

Strong potential for further growth

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CATHERINE RAINES was appointed Chief Executive of UKTI on 7 September 2015. She was previously Minister and Director-General of UKTI China, a position she held from April 2013, after a 25-year career in both the public and private sectors, including periods spent living and working in the UK, USA, Sweden and China. At UKTI China, she led an organisational transformation that saw business wins grow ten-fold, from around £300 million to almost £4 billion in two years.

I am delighted to mark the occasion of the State Visit by President Xi Jinping of China to the UK with this FIRST report. This comes during a golden period for UK-China relations. The State Visit, including as it does a substantial business delegation, highlights the strong state of trade and investment relations between our two countries, and the prospects they offer for strong further growth.

China's growth story has been one of the great feats of all our lifetimes. China has grown at an average annual rate of around 10 per cent since the early 1980s. Growth now amounts to adding the equivalent of the UK's GDP every 4 years. Income per capita has quadrupled over the last decade. China now has 213 dollar billionaires (according to *Forbes*), 8 times the number it had in 2009 and nearly twice those in the UK.

China is urbanising rapidly. McKinsey predicts there will be 221 cities in China with a population of more than 1 million in 2030, compared with 35 in Europe now. Since 2000, China has built residential property equivalent to the entire housing stocks of the UK, Germany and France combined. China became the world's largest goods exporter in 2009, surpassed the US as the biggest goods trading nation (exports plus imports) in 2013 and recipient of foreign direct investment in 2014. The business opportunities that flow from this are tremendous.

The UK's offer is remarkable too. All major independent sources confirm the UK as the number one destination in Europe for FDI. The UK received net FDI inflows of £44 billion (US\$72 billion) in 2014 – representing one-third of total European Union inflows. The UK has risen for the third year running in the 2015 *A.T. Kearney Foreign Direct Investment Confidence Index* to become the third most sought-after country in the world for investment. The UK is the highest placed European economy in this Index, which measures the effect of political, regulatory and economic systems on FDI inflows. A study by PricewaterhouseCoopers identifies London as second only to Shanghai as the most attractive city in the world for FDI. London comes out top overall as the world's leading centre for business, finance and culture.

Exports of £500 billion in goods and services in 2014 placed the UK sixth in UNCTAD's index of top exporting countries. The United Kingdom is the second largest global online retail exporter after the

US, and the largest in Europe. The UK is the ideal base for onward global investment to increase profitability and competitiveness.

British business is engaging strongly with China. In 2014 the UK overtook France to become the second largest European exporter to China after Germany, with exports worth £18.25 billion. Two way trade was worth US\$80 billion (£52million) in 2014. China is the UK's second largest import partner after the US.

Historically, the trade balance for the UK has been stronger on services than goods, but with a greater volume of goods. In 2014 we had a goods trade deficit of £22.1 billion and a £2.7 billion surplus in services.

British business, supported strongly by its partners in government, is working well to strengthen the country's position across the board. Since the last State Visit in 2005, UK goods exports to China have grown from £4 billion to £14.1 billion in 2014, doubling over the term of the last UK parliament. UK goods exports to Hong Kong were worth £6.3 billion in 2014. In 2014 China became the UK's sixth largest export market. The Chancellor has announced that he wants mainland China – and Hong Kong – to become the UK's second largest export market within the next 10 years.

Companies across a broad range of sectors are finding success in China. Road vehicles accounted for 35 per cent of all UK goods exports to China in 2014. Jaguar Land Rover is our single biggest exporter. Other major export categories include machinery and electrical products (13 per cent), travel services – goods and services purchased by Chinese visitors to the UK (8 per cent) – and metals (6 per cent). High-growth sectors include financial services, aerospace and energy. A major expansion in healthcare is under way as China's reforms open up new opportunities in hospital management, training, digital health and elderly care.

Some sectors have dipped this year, with change in the macroeconomic context. Still, most independent analysts agree that the long-term prospects for China are some of the most impressive anywhere in the world. UK goods exports rose in the first half of 2015.

UK Trade & Investment, UKTI, is the arm of the government that helps British companies export, and encourages Chinese companies to invest in the UK. Our record is strong, and we look to work with ever more British and Chinese companies to make the most of the opportunities that exist. We are prioritising our

China work. The team in our offices in China is noted for its ambition, capability, insight and access. UKTI China supported just under £4bn worth of business wins for UK companies in 2014-15, tenfold what it did just two years before. I am driving for that record of success to continue and grow, and I welcome your company to play a part.

For the future, the UK's export performance is heavily dependent on how far China opens up its services sector to greater foreign competition, with a number of areas (insurance, telecommunications, legal and banking services, design services, education) currently subject to ownership and licensing restrictions. The warmth of the UK-China relationship, exemplified by the State Visit of President Xi, bodes well for taking forward market access developments. We engage positively and steadily with our partners in and across China.

On investment as well as trade, the UK-China story in recent years has been remarkable. This is set to continue. Chinese outward investment is booming, both in terms of absolute figures, as well as in terms of China's share of global Foreign Direct Investment (FDI). In 2014 President Xi Jinping estimated that Chinese outward investment would exceed US\$1.25 trillion over the next 10 years. This growth would take China's stock of global overseas direct investment (ODI) to nearly US\$2 trillion.

The UK is the most popular major European destination for Chinese investment. In 2014 the UK received US\$5.1bn of Chinese investment, nearly 30 per cent of Europe's total. The Chinese investment stock in the UK reached US\$11.8 billion in 2013, with average annual growth of 85 per cent for the past five years. In the financial year 2014-15 Chinese companies were responsible for 112 FDI projects in the UK that resulted in 5,927 new and secured jobs.

These numbers are set to grow, benefiting businesses and communities all over the UK. A recent report from Pinsent Masons forecast that China was set to invest £105 billion in British infrastructure by 2025, with energy, property and transport sectors likely to be particularly popular, as illustrated respectively by Chinese interest in Hinkley Point C, One Nine Elms and High Speed Two. Europe is following our lead. In 2014 China's outward investments into the EU increased by 170 per cent.

I am delighted that the business delegation accompanying President Xi will be with him in Manchester as well as London. UKTI is engaging strongly with its partners in British central and local government, as well as with business, to shape the vision of the Northern Powerhouse, across the great industrial cities of the north of England. Our vision is to bring these cities together, creating modern high-speed transport links between them, making sure that they have strong civic leadership, bringing investment

to them, and as a result creating a North of England that is greater than the individual parts. We welcome the degree to which Chinese businesses and potential investors are already engaging with opportunities across the North of England, and its rich business and industrial fabric.

Many regions of the UK have much to offer, and we welcome members of the business delegation exploring all that the whole UK offers China. Scotland has doubled exports to China in recent years through high quality premium products, including textiles and technical textiles, R&D, tourism, financial services and low carbon/renewable energy – all industries where Scotland offers world-leading capability, products, exceptional knowledge and skills. Scotland is the UK's most successful region for attracting inward foreign direct investment outside of London.

Northern Ireland offers excellence in engineering but also clusters in a number of knowledge-based sectors. Its engineering products and services are currently supplying China's aircraft industry, transportation, mining and quarrying sectors. Belfast is a leading centre in Europe for software development and technical support. The pharmaceutical industry has also developed state of the art products for personalised health, food safety, and the veterinary industry.

Advanced materials and manufacturing productivity are markedly high in Wales. There are 160 aerospace and defence companies employing 20,000 people with a combined turnover of more than £5 billion. Wales has 20 per cent of the UK aviation maintenance, repair and overhaul (MRO) market, while Airbus' wing manufacturing operation in North Wales is the single largest manufacturing plant in Britain. Wales has a £100m dedicated Life Sciences Fund and is home to Europe's first Centre for NanoHealth, while academic researchers lead the world in areas including wound healing, stem cells, neurosciences, e-health, in-vitro diagnostics, medical devices and more. Welsh creative companies employ around 50,000 people and generate a £1.6 billion annual turnover, with 25,000 more working in creative roles in other sectors. Two of the UK's largest independent TV production companies are headquartered in Wales, which has excellent studios and post-production facilities.

The UK is open for business, and relations between Britain and China are at an all-time high. I hope that for our two countries the State Visit of President Xi Jinping to the UK will both mark a high point for all that we have achieved together, and act as a platform for further ambition and development between us. **E**

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