Creating shared prosperity

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here could not be a better time for the Prime Minister to be visiting China. China's new leadership is firmly established and confident about the future. The Third Plenum of the 18th CPC Central Committee has just concluded with a blueprint for reform that will bring striking changes to China and its economy over the next ten years. This is important because in China, the outcomes of these Plenums are not aspirational; they provide road maps which will be followed and destinations which will be reached. But interpreting these maps is not a job for the amateur nor the faint-hearted. China is a complex political society where even within the confines of what simplistically appears to be One Party rule, many factions and shades of opinions have to be considered and weighed leading to apparent ambiguities for an outsider not involved in the cartography. The Prime Minister meeting President Xi will be in an unrivalled position amongst World leaders to really understand what is going on.

In the last 35 years, the Chinese economy has grown around 28 times, which given its size is an astounding feat. Maintaining stability throughout this period has been a preoccupation of the leadership with careful balances having to be struck, for example, between exports and consumption, the cities and the countryside, the coastal zones and the western provinces, and, of course, the State and private interests. Twenty years ago, the State still largely delivered itself to its citizens through enormous stateowned enterprises responsible not just for production but also for everything from employment, healthcare, education, housing, and pensions to clothing and transport. Not only was this grossly inefficient, it stifled entrepreneurialism in a country which now, not least in groups such as the China Entrepreneurs' Club, shows itself capable of producing some of the world's top entrepreneurs.

It is worth remembering what the clarion calls were 20 years ago. The 14th Party Congress in 1993 was entitled, not altogether snappily, "Accelerating the Reform, the Opening to the Outside World and the Drive for Modernisation, so as to Achieve Greater Successes in Building Socialism With Chinese Characteristics." That Congress raised the curtain on a period of profound reform, not least in the area of state-owned enterprises or nationalised industries

as they used to be called in the UK. Having been responsible for privatisation policy in the UK in the 1980s when Mrs Thatcher was in power, I was surprised, and privileged, to be invited to Beijing by Jiang Zemin and Zhu Rongii in 1992 to help prepare the programme that led up to the Congress.

Twenty years on, much has been achieved, but state enterprises still account for up to half of China's industrial output. President Xi has made it clear that he wants to level further the playing field between state enterprises and private entrepreneurs, and between foreign and domestic firms, and I'm sure that these are things that Prime Minister Cameron will welcome. It's easy to forget that it's not so long ago that certain major sectors of the British economy - for example energy, telecommunications, steel, and transport were dominated by state enterprises, so the UK has more in common in this area with China than many may suppose. It has been a long march since then but I believe that President Xi Jinping and Premier Li Kegiang have pulled the strands together to usher in a new great leap forward in enterprise reform. Watching where the ideas that we were debating have now got to twenty years later is a great lesson in the art of evolutionary policy-making in China.

What else do I hope that the two leaders will talk about? Another striking outcome of the recent Plenum in my area of financial and professional services was the recognition that markets are there to play a "decisive" role in allocating resources, as opposed to being one of many policy inputs. The impact of this will be far-reaching. For example, scrapping interest rate controls on deposits will help redress the imbalance between savers and borrowers in the formal banking system. These and other controls have greatly contributed to the growth of shadow-banking in China, a potential source of future instability. The development of deeper capital markets in China for both debt and equity will not only create liquidity, it will also in due course permit the relaxation of capital controls. The more that money can flow around institutions and markets in China without state interference, the better will be the allocation of credit and the less tempted will money be to want to flood outside if controls are ever relaxed. The expertise in the City of London in these areas is unrivalled anywhere else in the world and

Prime Minister Cameron will surely be reminding President Xi of this.

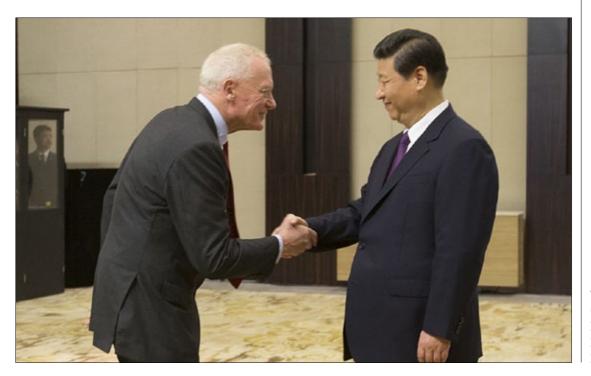
I'm expecting Chinese companies to be even more ambitious in their desire to go global – and what better gateway is there to the rest of the world than the UK? We already have in London, lawyers drafting agreements for Chinese firms investing in Africa and South America, and banks helping structure and raise the finance. What goes around, comes around in international trade and finance and the very countries where Britain invested in 100 or more years ago are where China is now looking for opportunities. I'm sure Chinese firms will be looking more and more to use British professional expertise to help them achieve their own objectives.

The recent visits to China by Chancellor Osborne and London Mayor Johnson - George and Boris showed the huge Chinese interest that there is in investing in the UK. Our Chinese friends sense that with the UK economy recovering much faster than the rest of Europe, with the British Pound an enduringly stable currency, and with a rule of law that means investments you make in the UK are still there with safe title centuries later, the UK is a very attractive place to invest. When George and Boris addressed Peking University, a student asked with some perplexity why the British so welcomed investment from China, obviously sensing that other countries didn't do so to the same extent. The clear answer was that Britain sees such investment as a source of prosperity not just for China but for Britain too, creating, for example, jobs, housing and infrastructure.

The CityUK, the body I chair which represents the financial and related professional services sector in the UK, very much welcomes the encouragement that is now being given to Chinese banks to apply for branch licenses in Britain allowing them to greatly expand their activities including using their balance sheets to invest. We want London to be the global centre for offshore RMB trading and the major Chinese banks will play a vital part in this. China has little to fear from liberalisation and much to gain from, it particularly in the services area. We should be doing much more twoway trade with each other in financial services, more Chinese companies should be active in the London market, and more British companies should be using their expertise to help serve Chinese consumers. Helping put customers' interests at the heart of the insurance industry, assisting in the development of much more effective private sector pension provision, and improving the effectiveness of health care are all key areas where UK expertise could make a real difference to the lives of Chinese consumers.

These visits are not about political tourism – they are hard-nosed affairs where both sides are looking for advantage, although hopefully in a spirit of friendship. There will no doubt be handshakes, posturings, photoops and the drinking of toasts. But there will also be much more. The brilliant thing about the UK and China at this present time is how much we have to gain from each other. If our leaders do their stuff, more jobs, more trade, more investment, more growth, and more friendship will be created – not a bad mix, especially as all our citizens will be more prosperous as a result.

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TheCityUK Chairman, Gerry Grimstone and HE Xi Jinping, President of the People's Republic of China