

Changing the way we view China

By LORD SASSOON

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LORD SASSOON read Philosophy, Politics and Economics at Christ Church, Oxford. He began his career at KPMG, before joining SG Warburg (now part of UBS) in 1985, where he became a managing director and head of the investment bank's global privatisation business. He has held senior positions in the UK Treasury, first as a senior civil servant (2002-06) and then as Commercial Secretary to the Treasury (2010-13), and was appointed a Director of Jardine Matheson Holdings in January 2013.

After 30 years of spectacular economic growth and social change, China is embarking on the next – inevitably more difficult – phase of its development; the impact of which will be global and long-lasting. Commentators on all sides are currently competing to be right about what the future holds for China.

China's changes in perspective – real growth, policy drivers and the need for reform

The current UK government has made clear its determination to pursue closer economic ties with China. This can be seen in the recent trip of the Chancellor of the Exchequer, George Osborne, to China during which he announced a new ambition to make China the United Kingdom's second largest trading partner by 2025. It was the fourth largest export market for UK goods in the first seven months of 2015 – worth £18 billion on an annualised basis.

There are few more symbolically important moments between two countries than a State Visit. The spotlight of attention will come with forensic levels of analysis and opinion. At the China-Britain Business Council (CBBC), it is our responsibility to give our member companies, which range from the UK's largest multinationals to SMEs, an impartial perspective on the business environment in China. CBBC is a reference point and trusted advisor to almost a thousand member companies in the UK, as well as thousands more to whom we provide support. Most companies don't have extensive in-house China expertise to guide their senior managers in decision-making and are, to varying degrees, reliant on the deep and broad expertise within CBBC, and the platform of peers within our organisation, to make informed decisions for their businesses.

So what do we, at CBBC, think about the future? China is undoubtedly changing and the nature of the commercial opportunities is changing too. The opportunities for British companies are more varied and accessible than ever before. Those opportunities are in China; they are to work with Chinese companies in the UK; and they are opportunities to work together in third markets around the world. The CBBC also believes that the days of looking at China as one market are long over. Each region of China can, and indeed must, be looked at in the way

that a business would look at the different countries of Europe.

Looking ahead, *One Belt One Road* has the potential to be the most significant business initiative of this generation. In Urumqi last month, the Chancellor launched a report prepared by CBBC and the Foreign and Commonwealth Office showcasing the opportunities for UK companies flowing from One Belt One Road. Another key policy, *Made in China 2025*, aims to move China's manufacturing up the value chain. At CBBC we are confident that the services and expertise in the UK are exactly what China needs to make this move. And we await, with eager anticipation, the outcomes of the 13th Five Year Plan, which will set the direction of travel for China over the coming years.

China has made an important step-change in its development. GDP growth around the 7 per cent mark or, possibly, significantly lower will become the norm. But the focus on growth rates is simplistic: the absolute growth in the size of the Chinese economy this year is almost triple what it was a decade ago. It is this growth in the absolute size of the economy and, by extension, in GDP per capita that is key for UK business. The GDP growth figures of individual provinces, regions with a population greater than the UK, show enormous disparities, with a reported 4-5 per cent in regions like Liaoning and Heilongjiang, while others such as Chongqing, Fujian and Jiangxi still have growth around or above 10 per cent per annum. The on-going adjustments in the Chinese economy will not be without pain but should be viewed in a positive light for the opportunities they offer to British companies.

At CBBC, we recognise the challenges ahead for the Chinese government. China's is a gargantuan economy with some significant legacy issues. But the need for reform and further opening up is just as important today as it was 30 years ago. We welcome the recent move by The State-owned Assets Supervision and Administration Commission of the State Council, only last month, to initiate a path to energise its State Owned Enterprises. Allowing private investment should bring about increased productivity – but we accept that it will take time.

Recent reports of increased protectionism and opacity are worrying. Developing competition in a more open

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business environment will encourage innovation in China's domestic businesses. This should be welcomed, as ultimately, Chinese companies will be less competitive abroad if they have not been driven to innovate in China. Chinese companies will be best served by becoming used to a more transparent business environment at home, as this is what they will find as they increasingly invest abroad.

Seizing the varied UK-China opportunities – all over the world

The UK is uniquely placed as a catalyst for China's *New Normal*. It is our products, services, education and healthcare, advanced manufacturing and innovation that can meet China's needs as it moves to a consumption-driven economy. Deals of all shapes and sizes are being done by UK and Chinese partners in both our countries and in third markets.

At CBBC, we are seeing our members doing increasingly exciting and broad work in China. Our multinational companies are building stronger bonds in China, becoming part of the fabric of the business environment there and the same is true for SMEs. At our recent SME China Forum, held this year in Nottingham, our panellists included small East Midlands companies placing custom-branded photo booths in China, selling fruit salads and juices, delivering training on aviation regulations and compliance, and selling essential oils and aromatherapy treatments. They are not huge businesses with limitless resources. They were canny, did their research, understood their markets, found help in organisations such as CBBC and took informed business risks. These companies, whether large or small, represent the future of UK business in and with China.

The UK welcomes Chinese companies to invest and do business here. The UK's FDI stock of Chinese investment was US\$11.8 billion in 2013 – more than that of France and Germany combined. With Chinese outbound investment reported to have surpassed that of inward foreign investment in recent months, the UK is well-positioned to take advantage. Projects such as Swansea Bay Tidal Lagoon, Manchester Airport City and, prospectively, Hinkley Point C are examples of commitment at all levels to seek much-needed infrastructure investment from China. But it is not just in infrastructure where this partnership can be successful. In late 2013, for example, Coventry-based Covpress International Holdings, a world class pressings supplier with a 123 year history, was acquired by a major Chinese automotive components supplier, Shandong Yongtai, in a multi-million pound deal.

CBBC does not forget the importance of UK investments into China. My own group, Jardine Matheson, has committed more than US\$2 billion to

new retail and property investments in China in the past 18 months – a clear statement of our confidence in China.

And looking at third country cooperation, CBBC works with the Commonwealth Enterprise and Investment Council to encourage partnerships between UK and Chinese companies in the rapidly developing Commonwealth countries. These are markets in which the UK has significant experience, and which will suit the expertise of Chinese companies who want to explore international markets.

No discussion of UK-China trade could omit the role played by the City of London, with the best financial, legal and consulting services in the world. And China recognises this – continually testing RMB products and initiatives in London. Forex trading in RMB has grown 143 per cent in the last year, according to a recent report by the City of London Corporation. At the 7th Economic and Financial Dialogue in Beijing, China and the UK agreed to extend and expand the RMB/Sterling swap line; to support the Shanghai Stock Exchange and London Stock Exchange Group to carry out a feasibility study on a stock connect; and that the People's Bank of China will issue an RMB denominated central bank note in London in the near future, the first outside of China. More details are emerging that China Development Bank will open a Representative Office in the UK as soon as possible.

Looking to the future

To maintain the momentum of this State Visit, CBBC will host one of its pillar events in China next month. On 3 November, the 3rd Annual China Outbound Conference will take place in Beijing, laying out the opportunities across the UK for Chinese investors, as well as introducing our international financial and professional services industry. CBBC's Great British Brands Festival, now in its third year, will bring around 50 UK brands to eight cities across China in 2015, and recently held an online flash sale on Juhuasuan, one of the Alibaba Group's emerging e-commerce champions, resulting in RMB 6 million of sales in just 3 days. Only a year or two ago, this level of exposure would have been unimaginable for some of these brands so early in their China journey. It is initiatives such as these that deepen our already strong trade ties.

A State Visit involves a huge amount of work for those involved. I would like to offer my congratulations to all those who made this happen on both sides – to Buckingham Palace, the FCO, to the Chinese Embassy in London, the Foreign Affairs Office in Beijing and all other relevant parts of the UK and Chinese governments.

Finally, I wish President Xi and all our guests from China a pleasant and successful time in the UK. **F**