

The Telegraph

Britain's love affair with China comes at a price

David Cameron is right to treat Xi Jinping with respect but commercial pickings are likely to be thin as China's economic miracle fades



Robbery of the Summer Palace, by Sun Tao, produced as part of a state propaganda drive Photo: BLOOMBERG



By **Ambrose Evans-Pritchard**

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It is a sobering experience to travel through eastern China with a British passport. Again and again you run into historic sites that were burned, shelled or sacked by British forces in the 19th century.

The incidents are described in unflattering detail on Mandarin placards for millions of Chinese national pilgrims, spiced with emotional accounts of the Opium Wars.

The crown jewel of this destructive march was the Summer Palace of the Chinese emperors outside Beijing, looted of its Qing Dynasty treasures by Lord Elgin in 1860, and burned to ground.

It was a reprisal for the murder of 18 envoys by the Chinese court, but the exact "casus belli" hardly matters anymore.

The defilement lives on in the collective Chinese mind as a high crime against the nation, the ultimate symbol of humiliation by the West. The Communist Party has carefully nurtured the grievance under its "**patriotic education**" drive.

David Marsh, from the Official Monetary and Financial Institutions Forum, says Britain's leaders are implicitly atoning for a colonial past by rolling out the red carpet this week for Chinese President Xi Jinping, and biting their tongue on human rights. They are acknowledging that British officialdom is in no fit position to lecture anybody in Beijing.

The exact line between good manners and kowtowing is hard to define, but George Osborne came close to crossing it on his trade mission to China last month, earning plaudits from the state media for his "pragmatism" and deference.

But as the Chancellor retorted, you have to take risks in foreign policy. Moral infantilism is for the backbenches. "China is what it is," he said.

The proper question for David Cameron and Mr Osborne is whether they have accurately judged the diplomatic and commercial trade-off in breaking ranks with other Western allies and throwing open the most sensitive areas of the British economy to Chinese expansion, and whether they will reap much in return.

The US Treasury was deeply irritated when the Chancellor defied Washington and signed up to the Asian Infrastructure Investment Bank (AIIB), China's attempt to create an Asian rival to the Bretton Woods institutions controlled by the West.

Mr Osborne was correct on the substance. Congress **acted foolishly** in trying to smother the AIIB in its infancy and stem the rise of China as a financial superpower. It was tantamount to treating the country as an enemy, an approach that soon becomes self-fulfilling.

The AIIB is exactly what is needed to recycle China's trade surpluses back into the world economy, just as the US Marshall Plan recycled American surpluses in the 1950s. The problem is that Britain carelessly undercut a close ally, putting immediate mercantilist interests ahead of a core strategic relationship.

Anglo-American ties are now at their lowest ebb for years, a risky state of affairs at a time when the UK faces a showdown with the European Union.

The effusive welcome for Xi Jinping aims to secure Chinese funding for nuclear reactors at Hinkley Point and Sizewell, with the quid pro quo that China's nuclear power companies will later build their – as yet unproven – Hualong One reactor in Essex.

The trip may unlock funding for the Northern Powerhouse project, intended to revive Manchester and the great industrial cities of the North, along with finance for the HS2 high-speed rail link and a host of infrastructure schemes.

China has agreed to sell renminbi bonds in London, anointing the City to be its offshore hub in the Atlantic region.

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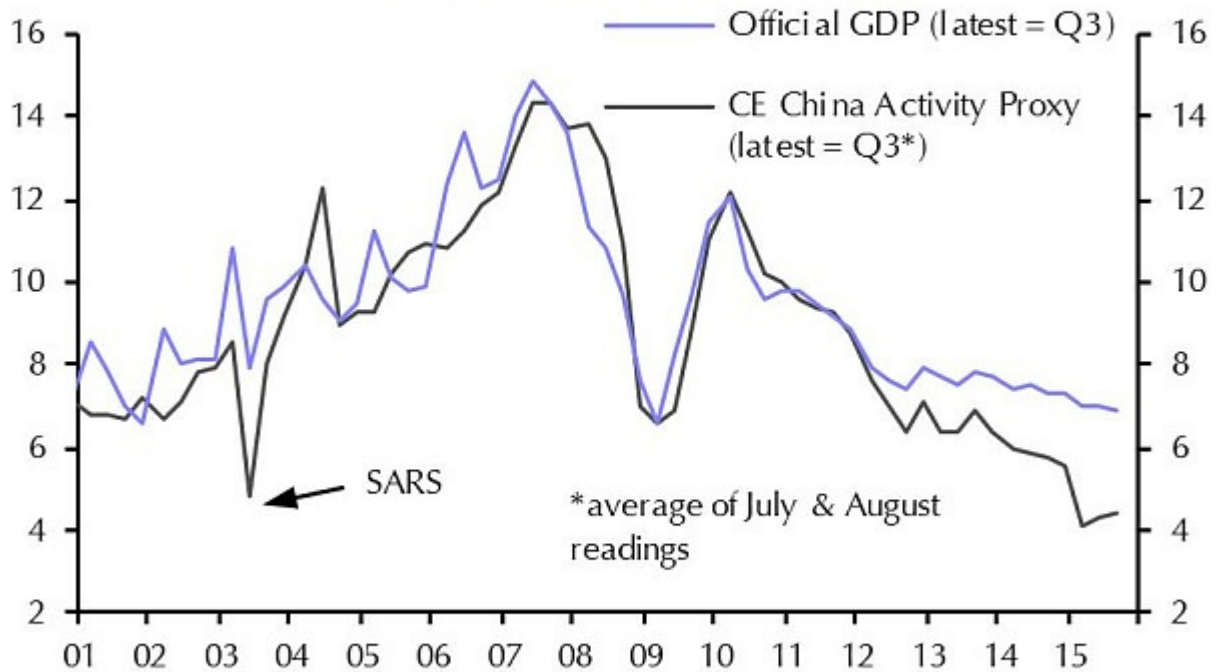
The Chinese market is a tough nut to crack but not a hopeless cause. The UK already has flourishing niches: its architectural houses – Lord Norman Foster, Zara Hadid, Sir Terry Farrell – have designed the country's prize buildings; Rolls-Royce has dealerships across the country, though Xi Jinping's crackdown on corruption has killed the fashion for conspicuous wealth.

British exports to China are just 4.8pc of total shipments, barely more than trade with Belgium, but that, of course, is a lagging indicator. There is much to play for as China ditches its 30-year model of smoke-stack industries and switches to a mid-income service economy higher up the value chain.

This phase is better suited to British strengths, though whether China is really willing to open its hinterland to foreign banks, insurance firms and software companies remains to be seen.

Mr Cameron's courtship comes late in the day, just as China slows from double-digit growth to barely half the pace. Official figures claim that GDP rose 6.9pc in the third quarter but this is based on a faulty deflator.

Capital Economics China Activity Proxy & Official GDP (% y/y)



Sources: CEIC, Capital Economics

Capital Economics said its proxy measure shows that growth slowed to barely more than 4pc earlier this year – a de facto recession, caused by a fiscal shock – but has since stabilized and has been ticking up over recent months.

The economy is not collapsing and is highly unlikely to do so since the banking system remains an arm of the state, but nor will China take over the world or match the fevered expectations of Sino-enthusiasts.

The hangover from the country's \$28 trillion investment and credit blitz will be slow and painful, a variant of the Japanese reckoning. The World Bank warns that China is heading straight into the middle-income trap unless the Communist Party relaxes its iron grip on the political system and opens the country to the free flow of ideas.

Xi Jinping has no intention of relaxing anything. The most powerful Chinese leader since Mao Zedong is described by one party survivor as a "needle wrapped in silk".

Whether Britain should prostrate itself entirely to earn a sliver of this slowing growth is open to doubt. But in diplomacy – as in life – there is nothing wrong with good manners.

