

Maintaining competitive advantage

INTERVIEW WITH SIR ANDREW CAHN KCMG

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SIR ANDREW CAHN is the Chief Executive of UK Trade & Investment, the government organisation responsible for marketing the UK overseas, promoting British exports and attracting inward investment. He has carried out this role since leaving British Airways in 2006. Previous posts included the Ministry for Agriculture, Fisheries and Food, the Cabinet Office, the Foreign and Commonwealth Office and the European Commission.

Much has changed economically and politically since the last visit to China by a UK Prime Minister. How will the approach of the Coalition Government differ from that of its predecessor, and what will the primary objectives be this time around?

The Prime Minister is leading this mission to Beijing to build ties between the UK and the world's second largest economy. Cementing strong trade and investment links and deepening the UK-China relationship as partners for growth is at the heart of the government's agenda for this visit.

This commitment towards a mutually beneficial partnership was agreed between Foreign Secretary William Hague and Premier Wen Jiabao last July. Our network across China continues to work to deliver this, and despite the current global economic situation, bilateral trade with China is up by nearly a third in the first half of this year.

In the first eight months of 2010, UK exports to China rose 44 per cent to £4.5 billion, whilst imports are also up over the same period. At the same time, our investment relationship with China continues to deepen. Cumulatively, the UK is the second largest EU investor in China by value, with a total realised investment value of US\$16.86 billion at the end of August 2010 numbering 6,639 projects.

We also welcome Chinese investment in the UK; there are already 400 mainland Chinese companies operating here and China last year was the UK's sixth largest investor by number of projects. But there is still more to do if we are to benefit from greater shared prosperity. This visit aims to encourage more UK firms to export to China and more Chinese firms to invest in the UK.

UK-China trade has suffered as a result of the global economic crisis, yet UK exports to China rebounded strongly in the first half of this year. How soon do you expect to see a return to pre-2009 levels and which sectors do you expect to drive future growth?

Despite the global economic crisis, there continues to be overall strong growth in UK exports to China this year. This has been led by trade in goods.

There is strong potential for this to continue as the Chinese economy continues to expand. There are opportunities for UK companies across the board. The

UK has the largest industries in Europe for ICT, life sciences, financial services and the creative industries. With China's fast-paced development, other key sectors likely to benefit include construction, energy, rail, airports, advanced engineering, environment and water. I also hope for expansion in the area of food and drink, the UK's largest manufacturing sector.

The success of firms such as Jaguar Land Rover and Rolls Royce in China illustrates the potential for advanced engineering, particularly as the UK is strong in research and development.

There has been much talk of 'rebalancing' the UK economy in the wake of the global economic crisis. Do you see this being reflected in the makeup of the UK's trade with China?

The UK is the world's sixth largest manufacturer and among the world's top ten in terms of goods exports. UKTI offers help to companies from many sectors and we expect to see many more manufacturers take their first steps towards exporting to China or expanding their existing operations there. But with a knowledge-based economy, services remain a UK strength.

UK architects and engineers have worked on some of the most exciting projects in China, such as Beijing International Airport, which was designed by Foster + Partners, and the Bird's Nest stadium used in the Beijing Olympics. There are opportunities for education and training, professional services and financial services among many other areas.

What challenges and opportunities for UK Plc do you see arising from the Chinese Government's policy of shifting more towards domestic consumption, and its stated aim of moving Chinese industry up the value chain?

We see this as an opportunity for UK firms to work with China in achieving its goals. The domestic economy attracts many foreign companies into China in the first place. Access to infrastructure and supply chains are also important to firms that want to export.

China has a growing middle class, which will contribute further to domestic demand. The challenge, of course, is to ensure that the UK maintains its competitive advantage in the sectors and industries where we already have a leading position globally through continued innovation.

How satisfied are you with the pace of opening up of Chinese markets to UK entrants, particularly in areas of traditional British expertise such as banking and insurance?

The UK has always been one of the world's most open economies and strongly supports the benefits of open trade. The UK, and London in particular, is a hub for financial services and we believe that UK companies can help Chinese firms to internationalise. We think that UK firms can help bring their expertise to Shanghai, a global financial centre in the Asia-Pacific time zone.

There is a perception among foreign businesses in China that the regulatory environment remains challenging, in some instances increasingly so. What steps is the British government taking to address these concerns, and what response have you received from your Chinese counterparts on the issue?

As we move to an ever more integrated global economy, having an enabling regulatory environment can be a factor in attracting greater investment. Trade talks will be the focus of this upcoming visit, but I cannot anticipate the outcome of the talks in advance.

The issue of intellectual property protection in China is a key one for a knowledge- and service-based economy such as the UK. What progress has been made on this issue and what advice can you offer companies in this respect?

The issue of protecting intellectual property is a concern for companies everywhere, not just in China.

British firms should seek early expert advice. UKTI can be a first port of call for companies that are looking to export to China and other markets, and want to find out how they can seize the opportunities while protecting their intellectual property.

The government has identified the low carbon sector as a high-potential area for Sino-British cooperation. What results has this yielded to date and how do you see this partnership going forward?

China is a key market for the UK in this area and UKTI has an ongoing programme to develop commercial relations in the low carbon sector.

UKTI supports annual missions to China by the Climate Change Programme Office (CCPO) and brought the UK's excellence in both offshore and onshore wind energy solutions together in Beijing to explore opportunities in the Chinese wind power sector. The UK has great strength in offshore wind, and we have the largest installed capacity in the world.

A number of UK firms are already in China working on a range of projects, such as Mott MacDonald, and we welcome further co-operation in this sector.

By what benchmarks will you judge the success of the visit and the UK-China Business Summit in particular?


The size of this high-level UK delegation signals our intent. The Prime Minister, David Cameron, is heading the mission, accompanied by Chancellor George Osborne, Business Secretary Dr. Vince Cable, Energy and Climate Change Secretary Chris Huhne and Education Secretary Michael Gove.

They will also be joined by a number of UK leaders from business, culture and education. This demonstrates the priority we give to developing our partnership for growth, and I believe the summit outcomes will speak for themselves.

What advice would you give businesses taking their first steps into China?

We have a network of UK Trade and Investment posts across China, ready and able to assist UK firms who are thinking of expanding into China. The first place to look for information on who to contact is our website: www.ukti.gov.uk

I would like to highlight that for UK firms that are serious about doing business in China, they should look beyond the well-known areas of Beijing and Shanghai. There are many Chinese cities that are larger than EU member states. UKTI, in cooperation with the China-Britain Business Council, produced a report looking at 35 second-tier cities in China, which were identified as most attractive for UK business. Combined, these 35 regional cities account for around 16 per cent of China's population and 36 per cent of China's Gross Domestic Product (GDP).

Whether selling, trading, investing or franchising, China offers opportunities in abundance to UK companies, large or small. I hope that more and more UK firms will continue to take these up. 

China in Statistics

- China is approximately the same size as the US, with a population of 1.3 billion. There are 122 cities in China with over one million people (as of 2008).
- China had no motorways before 1988. By 2009, it had 75,000 km, the second largest network in the world. This could increase to 100,000 km by 2020.
- By the end of September 2010, there were 89 million cars in China – 13 million of these were sold in the first nine months of 2010. China overtook the US to become the largest car market in 2009. China currently produces over a million cars a month.
- China has the largest mobile phone market: over 833 million subscribers (September 2010) and the highest internet usage, 420 million users (July 2010).

There are already 400 mainland Chinese companies operating in the UK and China was the UK's sixth largest investor in 2009