



James Kynge on China's Tech Rivalry

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Moderated by Tom Tugendhat, Chair of the China Research Group

Tom Tugendhat

Hello, everybody. Thank you very, very much for joining the China Research Group. This morning, we have a fantastic session planned, well you know that, otherwise you wouldn't be here. We've got James Kynge, the global China editor for The Financial Times, a writer and thinker about China, perhaps the other way around. A thinker and the writer about China for a very, very long time. And I probably shouldn't say quite, how long should I, James? I'll leave that for you...

James Kynge

Go ahead. It's freedom of the press.

Tom Tugendhat

Freedom of politicians in this case, but yes, exactly. Look, it's it's several decades. So I have to say thank you very much. Now. I think we're pretty much all in, or at least those all aboard who's coming in board, right. Let's start off. This session of the China Research Group is one that many of us on the steering group have been waiting for a long time, because James has inspired many of our thinking about China over recent years. Neil, in fact, was just talking about James's book written in 2001. To about China Shakes the World, which, which was really one of the seminal works of realising the impact that China was going to have on all our lives, as it reverts to mean if you like, as it retakes its rightful place as one of the great powers of the global economy. And so to have James here who's been writing for the FT, and indeed, writing an account for a number of years is a huge pleasure. I'm not going to say very much more to introduce him because his words will speak for themselves. But this session was really to talk about how we see China today, what the challenges are, how it works with technology, how it works with industry, how it works with others around the area. So I'm going to open it up now to James to introduce for a few minutes, 5-10 minutes, I'm gonna do that. And then we're going to take questions. The usual rules apply, please put your questions in the Q&A, and we will come to them as soon as we can. So with no further ado, James, thank you so much. We're hugely grateful that you're here. Over to you.

James Kynge

Thank you very much, Tom. It's a great pleasure to be here. I've been checking your website recently. And I must say I was listening to the videos you've got up there, you've got a fantastic series of views of China in all its complexity these days. I just before I begin, I'd like to say that one of my roles here at the FT is as editor of Tech Asia, which is a newsletter, it's a weekly newsletter on the entire regions, key tech themes. And it's free, if you want to search it on the FT website. So please do sign up if you're interested.

So my preamble would be to look at the big picture. And I think that we're all pretty well aware that something big is changing in the world. And in the world of technology. I think it can be summarised by saying that technology now has become geopolitical. You can see this in many different ways. One of them obviously is the way that the US has blocked some semiconductor exports to China. China, for its part, has looked to limit us access to rare earth metals, which of course are crucial for the manufacture of many tech products. Several countries have banned China's Huawei from running their 5G telecommunications networks. India has banned the Chinese viral social media app TikTok following border clashes between the two countries. The UK, meanwhile, is investigating Nvidia's proposed acquisition of ARM, the UK chip designer on national security grounds. And also, in the UK, intelligence agencies are pushing for new curbs on so-called 'smart city' technology supplied by Chinese companies over fears that it could be used to spy on people. And many of those technologies, surveillance cameras, etc. are in London and elsewhere. So what does all this mean to me?

James Kynge

These are all symptoms of an important shift in the way the world works. I first went to China in the 1980s and since then, most of my career has been tied up with China's emergence into the world and the supercharging effect this has had on globalization. But now I think it looks as if techno globalism is very clearly in decline, and the world is turning its back on this type of international cooperation that we've had since the Berlin Wall came down. John Thornhill, the FT's innovation editor has a column this week, showing that since 2016, the number of new regulations toward tightening the environment for technology, as opposed to loosening the environment, technology has grown tremendously. Personally, I think this is partly down to the West's changing attitude towards China. And partly due to the fact that new types of technology make globalisation of tech these days very hard to achieve. By this, what I mean is that, let's say these days, you export a car from one place to another. In the old days, that was just a car. But now, so much technology has embedded within it, a broader kind of networked ecosystem, that you buy your car, you sign up to an app, that app will take your data and goodness knows what with it.

So the difference in the characteristics of the tech products that we buy and sell has made them much more open to suspicion and to controversy. The sorts of questions that naturally arise now on a personal and national level are 'is my data being collected?', 'is a foreign power spying on me?', 'can a foreign power flick a kill switch to important parts of our national tech infrastructure, and effectively shut down aspects of our daily life?' And because almost half of global trade these days is digital, this problem is very pronounced. Trust issues have suddenly become front

and centre to global trade and investment. There are many, many examples. Just let me rattle off a few in Japan, the other day, the government said it's going to scale back its use of a popular messaging app. This is called Line. This is like WhatsApp in Japan, after its operator acknowledged that employees have an affiliate that in China had been able to view Japanese users' personal information, the personal data that these guys in China could access included the names, phone numbers, identification numbers, and even some of the messages that were being sent.

James Kynge

Another example is Tesla, obviously, a very famous car company making a big splash in China these days. But lately, it's been attracting a lot of negative publicity in China. Elon Musk, the chief executive denied this month that Tesla cars could be used to spy - following reports that the Chinese military has banned Tesla's from its facilities. Musk told a Chinese forum that the company had a strong incentive to be confidential and he said, "If Tesla used cars to spy in China or anywhere else, we would get shut down". But that's not allayed the suspicions of the military. Another affront to trust shows the way in which promises that can be made in earnest today can be made redundant tomorrow. In this regard, Apple is expected in coming weeks to roll out changes to its iPhones to give users more assurance on privacy. But some of China's biggest technology companies including ByteDance, and Tencent have already said that they're testing a tool to bypass Apple's new privacy rules. So they're testing a tool to bypass the privacy rules that haven't yet even been rolled out by Apple in the US. All of this means I think that mistrust gets a big leg-up. And mistrust is in every sphere between China and the West these days. We can think back to the controversies over the origins of Covid, Huawei and 5G, wolf warrior diplomacy, and just this week, Beijing pushing back after the UK Parliament approved a non-binding motion saying that China's policies in the northwest frontier province of Xinjiang amounted to genocide.

But just to finish, I want to say that while technological bifurcation looks like it will become an increasingly pronounced trend, other forms of engagement between China and the West remain strong. For instance, there has been a flood of overseas money into China's stock and bond markets. The latest numbers show that total foreign ownership of Chinese stocks and bonds reached \$837 billion. That's an eight fold increase since 2014. So as ever, it's not a simple picture. It's not all the arrows are pointing in the same direction. The interdependency between China and the West is such that you can see trends starting stopping and reversing simultaneously quite a lot these days. But overall, I'd say that when it comes to technology, levels of suspicion are at highs, unprecedented since the reform and opening period began just over 40 years ago.

Tom Tugendhat

Thank you very much. Indeed, I have to say that the challenge with a conversation like this is it can go in so many different directions, because the questions you raise affect literally every part of our lives. But perhaps I can begin, I'm going to take the prerogative of asking a couple of questions before we throw it open to others. So please don't think I'm going to dominate totally. But I do think it's worth probing a bit down these lines.

If we can talk about decoupling, because this is effectively what you're suggesting that the tech decoupling is, is going to reverse some form of globalisation or some of the globalisation that we've seen in recent years, perhaps I can ask you to talk about two different areas. One is semiconductors. This clearly brings into the question of Taiwan. And the second is money, the internationalisation of the renminbi, the growth of AliPay in Southeast Asia, the challenge this poses to the SWIFT system, and indeed much more. Can you please talk about both of those, and just tell me how you see Taiwan's place? And this, of course, brings up questions about Paracel Islands and about different forms of probing by the Chinese military. And again, talk about Southeast Asia and different forms of financial outreach, perhaps even control.

James Kynge

Sure, thanks very much, Tom. So you've zeroed in on what is really ground zero in the US-China tech rivalry, semiconductors, and particularly the role that Taiwan plays. The reason that semiconductors are so sensitive is because this is China's Achilles heel. In almost every other high tech industry, China is approaching the cutting edge of global technology, or even in some cases surpassed it, and is actually, you know, the leading edge of global tech. But in semiconductors, China remains far behind.

Just to give you a quick bit of context on that, according to a now famous plan that the Chinese government came out with called Made in China 2025. China wants, by the year 2025, to supply 70% of its demand for semiconductor chips through indigenous companies. But it is, as I said far behind on that, if you look at the current situation, only about 10% of the chips sold in China come from companies that are headquartered in China. If you include foreign companies that have chip making facilities in China, that number gets to about 20%. So with just four years to go until 25, China is way way behind the 70% target that it wants to achieve. This means that China is still critically reliant on US chip manufacturers also of course, there's Samsung and SK Hynix from South Korea and some of the Japanese manufacturers. But we're really talking about the big US manufacturers and chips made by Taiwanese companies such as TSMC and UMC on a contract basis from US companies.

This has created all kinds of tensions. And I think one of the main ones is that the Taiwan chip companies are caught in the middle. They are increasingly collateral damage in the US-China tech war. They're also immensely profitable right now because of this huge global shortage of semiconductors. But just to give you a sense of how vulnerable they are, let me just cite a recent case this happened this month. So the US government put a Chinese company, a Chinese chipmaker, which is called Phytium Technology, onto a blacklist, because Washington reckons this Phytium Technology has links to the Chinese military. Right now, this Phytium Technology, although it's not a well-known chip company in China; it is one of the important Chinese companies trying to climb the technology ladder and reduce China's reliance on overseas manufacturers. Right. So it's an important company. But because of this, because of the US blacklisting, a Taiwanese chip designer called Alchip technologies, again, not famous, but it's a very important company, had to suspend business with Phytium Technology. Now, this meant that the share price of the Taiwanese chipmaker Alchip was absolutely cratered, it was

hammered for several days in a row. And I think this shows how Taiwan is uniquely vulnerable in the big US-China rivalry over chips.

Just to just to finish that point, and give a sense of what we're talking about in terms of numbers. A leading US industry body has said just last month, I think, that if this rivalry was to cause a year-long shutdown in Taiwanese chip production, which is obviously a worst-case scenario, then the worldwide cost to electronics companies would be \$490 billion. So, a huge number, a very considerable haemorrhage in the whole global supply chain is possible if US-China rivalry over chips really gets white hot.

Tom Tugendhat

Okay, well, look, I you've you've covered that many of the aspects. Maybe I can just push you again on the financial aspects, because seeing the way that the Chinese state is seeking to undermine, or rather change its dependence on SWIFT technology and the Americans' ability to sanction individuals. Indeed, some of us who've now been officially sanctioned by the Chinese state are realising that it's rather more symbolic than real. How do you see the different forms of internationalisation of the renminbi? Do you see it as a likely possibility? Or do you think it's one of those things that is more aimed at than achievable?

James Kynge

Right, great question. Thanks, Tom. So while chips show China's vulnerability, China's intention to move to a digital renminbi is another form of China trying to assert control in an equally crucial area of technology. Just let me go into a little bit of background first. You probably know that their digital renminbi is being rolled out across China at the moment, it's still in the test phase. But you know, several cities in China are testing it and it seems to be working fine. The aim is that by early next year, at the time of the Winter Olympics, which are going to be held early in 2022. China will be using the digital renminbi fairly widely, and this will be part of the Olympics. The Olympics will be a showcase for the digital renminbi. The reason why it wants to do this is to assert two aspects of crucial control.

James Kynge

The first is that it takes back control from private Chinese companies, in this case, Alibaba and Tencent that run the very popular WeChat pay and AliPay payment platforms. These are used by about 2 billion people, not only in China but also around the world. But launching the digital renminbi will be a competition for those two companies. And it will mean that the Chinese government gets to decide who gets renminbi, and how transactions using the digital renminbi happen all over the country.

The next crucial aspect of this, and this really comes down to control is that the central bank or whatever central authority needs, will be able to monitor in real time, every individual transaction in China and abroad. There is supposed to be a facility here called controlled anonymity. But nobody knows how that will work. So it is highly possible that if the Communist Party of China wants to check on any transaction, it likes at any point it will be able to do so. So I think that that goes to the question you had about, about control. And I think in many cases of China's sort of

tech piece, now, we can see that the basic aim of the Chinese government is to increase its self-reliance, increase its level of control, and reduce its vulnerability to foreign suppliers, whether that be in semiconductors or whether that be in a case like renminbi.

Now just to finish on the renminbi Tom, because you did ask about internationalisation. Some people think that the digital renminbi will speed up the internationalisation of the renminbi and allow it to challenge the US dollar as the world's reserve currency. In my view, there's no clear reason to think that. In fact, I would argue the opposite. I would say that the lack of trust around the world towards a currency that gives the Communist Party of China insight into all of your transactions on a real time basis, could well stymie the internationalization of the renminbi rather than promote it.

Tom Tugendhat

Thank you very much. I can see the argument on that one. I think quite a lot of us would draw a veil over, well be, extremely concerned about that. Can I before I open it up to questions, just ask about two other subjects, which I'm going to connect slightly gauchely, I hope you don't mind. The first is the pressure on some of the tech giants. So we've seen Jack Ma and Ant Group, suffering for their comments, I think maybe the lightest way of putting it, in recent months, and the penalties being pretty clear if you challenge the authority of the Communist Party.

But we've also seen an attempt to use similar businesses to expand the influence of China, and indeed, the Communist Party, but China as a whole around the world using the so-called Belt and Road initiative. I was wondering how do these two reactions equate? How does it work? How do you think it works? If one side you're pushing cheap loans and the other side you're putting your businessmen - well not yet in prison, but certainly, you're making sure that they behave?

James Kynge

Right. Very good question. I think there's a couple of separate things going on. I mean, they may well be related. But I would treat them separately. The first is that China, no doubt - and this relates to the control point that I've that I was just talking about - wants to put private enterprise, private business, the private sector into its place. That doesn't mean that it wants to, you know, rationalise it out of existence, far from it. The Chinese Communist Party knows that private enterprise is still the driving force of the economy. However, it doesn't want private enterprise getting too strong and in the case of Jack Ma and some of the other actions that have been taken recently, it also doesn't want big private tech monopolies to get built up. And I think that that is what's really happening in the case of the Ant Group's cancelled IPO. That was an IPO supposed to raise \$37 billion towards the end of last year, and it was cancelled at the last minute, as everybody knows. It was also part of the \$2.8 billion fine on Alibaba. And what looks like is going to be another fine on Meituan, which is a big food delivery company in China. The authorities in China are trying to crack down on monopolistic behavior. That's, I think, the main thing that's going on.

But I don't believe that the authorities want to punish Alibaba and Tencent and Meituan and the other big private sector tech companies so that they're unable to go out abroad and be national champions abroad. I think it's, in this case, it's more kind of patient gardening than some kind of broadside against private companies. So when it comes to the Belt and Road, there are other issues in play. One of them is that a lot of Belt and Road loans have gone sour, particularly in Africa. And many of the big Chinese financial institutions that have propelled the Belt and Road by financing investment in all kinds of infrastructure, mostly in the developing world. Those financial institutions are now reining in their horns. So there has definitely been a cooling of the Belt and Road. But I don't expect that this will be more than a transitory, transient type of cooling. I think that once things get back on track with the global economy once, the Communist Party has decided what it's going to do with all of these loans that have soured in Africa, for instance, then there will be another surge in lending.

Tom Tugendhat

Can I, first of all, thank you very much for your answers to me. But now hand over to the brains of the outfit, Neil O'Brien, who will have a go at you.

Neil O'Brien

If that's true, we're all in trouble. Now, I was going to come in on that exact point, which is really the extent to which Beijing does regard Baidu, Alibaba, Tencent and so on, as national champions. We've seen companies like Facebook attempt to enter China, be repelled, and then come to take quite a different view on it. But I was interested in what is known about the ability or the success of Beijing in exporting these national champions and getting their use in other third countries. It's quite easy for us here in the UK to think well, we all use Google, Apple, Microsoft, Facebooks, and so on. Very few people use the so-called BAT group of companies.

But, of course, a lot of the rest of the world, that is not true. And so I was interested in both, you know, how it is going in terms of, you know, the global competition to be the dominant players in these markets, the extent to which there is policy behind that from Beijing to kind of promote that as part of Belt and Road or other initiatives. And to some extent, how some of these other security things you've already mentioned, about user data play into those kinds of competitions in the industrial sphere. It's quite clear that it's a battle, very clear technological battles in the US and China, and to what extent is that just mirrored in kind of big tech firms as well?

James Kynge

Right, thank you. I think there's a number of different things in play here. The most important thing from the perspective of Beijing, is that China wants to be the world's leading technology power, officially by 2049, but unofficially, much sooner than that. And therefore, it realises that companies like Alibaba, Tencent, you know, Meituan, Baidu, the ones you mentioned, plus several others, are crucial to that regard. Firstly, because they are the main generators of growth in the Chinese economy, those big private companies, but also because they are essential to Chinese innovation. And innovation is vitally important to the Communist Party towards achieving that goal of being the world's leading technology power. Can I just give you a couple of numbers there, I think are really revealing.

So at the World Intellectual Property Organization, which is an office of the UN, China overtook the US last year as the world's biggest filer of patent applications. So previous to that the US had dominated every year since 1978. So this was a huge change. In Europe, a similar trend is underway. You've got awards to Chinese companies of patents by the European Patent Office, growing at over 10%, in 2020. That's far faster than any other country. And if the current trend continues, the Chinese companies will be number two to the US in terms of the numbers of European patents awarded by, let's say, five, or maybe six years from now. So they'll have overtaken Germany and Japan, because they're currently in fourth position. So there is a contradiction within China by the Chinese authorities on how to view these private companies. On the one hand, they drive growth, in the second place, they drive innovation. But on the other side of it, they can be monopolistic, they can be more freewheeling than the Communist Party would like, they represent at times a threat to the control that the Communist Party exerts over society. And I think everybody will have noticed that all of these strands, all of these trends, coalesce in the figure of Jack Ma himself. Jack Ma was a national hero, until he made a speech that directly criticised the Communist authorities, that was shortly before the Ant Group's IPO was supposed to happen at the end of last year. And then, of course, you know, a cascade of consequences happened, one of which was the cancellation of the Ant Group IPO, and other has been the virtual disappearance of Jack Ma, I think he's only been in public once. Well, it was a video that he recorded in a room somewhere. So you can see, in the person of Jack Ma, the very clear contradiction, the very clear tension that the Communist Party is trying to balance when it comes to the big tech companies.

Tom Tugendhat

Thank you very much. There was a question here in the question box, which I'm going to read out if that's all right from Rosalie Ravago. Do you think the West is losing the battle over international technical standards? Clearly, this is a huge challenge for us all. And if the BRI is setting the standards for the next generation of tech, are we about to lose out? Or are we still in the game?

James Kynge

I think that if you look at the trajectory of patents that I've just mentioned, and then if you conclude that China will be dominating many of the new technologies, not in the distant future - now and in the next five years, then I think you have to draw the conclusion that China will start to have an outsized influence on international standards. You can see this in 5G; Huawei's presence was far greater than any other company. I believe ZTE was in there too. The Chinese - this is a number I don't quite remember - but from my faulty memory, I think Chinese companies dominated about 60% of the industrial standards inherent in the 5G telecom technology. And considering that 5G telecom technology is the bedrock of telecoms going forward, and all of the data-powered, highly networked ecosystems that we're all going to be living through, and that we're holding this webinar through; that's a very important point

So yes, I think the West is, I don't know if you say losing, I don't know if it's quite as binary as that. But certainly China's influence over international tech standards is growing very quickly.

Indeed. And I believe this poses the question of trust that I started with the very beginning in a very sharp way. If you can't trust the Chinese companies to be acting responsibly with your data, and not to switch off your infrastructure if bilateral relations get really rocky. Then, obviously it means, or it suggests, that the future of technology in this world cannot be interdependent. It must be bifurcated between different spheres of influence.

Tom Tugendhat

Thank you. So, Andrew Dekany asked a question about the unlikely prospect of persuading TSMC to relocate some of their facilities to the UK. And I think this plays straight into your question there because of course, traditionally, the UK has played a role as a standard-setter, as a regulator for various different aspects of global trade and international manufacturing. I'd be interested to know, what role do you think the UK can play in this? Especially if we don't get the relocation which, as Andrew quite rightly puts it, seems unlikely?

James Kynge

Right? It's a very good question. I mean, this is the key question that all countries around the world are asking at the moment, if they can't trust the global supply chain. If they can't trust interdependence between, you know, to put it bluntly, the West and China, then they have to look towards self-reliance themselves, the focus has to be on the resilience of their own systems. And that's why the US just tried to get TSMC to build an \$11 billion or \$12 billion US plant. I think it was in Wisconsin, that's now fallen through, I believe. Is it possible that TSMC would do the same thing in the UK? I don't know. The UK has some big chip companies. I mentioned ARM at the beginning. But I think that in the future, and not in the distant future, like right now, countries are going to want to insist on being able to assure supply of crucial technologies, and that certainly includes semiconductor chips.

Tom Tugendhat

Excellent. Now, can I just push you a little bit more on the UK's role, because one of the things that we raised when the Huawei issue was coming up is spying was clearly an issue for many, and whether or not we were effectively nesting a dragon in our future technology. But one of the reasons why this really mattered to many of us, me in particular, was that, in many ways, we were seeking to change the way that we geared the international community and our commercial outlook.

The reason I say that is because we were looking to change from effectively a distributed system, you know, the kind of system that we have today, where we recognise individuals, companies, and the state as different entities, into a more united system. And whatever we think of the culture of, whenever we think about the Chinese system, or or or our own, the truth is whichever one you like, codes, its culture into the very binary code, that is the enabling technology behind it. So do you think that the UK has an ability to change some of that or to push back with Europe, with Australia, with the United States, with Japan? Or is this something that we're going to just have to accept and deal with a changing economic outlook, a changing global outlook? Where the culture is going to be Chinese, or rather, communist?

James Kynge

Look, I mean, I'm a journalist, you know, I try to report on things, I try to understand situations, I've never spent a single day as a policymaker. But my characterisation of the challenge that the UK faces would be roughly that there are key functions of state, and there are key areas in which security of supply and key infrastructure needs to be secured. And if those areas are squared away, in other words, if the UK can be sure that its telecom system, its nuclear power system, its water system, and several other key crucial areas of infrastructure are dependable, then I think it doesn't matter too much, you know, in other words, then it is possible to be part of a global supply chain.

But if you have key functions of your economy that are in the hands of an acknowledged rival, or are crucially dependent on supply from an acknowledged rival. The UK's stance on China is a little bit ambiguous at the moment, but certainly our biggest ally, the US regards China unambiguously as a strategic rival, then I think you've got a problem, you've got a problem, because bad things can happen. Your systems are hostage, really to all kinds of pressure from a country that doesn't necessarily have your best interests at heart. But so my feeling is, if you create walled gardens around the crucial functions of your country, that leaves you free to engage in all the other areas. And, you know, that would be much more consistent with the long standing inclination of the UK to be a global and open economy.

Tom Tugendhat

One of the points you raised earlier was the ability to scrutinise, and the understanding of China in British parliament, but actually in parliaments around the world. Do you think that's changed?

James Kynge

I think that it's very difficult to scrutinise what China is doing. So much of the mistrust that's building up so quickly with regards to China is because certain aspects of China's own statements make it very difficult, very opaque, and very difficult to trust. What I'm trying to point to here is several laws that have come out in recent years. For instance, the National Intelligence law, the Cyber Security law, both of which require Chinese companies to hand over to the security forces in China, any data that is required. So, let's say, if Alibaba, and they're operating in the UK, and they, as part of their operations through some app, get hold of data that the Communist Party would like to see. Alibaba, must, this is just an example of course, must hand over that data to the Communist Party according to these two rules. The other thing that makes Chinese technology companies rather difficult to trust, or rather opaque, is what's called the military-civil fusion agenda of the Chinese government. This is, again, clear, it's published. All Chinese companies that are required by the Chinese military to hand over technology to boost the military must do it. And there is no ambiguity about that at all.

So you have this incredibly vibrant tech ecosystem in China that is innovating faster than any other country in the world, and is creating very impressive companies like Alibaba, Tencent, Baidu, the other ones that we've mentioned, that are expanding their global presence. And yet, the level of trust that they earn from their customers and governments around the world is undermined by the fact that China has published laws and published policies that would ask

those companies to hand over data, hand over technology, to the Chinese security state. It's a fundamental problem, it's so difficult to see how you can square that.

Tom Tugendhat

You lead straight onto a rather good question by Nathan Rodgers, which is, do you think we've reached the point where we have to choose between the US and China? Is it possible to balance this relationship between these very, very different beasts? Or will the UK simply become a third party broker between the two, or have to choose one?

James Kynge

That is a very good question. It's also very difficult to answer. I would say, going back to my earlier reply, that, if the crucial functions of the economy are resilient, if they are not dependent on China or on other less than trusted foreign countries, then I think that frees the UK up to engage as it will. And UK companies to engage as they will around the world. But if those crucial areas, strategic areas, are dependent on Chinese investment, dependent on Chinese supply, then that very much impinges upon the freedom of the UK's companies and the UK's government to engage with the global economy, I would say.

When it comes to choosing between China and the US, I think the truth is that the UK has already chosen, or would choose the US. And, although I know things are not always plain sailing with the US, the US is our ally, and China is described by the US as a strategic competitor, a strategic rival. So I don't see that as a straight choice myself, but as I say. I'm just a journalist, I'm nowhere near policymaking.

Tom Tugendhat

Well you say that, but you have of course, kept a very close eye on policymakers, not just here, but also in China. I'm just wondering how much of the Chinese official, or Chinese political leadership, position, shifted in tone towards democracies in the West in the past months or years. One of the things that we often think of is the changing nature of the Xi regime, that Chairman Xi, since he came in in 2012, and really since he started pushing in 2015/16, pick your start date as you choose. But we're seeing a difference from Jiang Zemin or Hu Jintao or indeed Deng Xiaoping 'hide and bide' strategy. How much do you think that's real, and how much do you think that actually what we're seeing is just a natural continuum from those days?

James Kynge

I think there has been a step change. And I think you can see that in the laws and the regulations that have come out. The laws that I've just mentioned, National Intelligence, Cyber Security, military-civil fusion, Made in China 2025. There are a huge number of very clear policy statements and laws that you can point to to say that under Xi Jinping, China has a much greater focus on internal control and on self-reliance, technologically and in every other way. And also, you can see in the actions of Chinese diplomats, this wolf warrior assertiveness around the world, the very clear criticism that the Chinese foreign ministry, that the top officials in the Chinese foreign ministry gave the Americans just a month ago. That China sees itself now as at least the equal of the US. It is not going to bend the knee to anyone.

It's very clear that it wants to set its own destiny, and that it will not be accepting influence from other countries. It is also hugely antagonistic towards accepting criticism from other countries, as you can see with current issues over Xinjiang and the incarceration of the Uyghurs. So it's a very different China from what it was five years ago. I won't say that this wasn't potentially in the mind of the Communist Party five years or ten years ago. I think it was partly a function of China's growing power, that it feels like it needs to be more assertive to create more space for itself in the world, but the empirical evidence is overwhelming. Under Xi Jinping, China has become a much more assertive player on the global stage.

Tom Tugendhat

Now one of the things that raises questions, you've touched on this. The bad debt, Huarong I think, is one of the bad banks. Do you see a dependence on foreigners that still exists, despite as you clearly identify, the growing national confidence of the Xi regime? Do you think that foreign money is really keeping it afloat? Do you think that China's dependence on foreign trade is greater than the Xi regime fully accepts publicly? Or do you think that actually, the internal market now is of a strength, that actions like Wang Yi in Anchorage show that?

James Kynge

Yeah, I think that foreign money is not keeping China afloat. There are two sources, really, of foreign money. Well, let's say three sources. Foreign investment going into Chinese industry. Then there's the trade. And then there's the capital flows, as I mentioned earlier. So those capital flows were about \$830 or \$840 odd billion, amount to less than 5% of the money invested in the Chinese capital markets. So that's stock and bond markets. It's not nothing. And, the increase in the foreign money going in and certainly helped China deal with its very huge, as you pointed out, debt problem.

But it's not at the level where you could say that the foreigners are financing China's debt to a significant extent. And, nor is it at the level where you could say that China's dependent on foreign capital inflows. When it comes to foreign direct investment into China, again, it's important. But it's not the money that's necessarily the most important part of that. It's more the technological transfer that China gets from the big companies that invest.

I mean, Tesla, I mentioned earlier. The likelihood now, according to our sources, is that the Teslas made in China will be almost a hundred percent Chinese-made, including the engine, within a few years' time. And there are Chinese companies that we understand are already being considered to make the engine for the Tesla 3 in China. That's a pattern that's been repeated again and again and again by the world's biggest tech giants after they move into China. The pressure to transfer technology is enormous. And the benefit to the Chinese economy; well, we've seen it in China's emergence as close to the world's leading tech power now.

And in terms of trade, bilateral trade, the numbers are very small. China's trade surplus is less than it was, just slightly more than 1% of GDP. So it's not. It's not critical either. So the

conclusion from that is that China's domestic self-reliance is already very considerable. It is not really dependent on foreign investment, foreign capital inflows, or foreign trade - but the Chinese government, through this new policy called dual circulation, is very keen to increase self-reliance even further.

Tom Tugendhat

Well, that's an unpicking of globalization. That's one step beyond even. Can I just ask for one last question? We've got a good question from Annabelle Timsit, who asks, what's it like to be a journalist in Hong Kong at this particular point? And how do you feel able to do your job without interference?

James Kynge

I think the answer is that it's a lot easier to do your job in Hong Kong than it is as a foreign journalist in the mainland. You will probably know that many of our colleagues in the mainland have been thrown out. Many of them are on very short-term visas, like a month to be renewed every month or maybe three months, renewed every three months.

It's a tough operating environment. China seems to think that the foreign media is somehow its enemy, which is very unwise because actually the foreign media has been reporting China's rise over the last 40 years without rest. I've been doing this for more than 35 years (that was the number you were looking for at the beginning, Tom). And most of my career really until the last couple of years has all been about engagement of the world with China. It's been overall a highly positive narrative for China. It's very difficult for foreign journalists to really understand why the Chinese government is being so vengeful towards them these days.

But I think, personally, I think it speaks to the extreme sensitivity to criticism that the Chinese authorities have these days. Working in Hong Kong, honestly, to tell you the truth, it's an absolute delight. Hong Kong is a fabulous place to be. It's got its own tech boom just growing up here. Of course there has been a sizeable crack down on the demonstrators in the 2019 demonstrations; a lot of those people have been rounded up and are now in jail. But as for the general environment for a foreign journalist here, it's still pretty good.

Tom Tugendhat

Well, look, I'm, I'm delighted to hear it. And after 35 years I was being discreet, but, if you wish to age yourself, that's up to you. I have to say it's fascinating to hear how you're carrying on. And then for all of us who are following your work with enormous interest, I'm very grateful for your insights today. And thank you very much for joining the China Research Group today, and indeed for sharing your wisdom, it really is a huge pleasure to hear from you. This is a question that isn't going away, as you rightly say. And one that demands more and more understanding from our side as well as from China's.

Now my last point is the same one as always, please do follow us. This recording will be turned into a podcast, which you can get on wherever you get your podcasts. Apple's got it. I'm sure others have got it too. There is of course Twitter and the website where you can download it. So

James Kynge on China's Tech Rivalry

please do follow our work, do support our work, virtually at least, and sign up to our newsletters. We do a daily newsletter on what's going on, and then we do a weekly newsletter that summarises on Saturday where we think we're going. So please do join us and stay in touch with the work of the China Research Group and see how this important country is having such an influence on all of us. And with that, James, an enormous thanks from all of us. You've been an absolute star and extremely generous with your time. I know that's been hugely appreciated by all of us. Thank you.