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Britain's Chinese "Eldorado" on the Yangtse?

As Britain works to increase trade with China and British companies look for opportunities in the country, echoes of history, geopolitical tensions and political opposition cast long shadows over the promise of the "China market". Michael Cox writes that, even as Chancellor Rachel Reeves says that not engaging with China is not an option, Chinese consumer nationalism suggests the UK may be chasing opportunity just as China pivots inward.

In the late 1890s American business could hardly contain its enthusiasm about something that was starting to acquire almost mythological status at the time: the huge "China market" on the other side of the Pacific, waiting to be flooded with all those modern American gizmos.

Things, however, did not quite go to plan. Most US goods were not to Chinese taste. They were too expensive. And for quite understandable reasons, China became increasingly hostile to all things foreign and foreigners, including those nice Americans.

Of course, China has rather moved on since then, and what once might have been a mirage has turned into something approximating reality when China undertook its "four modernisations from the late 1970s onwards. This not only transformed what was once a poor country into the second largest economy in the world. It also created the largest middle class in the world, several world-beating companies, an advanced technological sector, and an economic footprint stretching all the way from the Asia-Pacific through Africa and on to Latin America. China, to coin a term, was no longer rising: it had already risen.

Engagement

Yet, before politicians and businessmen and women (including it would seem British ones) get too carried away, they would do well to reflect on the past. History never repeats itself as we know. But

it does carry certain health warnings, which the current Labour government would do well to remember.

However, one can hardly blame the government for wanting to forge more trade links with China. As Rachel Reeves reminded critics last January, “not to engage with China is no choice at all.” Indeed, as those in favour of deeper engagement insist, shrill arguments making the case for decoupling serve nobody’s interest, least of all (we need no reminding) UK universities, which currently play host to around 150,000 Chinese students.

Nor can we ignore certain facts on the ground, as Foreign Secretary David Lammy reminded Parliament in June. He did not mince his words. He reminded sceptics on the other side of the aisle that China not only had a huge economy with enormous potential which in his words would “play a vital role in supporting” Labour’s key priority of ensuring “secure growth” over the long term. “Chinese power” more generally “was an inescapable fact” which a middle ranking power could only ignore at its peril.

China: a complex problem

But there are other kinds of facts too. One is that Lammy felt he had to couple every positive statement he made about building economic bridges to China with warnings about the country posing a threat to UK national security. He even went so far as to call out Beijing for equipping “Russia’s illegal war” against Ukraine. And as if to add insult to injury, went on to attack its “dangerous and destabilising activity” in what China regarded as its own backyard of the “South China Sea”.

Unsurprisingly, China was not amused and inevitably responded in kind. Lammy’s June speech arguing for “increased engagement and cooperation with China” was to be welcome. What was not so welcome were his references to the entirely false idea that there was something called a “China threat”. Then, as if to make their point with even greater clarity, called on the UK to “adopt the right mindset and abandon” its “Cold War mentality”. The message could not have been clearer. If the UK wished to see an improvement in its economic relationship with China, it had better stop stirring up “trouble”.

MAGA concerns

There is another equally important fact known as the United States, led by arch disrupter Donald Trump, whom Britain under Starmer is desperately keen not to offend. Even so, Americans of the MAGA variety feel less constrained towards its “special” friend across the Atlantic, particularly when it comes to China.

Why, one might ask, would Congress be interested in that seriously indebted private company known as Thames Water? Hardly the stuff to make the blood race. But upset it clearly was (and seemingly remains) because a certain Chinese company CKI, which already owns Northumbrian Water and UK Power Networks, was thinking of taking it over.

As a spokesman for Congress's select committee on China remarked: "The Chinese Communist Party (CCP) has a long history of using corporate fronts... to gain strategic control over foreign infrastructure, from ports to utilities". Britain beware!

China-UK ties

But perhaps the best argument for the UK or indeed its critics not getting too carried away has less to do with what might be said back in Washington, but because at the end of the day China's economic relations with the UK are of lesser significance than some seem to believe.

Yes, China currently employs well over 60,000 people in the UK and has around a 10 per cent stake in Heathrow. Plus, total Chinese investment in the UK may have risen to about £4.3bn by 2023. But that's still only a tiny fraction of the total £2 trillion of overseas investment in the British economy today.

Even if total UK-China trade now adds up to just under £100bn (a not insignificant sum, to be sure), UK trade with the EU and the US amounted to ten times more, coming in at something close to a £1trillion. And the gap looks unlikely to close any time soon.

China pivots inward

Finally, though a number of British companies have built successful businesses in China and might in the future hope to do even better, access to that now vast "China market" still remains a problem. Indeed, not only is the Chinese economy slowing down, though by how much remains a mystery, but ordinary Chinese themselves look as if they are seeking to buy more goods made in China rather than from foreign countries whose products are significantly more expensive.

With national pride on the rise in China, there is also every incentive other than economic ones for Chinese consumers to buy locally. Indeed, if the US under Trump feels it is right to persuade Americans and others to buy American goods thus helping make America "great again", then one should not be so surprised to discover that many in China who follow events in the US with great interest feel it's only right to make China equally, if not more, "great" by buying goods made in China.

How this will impact UK companies working to increase their footprint in China remains to be seen. Obviously, they must be hoping that the time is ripe for a minor leap, if not a "great leap forward" in

UK-China economic relations. But it is just possible that they are making their economic turn towards China when China itself could be heading in a different direction.

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