JOHN SAWERS

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Jim HOAGLAND

Our final speaker for the morning is John Sawers, whom I first knew a long time ago as a very well-informed Deputy Chief of Mission of Britain in Washington, and a few years after that I was surprised to learn that he had become Head of MI6. John today has a very important business consultancy, and he is going to tell us all about everything we need to know.

John SAWERS

Thank you Jim, and thank you very much for inviting me back to the World Policy Conference. It is very hard to build on the wide variety of thoughts we have had from the first four panellists, but I want to put it into a global strategic context. Because there is little doubt that we are moving towards, or rather back to a world of great power rivalry, where the institutions that we built up in the period after the Second World War are basically in decline, and are being replaced by competition between great powers, almost a 19th Century world, with the United States and China being by far the biggest two, and Russia, Europe, India and Japan being players as well.

In this great power rivalry, technology is playing a central role. Let me just focus initially on the rivalry between the United States and China. The United States has some historical advantages here. It has the biggest corporates, like the ones we all know, Apple, Amazon, Facebook, Netflix, Google and so on, but China is catching up quite fast. Not just in China, but beyond China's borders as well. The United States has a lead in corporate development.

Secondly, the United States dominates the operating systems, through Microsoft, through the Android system, through Apple. The United States is definitely well ahead and has global reach for the operating systems of the IT that we all use.

Thirdly, the United States has an iron grip at the moment on the semiconductor industry, and the intellectual property that is associated with producing semiconductors. That's where the United States is ahead.

Where China is ahead is first of all on the Internet of Things. China, it is estimated, will be producing about 95% of the elements that go into the Internet of Things, all those computer devices in our homes and in our businesses that will hold that together. China is also ahead in telecoms network infrastructure, and I will come back to that, arguments over Huawei and ZTE.

There is a question as to whether China is ahead of the United States on machine learning, what others call artificial intelligence, but there is no doubt that China is making a huge state-led research investment in machine learning, perhaps drawing on what President Putin famously said a few years ago, that the nation that dominates machine learning will control the world.

That is the sort of competition at the moment. Let me just focus briefly on the issue around telecoms network infrastructure. There has been an argument about Huawei and ZTE in intelligence circles for some years now. I became Chief of MI6 in 2009, and we had a big split in the Five Eyes, the United States, Canada, Britain, Australia and New Zealand, between those countries that accepted-, we have the former Prime Minister of Australia here. He was familiar with these arguments. There are those countries that refused to allow Chinese telecoms equipment into their national systems, and there are those, like the UK and Canada, that accepted some degree of presence of Huawei equipment under very strict controls. These arguments have been running for 10 years or so.

However, what has happened recently is Huawei and ZTE have become part of the argument between China and the United States for dominance in technology generally. I do not think the intelligence argument is a new one. What is new is that with the advent of 5G telecom systems, if you rely solely upon Chinese manufacturers, then you are going to be in serious jeopardy of having your systems subject to control by China.

Now, that is true if you have your entire system, and India for example will rely entirely on Chinese equipment for its 4G and 5G systems. However, that does not mean that you have to go to the other end of the spectrum and have zero equipment from China in your systems, and this is where the argument lies.

However, the United States is not only pursuing an intelligence argument here, it is pursuing an industrial policy argument. The United States, through a series of steps over the last 20 years, has found itself without a national champion in telecoms network infrastructure. I think President Trump is trying to re-establish the United States as a player in the telecoms world. It is, I think, a bargaining chip also in this wider US/China trade relationship.

That is on the telecom side. On defence, there have been some very interesting developments recently. As this rivalry between the United States and China hots up, both capitals have to think about what if the worst happens? We have to plan ahead to the possibility of an armed conflict between the United States and China. Now, the Chinese are developing very sophisticated systems, but are heavily dependent upon the US in certain areas, for example semiconductor provision. However, the United States is not safe either, because so many components of US defence systems are made in China. What we are seeing is a move, both in Beijing and in Washington to decouple their defence industries so that they are not dependent upon the other country, just in case the worst comes to the worst and the two countries end up in conflict.

Now, I think what is happening in the defence field is happening more widely as well, but it is sharpest and most prominent in the defence field. We have moved past peak globalization. The scale of globalization that we saw developing in the 90s and 2000s has peaked, and is probably now in decline as both the United States and China seek to decouple their economies from one another, primarily for defence, but also for industrial purposes.

In the security world, we are seeing China develop an extraordinarily sophisticated surveillance system of its own population. One advantage the Chinese have is they are not particularly concerned about human rights, and they have no concept of data privacy. In the world, there are three concepts of data ownership. In Europe, it is controlled by the individual. In America, it is controlled by the corporate. In China, it is controlled by the state. That means that in China, the state have got almost unlimited use of your data to control and to know where you are. Now, some of them, the sort of scenarios that Holger was describing, if you go to Beijing and you step off a pavement and there is a red light, then two days later you get a letter from the authorities saying you were seen jaywalking, crossing when you should not have done so, and here is a fine. However, of course they do not use it to control people on the pavements. What they do is use it to monitor potential dissidents, and China now has a surveillance system that Joseph Stalin would have died for. It is more effective, it is more thorough and it is less violent, and more accepted by the population than the system that the Soviet Union used on its own people.

Therefore, in the world of surveillance and control, China is no doubt far ahead of all other countries in this realm. Then lastly, just a couple of words on cyber. Cyber of course is the means by which countries and corporates and criminals can hack into other people's systems, either to cause damage, or to steal intellectual property, or to hold you to ransom. We all know the cyber world, we all know how cyber defences have improved, but cyberattack capabilities have also improved.

In this area, I think the major powers are very conscious of their own vulnerabilities. In the west, we are conscious that our entire systems are based on IT networks that shape our daily lives, and if our IT systems were brought down, our banking system, our public healthcare systems and so on, then the scale of damage to our stability would be great.

It is even more the case in autocratic countries like China and Russia, where they feel themselves very vulnerable to exploitation, to the stirring up of unrest in their countries, and we are seeing a progressive move by autocratic countries to take control of their Internet space so that they cannot be subject to disruptive cyberattacks. We saw, earlier this year, Russia experimenting with cutting their Internet off from the rest of the world. This was seen as an emergency

step that they might need to take in a crisis. I think it would be surprising if Russia develops the capability to cut itself off from the rest of the world, and then does not use it as the norm, as the status quo.

Where Russia is leading in this field, China is also taking a very close interest, and of course there are other countries, Iran being an obvious example, which is taking a close interest in having control over its own domestic Internet and separate from the global Internet, in the same way that they want to de-Dollarize their economies, they want to reduce their dependence on the US-led infrastructure system.

Therefore, I think in all those areas, whether it is just straight industrial competition, whether it is the dominance of the machine learning space, whether it is for defence competition, and of course this is spreading, in defence, it is spreading into the mergers and acquisitions world where every entity, whether it is the European Union or Japan, as well as the United States, is giving themselves greater powers to scrutinize control of technology takeovers, whether it is in the cyberworld. The role of technology is central to the great power rivalry which is going to be the design model of the world of the coming decade or two. Thank you.

Jim HOAGLAND

John, thank you very much for sobering us up. We clearly need it in terms of what we think about how excited we get about technology.