

**ADDRESS TO NBR/KINGS COLLEGE CONFERENCE ON CHINA'S DIGITAL STRATEGY
14 MARCH 2022**

Sir John Sawers

Thank you, Kerry.

I'd like to begin by paying tribute to the thorough, timely and professional report produced by the National Bureau of Asian Research on China's Digital Ambitions. I was introduced to NBR two years ago by an American friend who sits on NBR's Board and I have followed their work with close interest. Even by their high standards, this is a must-read report for anyone interested in the global rivalry with China and its technology dimensions.

Today's conference organised by Kings College London, where I'm proud to be a Visiting Professor, has enabled a deeper discussion of the report's analysis and recommendations.

Some takeaways for me:

- Emily de la Bruyere's analysis of how Chinese strategy is not just about commercial advantage, intelligence collection and cyber activity. It is about digitally empowered authoritarianism.
- Nigel Cory shows how China is leveraging its position in UN agencies to push international standards on data governance towards national control so states can take whatever action they want with respect to data
- Matt Turpin's striking conclusion that China is building a digital platform and infrastructure to create an operating system for a new illiberal international order.

The report's findings should worry us all.

The news is not all bad. There are areas where China still lags the West in technology. The Economist magazine last month reported on a 'harsh appraisal' of China's lagging performance written by a Chinese academic at Beijing University. Surprise, surprise, the appraisal was up for only a few days before it was taken down by the security authorities.

However, that lazy old assumption that China is not as good as us at innovation belongs firmly in the garbage bin. Centuries ago, China invented paper, printing, gunpowder and the compass well before the Europeans did and before the United States was even thought of.

The Chinese today are just as good as Americans and Europeans at developing new technology. Look at how they conquered coding in their traditional writing system. The real competition isn't over whose engineers are more clever. It is whether the system they each work in provides the resources and incentives for top class research and the scope to turn that into healthy new businesses.

In my remarks today, I want to step back to look at the challenges and priorities of the Chinese leadership in this seminal year for President Xi Jinping. I will bring it back to technology and what it means for the tech competition between China and the West.

CHINA 2022

This Autumn, the Chinese Communist Party will hold its Party Congress which meets every five years to set the Party's direction and to choose a new set of leaders for the Party.

This year should see a higher turnover of senior leaders than normal. If the Party's rules on age limits are followed, then some 60% of Central Committee Members, half the Politburo and three of the seven members of the Politburo Standing Committee will be replaced.

The retiring generation of leaders came of age in the Maoist chaos of the 1960s and early 70s. The incoming leaders' formative years were in the Deng Xiaoping era of reform and opening up. They had a very different experience.

Choosing the successor generation so it is both capable and loyal – two qualities that don't always go hand in hand - will be a high priority for President Xi.

The one exception to the Party's age limits is set to be President Xi himself. He changed the Chinese constitution five years ago to allow him to serve a third term as president and there is every reason to believe that he will emerge from the 20th Party Congress as the most powerful figure in China for a third five year term. And, who knows, that might pave the way for a fourth or fifth term in power.

Securing his own re-election is not yet assured. When you suppress criticism and prevent debate on policy options, you drive opposition underground. There are many in China who feel aggrieved under Xi – the 900,000 victims of the anti-corruption purges for example, not to mention all those party members who looked to them for patronage.

I have little doubt that Xi Jinping will succeed in securing a third term in power. But he will be cautious this year as he builds towards that goal. And he faces real difficulties at home.

While we in Europe and North America are emerging from the COVID pandemic, China is still stuck in endless lockdowns and travel bans as it tries to stamp out the virus, a strategy they are reluctant to give up due to the low effectiveness of China's vaccines.

If the Omicron variant breaks out in China in a big way, it would be a severe embarrassment for President Xi. Hong Kong's daily death rate from COVID has risen to 35 per million of population. Xi is loathe to risk that on the mainland.

Partly as a consequence of COVID, China's economy is flagging, especially the real estate sector that amounts to about 30% of China's GDP. December's Economic Work Conference signalled a determination to keep economic growth going, with a new emphasis on 'stability'. Li Keqiang reinforced the message at last week's National People's Congress.

We are likely to see the Chinese authorities engineer a soft landing for the property sector to protect homebuyers and small companies. We shall also see steps to protect consumers from food and energy price rises. But all that means creating yet more debt to keep economic growth to around 5%.

Impact of the Russian Invasion of Ukraine

President Xi does not want to court more risk in 2022 or attract new disruption. No doubt to his relief, the Winter Olympics passed off well enough for China.

But now President Xi has to deal with the Russian invasion of Ukraine and the consequences for his country.

For Beijing, Putin's War has brought some advantages. This was their friend – there were to be 'No Limits' to China-Russia cooperation according to the communique following President Putin's February visit to the Chinese capital. The war was taking the attention of the United States away from America's 21st century rivalry with China and pulling them back into a 20th century security challenge in Europe. I expect China to be happy for Putin to test America's resolve so they can draw their own lessons.

Russia is China's junior partner in the axis of authoritarianism, and Putin's War meant that Russia was set to become even more dependent on China, not least for energy exports.

Russian banks, excluded from SWIFT, would have to use China's new Renminbi-based, financial transaction clearance system, known as CIPS, helping China reduce its own dependence on the mighty dollar. China's leverage in Central Asia, the Arctic and even vis-à-vis India would be strengthened at Russia's expense.

If you are in Beijing, what's not to like about Putin's War?

Well, several things. First, China sets real store by the principles of sovereignty, territorial integrity and non-interference – because they underpin their own positions on Tibet, Xinjiang, Hong Kong and Taiwan. To have these principles trampled on by their friend Vladimir, is, to say the least, awkward.

Second, the stark military lessons of fighting a war of aggression against an entity, in this case a state, determined to preserve its self-determination, was a reminder not to underestimate your enemy when they are defending their way of life. That carries uncomfortable lessons for China's ambitions towards Taiwan.

Third, the new generation of sanctions that the West has introduced in response to the Russian invasion will have sent a shiver down Chinese spines. Russian banks have been closed off from hard currency dealings, and China is at risk of being pulled into the sanctions net if their banks help the Russians out of their predicament.

Half of Russia's \$640 billion of foreign reserves has been frozen. Much of Putin's carefully nurtured war chest is now out of reach.

Hawkish Chinese commentators have long warned that their own reserves, mostly held in US Treasuries, are vulnerable in a crisis.

Then you have to add in the energy and food security crises created by Putin's war. Ukraine is one of the World's breadbaskets and China imports two-thirds of its barley and some 20% of its corn from there. Global prices for wheat are soaring.

Energy costs are much higher too. Efforts to address the climate crisis, which is important to China even if they don't always pull their weight, risk being delayed.

Seen in this light, Putin's war is not such good news for China.

China-US Rivalry

How will China manoeuvre between these difficulties? Well, as Zhou Enlai said in a different context, it is too early to say.

We can be sure that China's highest foreign policy priority will remain its rivalry with the United States. China remains convinced that the United States is bent on holding back China's growth as a world power.

I expect China to put its strategic interests first. They will do what they can to support Russia. But they will be careful not to be hit with secondary US sanctions which would further set back their economic growth. Today's meeting between Jake Sullivan and Yang Ji-che will helpfully reinforce this risk.

The West's sanctions against Russia will add to China's determination to reduce its dependence on the dollar. But there are limits to what they can do as long as the Renminbi is not convertible.

The core of the US-China rivalry will be in technology. China will be determined to move even faster to break out of the stranglehold technologies that the West holds over them. Semiconductors is the most prominent but it's not the only one. The US leads on operating systems. America's tech platforms are used globally. The West is way ahead of China on agricultural technology. All these gaps China will want to close.

China will aim to end their supply chain dependence on the West and to entrench Western dependence on China. We saw the effects of that on low-tech products that were vital in tackling the pandemic. China wants to replicate that in high-tech sectors.

Data will be at the heart of the struggle. Data is the modern-day coin of power, especially when combined with artificial intelligence to manipulate the data. We have seen how China has tightened its regulations governing export of data. Companies operating in China have to hold their data there and not allow it out of the country lest it damage China's own sense of its national security.

This is now impacting capital markets as well. Chinese companies are being refused permission by both Beijing and the West to launch IPOs in Western financial centres. Foreign investment is welcome in China – as long as it follows China's rules of the game.

So, what do we do?

The NBR report on China's Digital Strategy sets out a series of recommendations for policy makers in America, Europe and other liberal democracies. I won't repeat them here but they are worth close study.

Some of the work has started – to make it easier to block Chinese takeovers of Western tech companies, to prevent uncontrolled commissioning by China of vital R&D from our universities, to build a regulatory framework to protect both our privacy and our security.

There is still a long way to go.

The EU's proposed Digital Markets Act has as its priority to promote competition, which is an important consideration. But, as presently drafted, it puts at risk the security and privacy of our most important personal data – much of which we access through our mobile phone. A hostile state will have an open goal if new competition rules lead to our most secure tech eco-systems being undermined.

Judging from the consultation document put out by the Business Department, the UK's planned regulations is heading towards the same error as the EU's.

Meanwhile, America's regulatory effort isn't out of the starting blocks because the dysfunction of American politics is preventing Congress from legislating on the basic steps needed for America's digital and data security. We each need to get this regulation right and adopt it soon.

Above all, we must remain on the front foot in the competition with China. We in the West won't recover our strategic monopoly on tech. But we can use technology to support our liberal democracies. We should not assume that technology is on the side of the autocrat.

Blockchain can be used to create decentralised systems to empower the citizen. Using AI, we can preserve our privacy but still enable the terrorist, the child exploiter or the Russian spy to be identified – only the privacy of those who pose a danger to our society needs to be invaded.

We are seeing good examples in Ukraine where technology is being used to fight back against the Russians. Free information is anathema to Putin, as we are seeing with Russian moves to close down vital social media channels like Instagram.

Elon Musk's delivery of satellite terminals for his Starlink system helps Ukrainians access the internet and spread their own experiences and views in a way that the Russians cannot monitor or disrupt.

Conclusion

Technology is at the heart of the 21st century struggle for power and the battle for the survival of our values. The NBR report we are discussing today is a vital wake up call for political and business leaders across the free world.

In historical terms, democracy and accountability of leaders is the exception to the way human societies have organised themselves. But authoritarianism is a dead end. The greatest strides in progress and prosperity came with the end of absolutist rule in Europe, for example in the renaissance city states. Dictatorships have nothing to offer the young, the ambitious and the striving.

We are engaged in a fundamental struggle to preserve liberal democratic values and the system of international order that has prevailed since 1945. Russia's invasion of Ukraine is a raw reminder of how a nation's freedoms can be destroyed.

China operates in a more subtle way but is no less determined in pursuit of its goals. Yes, we need to work with China on many issues, like climate change and global health.

At the same time, we have to be smart, to work together with our allies to make sure that technology is used to advance freedom, not to end it.