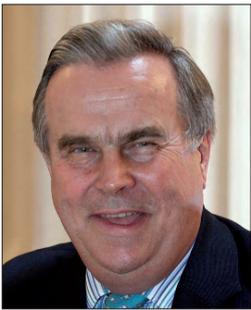


Where next for UK plc in China?

By **SIR DAVID BREWER CMG**

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SIR DAVID BREWER is a graduate of Grenoble University and has spent his career in insurance broking with Sedgwick and Marsh. He was elected an Alderman in 1996, a Sheriff of the City of London in 2002 and served as Lord Mayor from 2005-06. He is Chairman of the China-Britain Business Council (CBBC), President of the EU-China Business Association, Vice President of the GB-China Centre and a 'Think London' International Envoy for London. He was appointed Her Majesty's Lord-Lieutenant of Greater London in 2008.

This month David Cameron arrives in China on his first visit as prime minister. As he sets foot on Chinese soil, he can be assured that the political, economic, commercial and cultural ties between the two countries are as strong as they have ever been.

There was no better symbol of the strength of the relationship between the UK and China – and the commitment to our long-term partnership – than the UK Pavilion at the Shanghai Expo this year. A striking structure designed by Thomas Heatherwick comprising 60,000 shimmering perspex rods, the Cube showcased the very best of British creativity and innovation. It was no surprise that it was one of the most visited pavilions during the six-month Expo, which itself was the largest Expo ever.

That was not just because of the stunning design; it was also because of the high esteem in which the UK and all things British are held in China. I have been visiting China regularly for close on 30 years, and I have seen the relationship grow and prosper. However, what is most important, as we enter the second decade of the 21st century, is for the UK to capitalise on that advantageous position.

All the indicators are pointing in the right direction. China is the largest market for UK exports outside the US and the EU, the ninth largest export market overall and the third largest source of imports. Despite the global financial crisis, in 2009 the value of exports grew by 5.3 per cent to just over £5 billion. Since then, exports have continued to grow substantially. In the eight months to the end of August direct exports were up 40 per cent and re-exports via Hong Kong up 28 per cent on the same period the year before.

The UK is a leading European investor in China, and one of the largest recipients of Chinese investment in Europe. The UK and Chinese economies have complementary strengths. China is the world's largest exporter of manufactured goods, while the UK has world strengths in innovation and services.

However, as China continues to open up its economy in line with its WTO obligations and to stimulate domestic demand as a key strategic economic objective, so it is the case that competition is intensifying. If they are to stay ahead of the competition, UK companies must seek out new areas of business and pursue new avenues of opportunity.

Drivers of change

To win business in this competitive environment, UK businesses need to take account of some important factors which will fundamentally affect China's future pattern of development.

First, further urbanisation. For the past two decades, if not longer, China has been building and developing its cities. Last year, China's urban population passed the 600 million mark, meaning that nearly half of China's people now live in cities. At CBBC we first seriously and comprehensively analysed the impact of urbanisation, and consequent emergence of China's regional cities as economic powerhouses, two years ago. At that time, we identified 274 cities with a population of over 1 million, no doubt a number that has grown since.

What we were looking to identify was the rise of China's so-called 'second-tier' cities, in other words the cities that were emerging besides the main metropolises of Beijing, Shanghai, Guangzhou and Shenzhen, and to identify where the opportunities lay for British businesses.

Indeed, we noted that it is not just second-, but now also third- and fourth-tier cities that are emerging. These cities are becoming important economies in their own right, supported by huge government spending on infrastructure, the creation of dedicated economic and industrial zones and by rising consumer spending power. Our research into regional cities revealed major opportunities for UK business in a variety of sectors: life sciences, financial services, and environmental technology, among many others.

The second trend of which British business needs to be aware is the creation of 'city clusters'. China's cities are sharing resources, industry and services, establishing rapid communications with one another and harnessing comparative advantages by linking those cities which offer lower costs with more well-established centres of demand.

In Guangdong, three clusters are developing in the Pearl River Delta. Shenzhen is interacting with Dongguan and Huizhou; Guangzhou with Foshan; and Zhuhai, Zhongshan and Jiangmen have formed a third cluster.

By the end of 2011, China will have the world's largest network of dedicated high-speed rail tracks. In the Yangtze River Delta, these rail links between Nanjing, Suzhou, Hangzhou, Ningbo and Shanghai are reducing the time it takes to get from one to another, and thereby offering enormous scope to combine the

economic forces of production, distribution and sale.

Investment in infrastructure across the country was the main component of the Chinese government's Yn4 trillion fiscal stimulus launched two years ago. The improvements in transport, power, communications and waste and water treatment are facilitating the transaction of business.

A third factor of which UK businesses should be aware is the ageing of China's population. Today, the over-sixties make up one-eighth of China's population. By 2020, it will be approaching one-fifth. This will drive a changing pattern of demand for public services, particularly healthcare, but also for pensions and other financial services.

The combination of these forces is helping to create the fourth significant trend: the increasing mobility of the population. As well as people moving to the cities, migrants are returning to their home bases to invest in new homes and businesses, driving a diversification of industry through the country.

The increasing ease with which it is possible to move about China also offers the possibility of those with skills moving to where they are needed. What this should mean is that investors can draw on an ever-bigger pool of labour for their businesses. There is a supply-side aspect to this greater mobility as well: each year, China is adding a further six million graduates to the work force, all seeking gainful employment.

Finally, and perhaps most significantly, the nature of production is changing. China is developing its manufacturing capability, harnessing its own and others' research and design expertise, to produce goods of greater sophistication. China is still the workshop of the world, supplying low-cost exports to all corners of the globe, but the government recognises that this comparative advantage will not last for ever.

Add to that the need significantly to raise productivity levels, where China's performance is surprisingly

weak, and it is easy to see there will be a need for more automation and technology. This plays to the UK's strengths in advanced engineering, advanced manufacturing and science and technology.

Role of CBBC

The UK is therefore well-positioned to partner with China over the next decade. But we need more of our companies to engage with China, and we need to encourage our companies to have a real hunger for developing their China business

That is where CBBC can help. We have been assisting UK business for more half a century, and have been leading business delegations that have accompanied British prime ministers since Edward Heath. CBBC provides the seamless link between prime ministerial and ministerial visits to ensure that momentum in the Sino-British relationship is sustained, at the very highest political level.

Through our network of 11 offices in China, we cover the key regions of opportunity. We deliver a wide range of services for our member companies, from helping them to provide a base from which to research the market and arranging specially tailored visits to setting up Chinese-incorporated businesses. We can provide a route in for smaller and medium-sized companies who might otherwise find China too expensive a market to break into. We are scouting out opportunities for UK and Chinese SMEs to collaborate. CBBC has also joined forces with the British Chamber of Commerce in Beijing to offer a comprehensive, co-ordinated support service for UK business in the Chinese capital. Please do make use of our service.

Prime Minister Cameron's visit is very timely. China offers a huge market that must be central to the UK's strategy for economic expansion. I wish his visit every success, and my congratulations to FIRST for this special magazine to mark his visit. **F**

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CBBC Chairman Sir David Brewer with China's Premier Wen Jiabao, London, February 2009