" (ITIF, October 2020), https://itif.org/publications/2020/10/05/impact-chinas-production-surge-innovation-global-solar-photovoltaics/.

publicly available scientific publications, as opposed to conducting industrial research activities, which are more readily appropriable and can flow back to the specific benefit of Chinese competitors.

7. While concerns about knowledge spillover and lack of reciprocity in some areas of UK-China advanced technological engagement remain valid, particularly in sensitive domains, such as quantum and semiconductors—collaboration on open-source AI research and joint efforts to address global AI risks should be encouraged. These areas of research benefit from transparency, are inherently reciprocal, and are essential to addressing cross-border challenges. Rather than broadly limiting academic engagement, the UK should develop a more strategic approach to attracting and retaining top Chinese AI researchers—both those studying abroad and those based in China—recognising that global talent is not guaranteed to flow westward by default. The UK and its allies risk falling behind by relying on outdated assumptions about their attractiveness as research destinations. The UK should also implement and enforce financial disclosure and conflict of interest policies for advanced technology foreign research collaborations to maintain transparency and oversight.

III. The UK Can Take a Global Leadership Role in Rules-Based Trade

8. The UK can emerge as the world's leading standard-bearer for high-quality trade rules. As a sovereign of its trade decisions, the UK would be much better served if it focused on leading a coalition of like-minded nations to present an alternative to China's zero-sum economic mercantilism. With the United States momentarily receding from a leadership role, the UK has an opportunity to collaborate with Indo-Pacific allies and partners such as Australia, Japan, and South Korea to promote a vision of trade liberalization that offers profound benefits for like-minded countries and a developmental path for emerging economies. This economic bloc can have the scale to counter China's mercantilist-driven approach.

9. In particular, the UK should refuse China's attempts to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Instead, the UK can use its role in CPTTP to lead the expansion of the agreement to more democratically aligned countries committed to operating by the highest standards. For example, the UK should promote closer collaboration among CPTPP and EU members, and expand CPTPP to democratic emerging economies in Latin America.

10. The Government should also explore joining the Digital Economy Partnership Agreement (DEPA), a partnership that sets digital trade standards among Chile, Korea, New Zealand, and Singapore. DEPA is seen worldwide as the template guiding high-standard digital trade rules, and the UK's membership would reinforce its leading role in setting trade rules among democratic countries.

11. Finally, the UK should work with key allies to establish a "Five-Eyes"-like alliance documenting China's industrial espionage activities in key advanced-technology industries. The UK should produce a report akin to the Office of the United States Trade Representative's National Trade Estimate report that comprehensively documents Chinese mercantilist trade practices that deleteriously impact UK firms and industries (e.g., IP theft, subsidized overcapacity, forced IP or tech

transfers, etc).[12] The UK should work with allies such as the United States and the European Union to build a "bill of particulars" report that exchanges information and comprehensively documents how unfair Chinese trade and economic practices are impacting allied firms and industries. Chinese firms that consistently benefit from these unfair practices should have their product (or services) sales blocked (or at least impeded) in allied markets.

HOW MIGHT GREATER UK ENGAGEMENT WITH CHINA AFFECT OTHER UK ALLIANCES?

1. Engagement with China should align with the strategic priorities of democratic allies to avoid undermining existing alliances.[13] UK allies and like-minded countries constitute more than half of global GDP. The competition between the UK and its allies and China is also expressed in the competition for third markets (i.e., non-like-minded and non-Chinese economies). The UK would have a better footprint in these third markets by consolidating economic cooperation among democratic allies.

2. Engaging deeply with China would likely compromise trust with the UK's most important partners, particularly Australia, Japan, the EU, and the United States. As China continues to use economic and diplomatic levers to divide democratic coalitions, even well-meaning UK initiatives could be perceived as enabling Chinese influence. China uses soft power as a tool to build leverage in third markets, ultimately to force technology lock-ins, for example, in digital infrastructure.

   To mitigate this risk, the UK should communicate its China policy clearly to allies, ensuring any engagement is narrowly scoped, transparent, and consistent with shared values. The UK should also use its influence to reinforce democratic standards in global institutions, not dilute them. Democratic nations should coordinate to shape global norms and prevent authoritarian regimes from dominating advanced-technology industries.[14]

3. For example, FCDO could improve the coordination with like-minded partners, such as Australia's DFAT, to implement joint initiatives in ASEAN and within ASEAN Member States.

HOW SHOULD THE GOVERNMENT ASSESS UK DEPENDENCIES ON CHINA? WHERE SHOULD THE GOVERNMENT FOCUS ITS EFFORTS ON STRENGTHENING UK SECURITY AND RESILIENCE?

1. The Government should assess supply chain dependencies in critical technologies and prioritise domestic innovation and diversification to enhance resilience as well as working more closely with the United States and other allies.

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[12] U.S. Trade Representative, *2025 National Trade Estimate Report on Foreign Trade Barriers*, Executive Office of the President, 31 March 2025, https://ustr.gov/sites/default/files/files/Press/Reports/2025NTE.pdf.

[13] Robert D. Atkinson, et al., "A Techno-Economic Agenda for the Next Administration" (ITIF, June 2024), page 15, https://www2.itif.org/2024-techno-econ-agenda-report.pdf#page=15.

[14] Robert D. Atkinson, "How to Win Techno-Economic Competition with China," *The National Interest*, 8 October, 2024, https://nationalinterest.org/blog/techland/how-win-techno-economic-competition-china-213136.

2. A comprehensive audit of UK dependencies on China should include a mapping of critical supply chains—particularly in ICT, biopharmaceutical inputs, rare earth elements, and strategic sectors, such as AI and semiconductors. This mapping should also evaluate not just imports but exposure in R&D ecosystems, standards-setting processes, and academic partnerships. The UK government should be mindful of both UK supply chain (i.e., input) dependencies as well as market dependencies (i.e., UK firm dependencies on the Chinese market for revenues).

Thank you for your consideration.

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