# Opportunity in China's new normal

**By JOHN LONGWORTH**
Director General, British Chambers of Commerce

JOHN LONGWORTH was appointed Director General of the British Chambers of Commerce in September 2011. He has held Executive Board positions at Asda Group Ltd and Asda Financial Services Ltd as well as the Operating Board of Tesco Stores Ltd and CWS Ltd. In 2009 he became founder of a science, IT and professional services business, SVA Ltd of which he is Chairman. He is a regular contributor to broadcast, print and on-line media and has had regular engagement with government and politicians in Westminster and Brussels over the last thirty years.

There has been no shortage of headlines about the UK and China recently. With the UK Chancellor George Osborne's tour of China this summer and China's President Xi Jinping's visit to the UK – the first by a Chinese leader for 10 years – there has been active discussion about how the relationship between the two countries will develop going forward. It is undeniable that the UK and China are moving towards working ever more closely together – but how does this square with the changing pattern of pace and growth in China, and what does it really mean for British businesses? Before delving into China's recent events, it is worth noting that the country remains the world's second largest economy, representing 12 per cent of global GDP and accounting for 40 per cent of global growth last year. Indeed, for the UK, China is an immensely valuable partner – both in terms of inward investment and as a potential destination for exports.

Recent weeks have seen a spate of announcements about Chinese investment into the UK, most notably the £2bn deal under which China will invest in the Hinkley Point nuclear power station, as well as plans for Chinese support for the UK's 'Northern Powerhouse'. As for exports into China, the British Chambers of Commerce 2015 International Trade Survey shows that one third of UK exporters (31 per cent) sell to China while a further one in five firms (21 per cent) are on the cusp of exporting and are looking to export to China in the next five years. This means that over half of UK firms consider China a desirable destination for their goods and services – which reinforces Osborne's view that the UK and China benefit from a 'golden relationship.'

However, this leads to a number of questions, with the most obvious one being: how will China's developing economic situation affect this outlook? In answer to this, it is worth taking a look at China's recent history: specifically, what has been fuelling its steep growth – as well as considering what trends we might see in the near future.

**China's rise – and recent changes**

China has experienced nothing short of astounding growth over the past three decades – averaging almost 10 per cent each year. Much of this rise has been built on low-cost manufacturing and export, as well as significant government investment in infrastructure projects – with the country building the equivalent of ten new cities per year. Above all, China's rise reflects the growth of its domestic production capacity – both to service domestic demand and to meet increasing demand for its exports. This placed the country at the forefront of emerging market growth after the financial crisis, at a time when the BRICs were still seen as a reliable source of global growth.

China's steep rise was supported by a globally unprecedented investment rate of 50 per cent of national income and an accumulation of debts at an annual rate of more than 15 per cent of GDP. It is therefore unsurprising that China is now witnessing a deceleration in its growth – described as the 'New Normal' for the country's economy. At present, the Chinese government is starting to diversify its areas of activity from infrastructure, housing and heavy industry – but remains committed to targets to double GDP per capita by 2020, with China's growing middle class set reach over 600 million people in the same timeframe.

**Rising middle class**

Considering that this middle class is more than ten times the total size of the UK population, China's increasing purchasing power is not to be underestimated. The number of households in China with an annual disposable income above US$10,000 will almost quadruple from 57.1 million to 222 million by 2020. As a result, the country has seen a recent shift towards consumption-orientated growth, with Chinese import demand expected to dwarf other emerging powers – a change that other countries would be unwise to ignore. The fact that China consumes more than it produces has always been good news for the UK – and will now be even more pertinent.

In fact, the importance of China to the UK economy as a trading partner has increased consistently since 2004, for both imports and exports. Following a growth of imports from £11.4 billion to £37.6 billion in 2014, the UK's imports from China are second only to our largest import partner, the USA, accounting for 7 per cent of UK imports. Exports to China have risen at a more subdued rate over the same period, from £4.0 billion to £16.7 billion in 2014 accounting for 3.2 per cent of UK goods exports. UK businesses cannot be

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complacent. Just 2 per cent of UK overall (goods and services) exports go to China, compared to 8 per cent to the USA and 5 per cent to Germany – meaning that UK businesses are missing out on numerous opportunities. This raises the obvious question: how can British businesses increase their share of exports to China?

**Opportunities for British businesses**

Firstly, China no longer wants to be known just for low cost manufacturing. Chinese firms are increasingly under pressure to move up the value chain (under the Made in China 2025 manufacturing policy) – creating demand for imported manufactured goods in the long term. Secondly, China remains an important and viable market for a wide range of products and services – offering huge opportunities for British companies, particularly in sectors such as food and drink (thanks to the disposable income of the country's growing middle class), renewable energy (as China endeavours to stave off the effects of pollution and smog by developing its 21st century industrial strategy) and financial services (where the UK has a distinct advantage). China continues to develop the built environment – and architectural, planning and engineering services therefore remain an opportunity. Finally, with the country's increasing demand for high-quality goods and services, it is worth noting that the 'Made in Britain' brand still carries significant cachet in China.

There is a wide range of support available to help UK businesses navigate opportunities in China. The British Chambers of Commerce work in partnership with the China-Britain Business Council who can offer advice on doing business in China as well as suggesting reputable business partners. The CBBC have been operating in China for the past 60 years, have multiple offices in the UK and China, as well as strategic partnerships with the British Chambers of Commerce in Beijing, Chengdu, Chongqing and Guangzhou. It is vital for businesses to remember that despite its slowdown, China is still an enormous market, with a consumption rate that is expected to keep steadily growing – and that the opportunities are there for the taking.

**The UK And China – a 'Golden Relationship'**

It is therefore no surprise that Osborne recently announced his new aim to make China the UK's second largest trading partner by 2025, potentially adding billions to Britain's economy. In addition to the aforementioned infrastructure projects, China has been steadily investing into the UK in a number of other sectors; according to the Chinese embassy's economic and commercial office, the country's investment created more than 6,000 jobs in Britain during the 2014-15 fiscal year.

The UK, and London in particular, remain attractive destinations for China, notably due to the reputation of UK universities in China, as well as London's position as a leading financial centre. This latter aspect is set to strengthen ties even further, with Osborne recently announcing plans to link the Shanghai and London stock markets – which would allow Chinese and British shares to be traded in both countries. This follows the Chancellor's announcement earlier this year that Britain had applied to become a prospective founding member of the Asian Infrastructure Investment Bank, making it the first Western nation to do so.

All of these developments demonstrate that regardless of China's economic readjustment, ties with the UK are only set to grow. UK companies of all sizes should be bold and ambitious in building stronger links with China – the world's largest economy and the home of an impressive and active consumer base. As China rebalances its economy and its middle class grows, there will be strong growth potential in both service and goods exports in the sectors where the UK has a distinct advantage – with, at the same time, increased Chinese inward investment continuing to build ever stronger links between businesses in the two countries. F

In the trenches: As demand for luxury clothing slows, British companies such as Burberry are diversifying into new areas such as make-up and perfumes