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China Business Handbook 2017/18

Advice 建议 Support 支持 Networking 网络

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1. China Business Environment

Chapter one introduces the Chinese business environment as it stands at the beginning of 2017. We chart how China reached the point it is at today, and examine the economic trends that ensure China's economy continues to be a worthwhile investment.

In the first section, we chart how China's economic miracle brought it to the position it is in today, and contextualise the recent slowdown to show there has still never been a better time for UK companies to enter China.

The second section breaks down the differences between China's different regions and their present economic trends; and identifies what this means for your business when deciding where to enter the Chinese market.

In the third section, we explore some of the major macroeconomic trends that are transforming the Chinese economy, the key policies and drivers that are effecting this transformation, and some of the challenges China faces in continuing on the path to a prosperous, modern economy.

We then move on to examine the government's landmark policies – the latest Five-Year Plan, the Belt & Road Initiative and Made in China 2025, through which China hopes to take the economy to the next stage of development.

The fifth section tackles questions arising over the effect of Brexit on potential British-Chinese business relations, and looks at the great wealth of opportunities to be taken advantage of by British business in the near future.

Finally, the last section of the chapter outlines the continuing work that both the British Government and CBBC are doing on behalf British companies. We detail the network of support that is in place across China and the UK to assist you starting up or operating in China. We also include examples of events organised by CBBC and our partner organisations that facilitate the growth of networks and spread of China savvy best practice.

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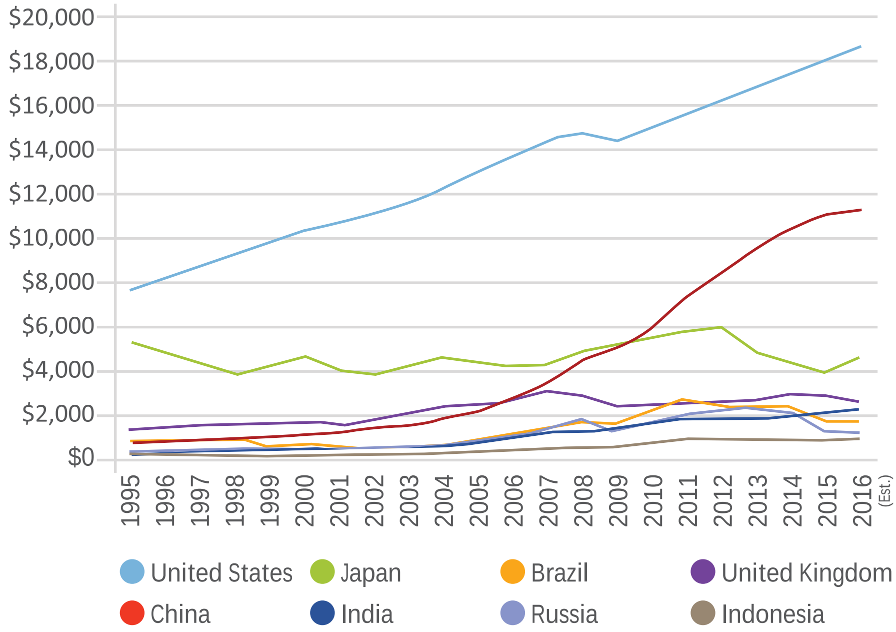
1.1 China in 2017

A Rise to Prominence

It has been almost 40 years since the beginning China's 'reform and opening up' policy in 1978 propelled it into a period of the most rapid economic growth in world history. This period has seen China average nearly 10% growth in Gross Domestic Product annually – with a peak coming in 2007 at an astonishing 14.2%. China is now the second largest economy in the world, and widely projected to overtake the United States by the middle of this century.

These changes have secured China's position as a major player in the global economy, and as an engine of growth for the Asian region and wider world.

Nominal GDP (Current USD, bn)



Source: www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx

"China is now too big and important a market to ignore, and every company with a global view needs to make an assessment about if and how to engage."

A "New Normal"

China's economic growth rate has begun to slow in recent years, causing concern in some quarters. In 2016 China posted 6.7% GDP growth, the slowest growth for 26 years, and in March 2017 Premier Li Keqiang told the legislature that the target for this year would be "around 6.5% or higher if possible".

First, it's worth noting that these figures are still high relative to developed nations, albeit a reduction by Chinese standards. Second, the Chinese government presents this as part of their plan to rebalance its economy away from investment and export-led growth. This is what it calls a "new normal" – of higher-quality growth for the long run – in exchange for which China is willing to accept lower overall economic growth. Lastly, in absolute terms this growth is still extraordinary given China's current size, allowing it to expand by the economic equivalent of Switzerland every year.

With rising wages and retiring baby boomers causing a decreasing working population, China is taking steps to move away from labour-intensive cheap exports, which are susceptible to shocks in global demand. Rather, it will seek to rebalance towards a more highly mechanised and service-oriented economy, with a heightened reliance on domestic demand and perhaps added emphasis on environmental sustainability.

China Driving Global Growth

China still has some catching up to do in terms of industrialisation, urbanisation, and agricultural modernisation. But as the world's largest developing country, the economic potential ahead of it is huge. While China only makes up 14.8% of the world's economy, the State Council pointed out in a January 2017 article that it accounts for 39% of global economic growth[1].

It is worth remembering that because of China's overall scale and population, a slower growth today actually represents a larger impact on global GDP than faster growth in previous years. In 2006, when China was growing at around 12.7%, it was equivalent to an annual increase in GDP of USD 300 billion. Whereas in 2016, 6.7% growth represented nearly USD 800 billion increase – almost three times greater absolute growth than 2006. Although this is a simplification, it is clear that the bigger China is the more purchasing power it has, the more business is being done, and the larger the opportunity for UK firms.

China is now too big and important a market to ignore, and every company with a global view needs to make an assessment about if and how to engage. CBBC hopes that this Handbook will help to raise awareness of China, and enable you to make best use of the business opportunities that it presents.

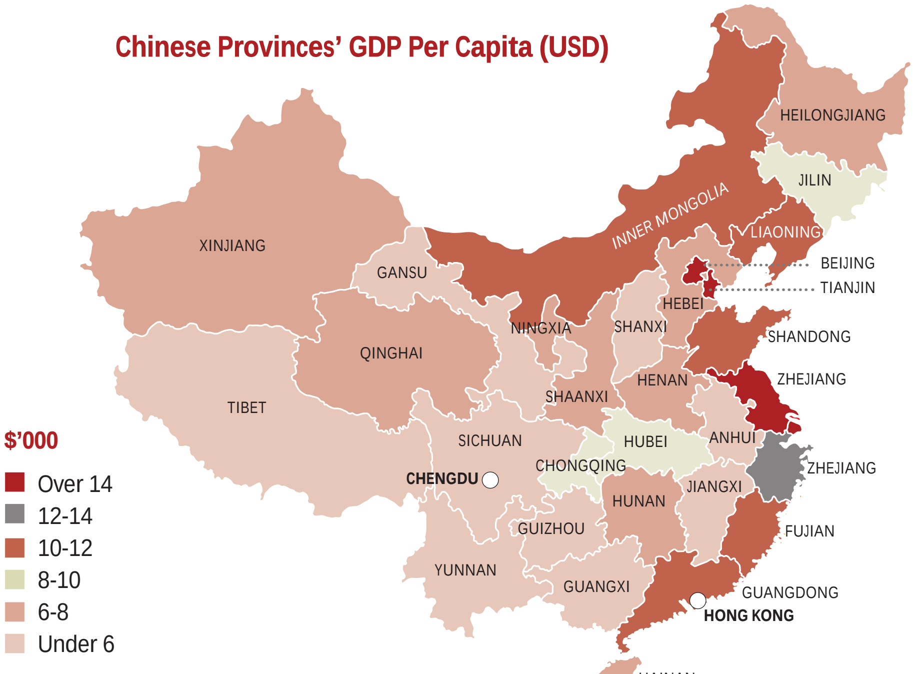
This article was written by CBBC

[1] http://english.gov.cn/news/top_news/2017/01/16/content_281475542971540.htm

1.2 Breaking Down the China Opportunity by Region

Though everyone is aware of the rise of China on the international stage, with a country the size of a continent, it is important to understand that China is not just one market. China's vast territory and large population means that there is wide variation in its industry mix and overall development across the country. In this section we will break down these differences, to help you identify the regions of most relevance to your business.

Chinese Provinces' GDP Per Capita (USD)



Sources: SEIC, World Bank

Regional Differences

Various factors including geographic endowments, historical legacies and the "Opening Up" policies favoring coastal areas, are part of what is behind present day regional disparities in China. Coastal provinces have also benefited disproportionately from their location; more advanced commercial infrastructure; and preferential policies for urban development.

The map on this page compares Chinese provinces' GDP per capita, with the darker more developed areas along the eastern seaboard.

In order to address regional economic disparity, the Chinese government has in recent years announced policies such as "Go West" and the more recent "Belt & Road Initiative". Other initiatives include deliberate attempts to steer capital, technology, and labour from wealthy coastal areas to poor inland provinces, as well as to reverse the brain drain that the wealthier regions cause.

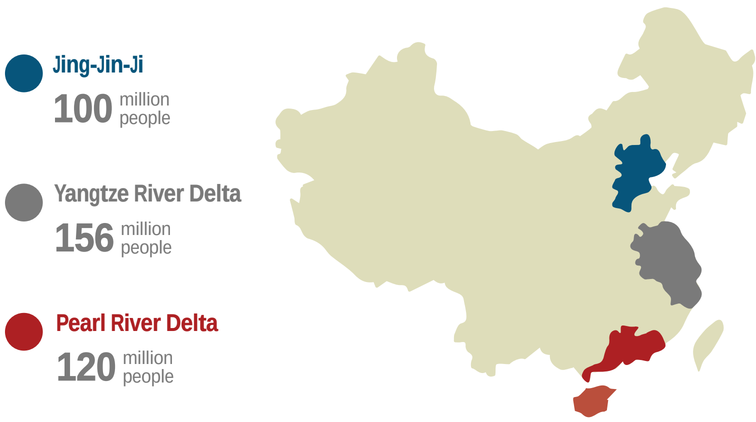
Recent years have seen some nascent success of these effort with the emergence of two growth areas – one in central China around Wuhan, and another encompassing the western cities of Chengdu and Chongqing.

City Tiers

China is a country with over 160 cities of more than one million inhabitants, and a city tier system has therefore been devised to classify them. Although different organisations may have slightly different criteria for definitions, factors such as GDP, population, income per capita, infrastructure development and commercial vitality are standard measures used to classify cities into five categories, from tier 1 (highest) to tier 5 (lowest).

The majority of the tier 1 and wealthier tier 2 cities have received increasing attention and investment from foreign countries, and are located in China's east or southern coastal areas, such as Tianjin, Nanjing, Qingdao, Suzhou or Xiamen. However, there are a few inland provincial capital cities often counted as tier 2, including Wuhan, Xi'an, Chengdu and Urumqi which are inland. As you go from tier 3 to tier 4 and tier 5, the cities get smaller and less affluent.

[1] (http://www.economist.com/news/china/21707964-government-struggling-spread-wealth-more-evenly-rich-province-poor-province)



Megaregions' Development

China has three main mega-urban zones in its eastern regions: the Jingjinji Megalopolis, the Yangtze River Delta and the Pearl River Delta.

The Jingjinji Megalopolis, as part of the Bohai Bay economic rim, was officially announced as an economic entity in 2014, and is a project that aims to integrate the cities of Beijing and Tianjin with Hebei province into a single megaregion in northern China.

- Home to a population of 100 million;
- Total area of 218,000 square kilometres, slightly smaller than the UK (around 242,500 square kilometres);
- GDP accounts for 10% of China's total;
- By 2020 the area will have the largest cluster of sea ports in China, reaching a capacity of 2 billion tons and a container loading capacity of 300 million;
- Beijing is a centre of the finance industry; Tianjin is focused on the development of advanced manufacturing, aviation, bio-pharmacy, shipping and logistics; and Hebei is taking steps to transfer parts of industry from Beijing and Tianjin, especially around information technology, cultural & creative sectors, education & training, as well as sports & leisure.

The other two more mature mega-regions have been the major engines of China's recent economic growth.

The Yangtze River Delta is centered around Shanghai and spans across the numerous major cities within Jiangsu, Zhejiang and (is now expanding to) Anhui province.

- Home to 156 million people;
- GDP accounts for 20% of China's total;
- Responsible for 1/3 of China's imports and exports;
- Estimated urbanisation ratio will reach 80% before 2020, far higher than the national average;
- In 2016 the NDRC (National Development and Reform Commission) released a blueprint for developing the Yangtze River Delta into a "world-class" cluster of cities by 2030
- Innovation in key areas has been encouraged to cluster in the region, including equipment manufacturing, information technology, bio-pharmacy, auto, finance, logistics, and culture & creative industries.

The Pearl River Delta consists of nine major cities in Guangdong province and also encompasses Hong Kong and Macau. It was the earliest region in China to open up to foreign trade and investment in the late 1970s.

- Home to 120 million people;
- GDP of the nine biggest cities in Guangdong province accounts for 12% of China's total;
- Enjoyed a GDP per capita of ¥107,000, 2.2 times the national average; Exports account for roughly 27% of China's total;
- Attracts 20% of China's total foreign direct investment;
- Serves as manufacturing base for the entire world and has broadened its industrial clusters from food & beverages, toys and clothes; to high-tech equipment, petrochemical products, auto, and IT products.

While these three major regions are the centres of commerce and wealth at the moment, its worth to note that China's other regions have their advantages for UK business. First, it's generally the inland and less developed cities which are growing fastest – UK companies with a long term view may look at them as places of great potential. Furthermore, wages in the regions are still relatively low compared to coastal areas, making them a draw for manufacturing in labour intensive sectors.

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1.3 Chinese Economic Trends

The Chinese economy is now well into its transition phase to a "new normal". The changes being made in the country's economic policy and structure have led to the emergence of new trends, as China matures into a more services and innovation-driven economy. Whether they pertain to new foreign investment laws, the property market or an evolving import mix, keeping abreast of the impact of these trends is useful to companies seeking to do business in China.

China's Imports & Important Drivers

Following a long period of increasing imports, there was a decline for the first time in 2015, and a further fall by 5.5% in real terms in 2016. One driver for this is the move towards consumption and services for growth, as these are relatively less import intensive. Furthermore, a relatively strong renminbi (RMB, ¥) has contributed to the slowdown in demand for China's exports, indirectly affecting the amount of intermediate inputs it imports. Meanwhile, certain imports are also being replaced by increasingly competitive domestically produced goods[2]. However, it is a mixed picture and there are many product categories which are still seeing strong demand for imports.

China's population of 1.37 billion ensures that it has a huge market for UK exporters. Below we identify some sectors with strong demand in 2017 for the Chinese consumer:

- ***The Chinese Consumer/Retail***
  With an increasing number of middle income citizens and growing consumer confidence, the Chinese retail market is expanding. China's retail sales of consumer goods grew 10.4% year-on-year in 2016, hitting ¥33 trillion (£3.9 trillion), about ten times the size of the UK's consumer goods market in the same year (£388 billion)[3].

- ***Health and Lifestyle***
  Mintel research reveals that Chinese consumer trends in 2017 will see an increase of more spending on living a higher quality lifestyle. Consumers are increasingly focusing on longevity, health and fitness, with organic and healthy foods seeing a rise in popularity. As a result of rising concern over child obesity, more Chinese parents now prioritise providing healthy food for their children. Higher sales of vegetables are also an indicator that health, food and fitness are a growing trend. In addition, health and wellbeing mobile applications are seeing rapid growth – with 19% of Chinese consumers in 2016 reportedly using them.

- ***Smart Devices***
  Smart devices have already begun to enter people's homes and consumers are now looking for new ways to utilise their private space to make their lives more comfortable. This is especially true of the older generations. New utilisation of space is expanding to smart cities, with smog reducing technology and smart skyscrapers. Pop-up stores and personal 3D printing are also new trends predicted to become even more prominent in 2017.

- ***New Payment Systems & Tech***
  Innovative payment systems, artificial intelligence and automated services will see further development in 2017. China's consumers have been adept at early adoption of new technology, and with importance placed on convenience and lifestyle, expect continued growth in cutting edge and pre-emptive technologies such as electronic cash applications and automation (for example in food services). Consumers are increasingly interested in virtual reality and augmented reality in gaming, travel, shopping and entertainment.

[2] https://www.imf.org/external/pubs/ft/wp/2016/wp16106.pdf
[3] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales

"China's population of 1.37 billion ensures that it has a huge market for UK exporters."

- ***Growing Rural Access to Goods via the Internet***
  Another key trend is rise of the rural consumer. Internet user growth has reached near saturation in urban areas and there is now high priority placed on the development of infrastructure in rural areas by the Chinese government. According to JP Morgan, the tier 1 cities of Beijing, Guangzhou and Shanghai will only account for 11 million of the 160 million new Internet users between 2015 and 2018. With these new Internet connections comes different consumer demands and the rural consumer will be an important area of growth in 2017.

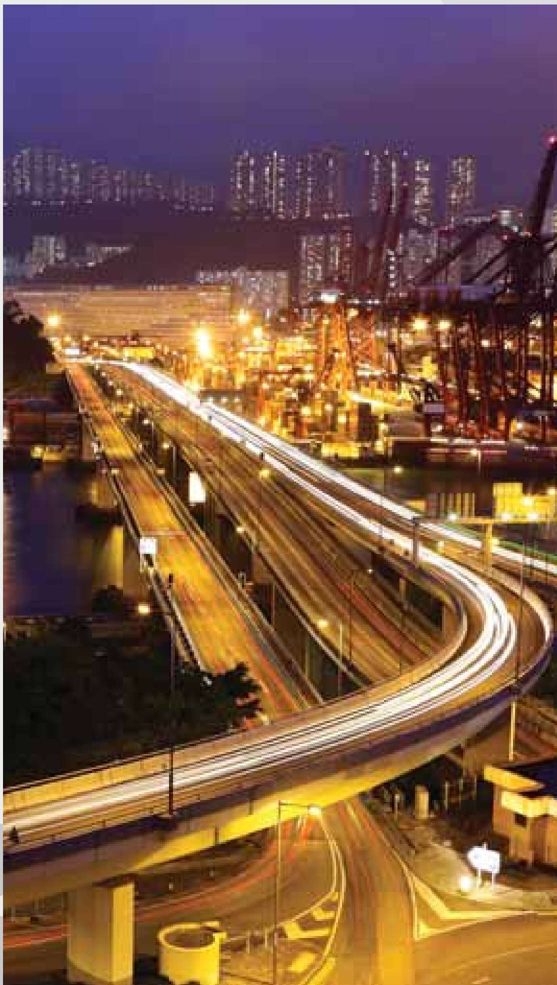
- ***Luxury & Travel***
  In other sectors, luxury goods are expected to continue to rebound from their low 2014 levels, with brands adjusting designs to suit more developed, discerning Chinese tastes. Overseas travel shopping is predicted to continue, however with an increase in cross-border taxes, domestic sales are also set to increase. International travel is also expected to continue to grow in 2017, although domestic travel is expected to become more fashionable with large government investment over the next three years.

Below are some examples of key drivers which we see will have a major impact in industrial sectors in 2017:

- ***Modernising Agriculture***
  In agriculture, the government's strategy is to enhance support for agricultural environmental protection and increase the quality of agricultural products. More specifically, there will be opportunities for companies in smart agriculture (Internet of Things in farming and agricultural data processing), Internet plus agriculture (facilitating operation, trading, logistics of agriculture and intelligence training, etc.) and agricultural technology.

- *New Energy*
  In the energy sector, China has transitioned from emphasising energy supply to quality of energy and energy efficiency. China plans to invest nearly £300 billion by 2020 on renewable energy with solar, wind power and hydro power receiving the majority of the investment. The government's newly published Energy Development Plan[4] indicates moves to increase the proportion of non-fossil energy from 12% to 15%, and for the first time it detailed the government's geothermal development plan. 2017 is also likely to see significant growth in usage of biofuels and new energy automobiles in China.

- ***Infrastructure***
  Infrastructure remains one of the main engines of economic growth. Both well-developed coastal provinces and underdeveloped inland provinces are receiving infrastructure investment, especially transportation infrastructure (one of their key focuses for 2017). Guangdong, Fujian and Shaanxi are among the top provinces for infrastructure investment[5]. It is estimated that infrastructure investment will grow at a pace of 20% in 2017, creating a market worth £1.9 trillion[6].



[4] http://www.sdpc.gov.cn/zcfb/zcfbtz/201701/W020170117335278192779.pdf
[5] http://money.163.com/17/0106/11/CA3H8NDH002580S6.html
[6] http://www.chinadaily.com.cn/business/2017-01/06/content_27881857.htm

Liberalising Foreign Investment Rules

A major development in foreign investment law was the approval of amendments to the law on Wholly Foreign Owned Enterprises (WFOEs) in 2016, affecting how and what businesses UK companies can operate. These amendments replace the existing approval requirements by the Ministry of Commerce, and have reduced processing times and increased certainty of transactions.

In early January 2017, the central government completed a one month public consultation for a new draft version of the ***"Catalogue for the Guidance of Foreign Investment Industries"***[7], a key document for foreign investors to tell which industries they will be permitted to operate in. A "negative list" system, which had already been in place in the pilot free trade zones of Tianjin, Shanghai, Guangdong and Fujian, is now being rolled out as a nationwide negative list. The negative list system is a method of regulating incoming investment by use of a list of sub-sectors where investments not permitted.

In 2016, China's Minister of Commerce Gao Hucheng stated that the government would ease investor access to the services sector and high-end manufacturing, highlighting the country's desire for international expertise in these areas. This was further underlined in a circular released by the State Council in January 2017, which also explicitly stated that foreign firms investing in industries that are necessary for the development of China's western region, will benefit from favourable corporate income tax; while companies migrating to central, western and north western China will also have an advantage in capital and land policies.

Chinese Outbound Investments

China's outbound investment has been growing rapidly to an extent where it already exceeds inbound FDI. In 2016, outbound direct investment soared by 44.1% to $170 billion (around £136 billion).

In 2016, the UK was the second biggest recipient of Chinese direct investment in Europe after Germany, and the two countries attracted 46% of all Chinese investment in Europe. The UK alone received $9 billion (£7.2 billion) of inward investment from China, an increase of 130% on 2015[8].

Chinese investors are increasingly positive about the UK. They are attracted by world class finance, education, legal and professional services, London's position as a leading global financial centre, as well as its liberal economic system and business environment.

China and the UK's trade and investment ties are becoming increasingly close due to a high level of complementarity of the two economies and a good relationship between the two governments. Chinese investment has continued to flow into the country after the Brexit referendum. A string of big deals have been announced or taken further forward since then too, including the Hinkley Point nuclear power project.

Chinese investment continues to play an important role in contributing to a vibrant UK economy. The investment in the UK is increasingly flowing into diversified sectors beyond the traditional property sector, including infrastructure, energy, advanced engineering, financial services, life science and others.

Chinese acquisition of mature foreign assets such as European football clubs and movie studios rose by 46% to reach a record £86 billion in 2016[9]. However, the government has begun

7 http://www.mofcom.gov.cn/article/b/f/201612/20161202088897.shtml
8 http://www.bakermckenzie.com/en/newsroom/2017/02/chinafdi/
9 http://uk.reuters.com/article/uk-china-m-a-idUKKBN14J038
10 http://uk.reuters.com/article/uk-china-m-a-idUKKBN14J038

"China is forecast to become one of the world's biggest outbound investors by 2020"

to apply curbs on capital outflows after the turn of the year to reduce renminbi depreciation, which in combination with regulatory hurdles in other nations are expected to result in more modest numbers in the near future[10]. This has led to a drop in Chinese outbound investments in early 2017.

China is forecast to become one of the world's biggest outbound investors by 2020, with its global offshore assets reaching nearly $20 trillion (£16 trillion) [11]. British companies can benefit not only from inward Chinese investment but also from investment into third markets through partnering with globally operational Chinese companies. With the development of the Belt & Road Strategy, which encourages Chinese enterprises to operate overseas, the scope for British companies of all sizes to partner with China is increasing and will continue to do so for the foreseeable future.

A Middle Income Economy

The World Bank has considered China an "upper middle income" country since 2010, according to its classification which categorises economies based on gross national income (GNI) per capita. In order to attain the much coveted "high income" status China must buck a trend which has seen only 13 out of 101 middle income economies in 1960 make that transition by 2008[12].

The 13th Five-Year Plan, ratified in 2016, sets out China's economic vision to 2020. One of its explicit aims is to take appropriate measures to avoid the "middle income trap", though this will need to be done by directly addressing issues such as the country's massive private debt. At the same time, a great deal depends on the Chinese economy's transition to a more innovation-driven and high-added value market[13].

Rising labour costs coupled with an ageing population are also major challenges the Chinese government is trying to tackle. Cheap labour has long been a driving force for the economy, and has contributed to a model which has seen China become the choice of many multi-national companies as a manufacturing base, which explains the origins of the often used name "the factory to the world".

However, increasingly higher labour costs are eroding China's competitiveness in this regard, with Southeast Asian economies such as Thailand and Vietnam emerging as far cheaper options. With factors such as this in mind, it is even more crucial for China to shift the economy's dependence away from the manufacturing sector and towards a model based on services and innovation. The next section outlines some of the ways in which China is trying to do this.

This article was written by CBBC.

[10] http://uk.reuters.com/article/uk-china-m-a-idUKKBN14J038
[11] https://www.ft.com/content/5136953a-1b3d-11e5-8201-cbdb03d71480
[12] http://siteresources.worldbank.org/EXTPREMNET/Resources/EP98.pdf
[13] http://foreignpolicy.com/2016/03/12/can-china-avoid-the-middle-income-trap-five-year-plan-economy-two-sessions/

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1.4 China's Big Policies

China is a country where Five-Year Plans and big macroeconomic policies have a clear impact on the way that companies are driven and incentivised. This section will outline the big policies which are defining China's path at the moment and for the coming years. The 13th Five-Year Plan provides the overbearing roadmap for China's economic future.

The Belt & Road Initiative is an exciting plan for China to reconceive global supply chains and investments patterns in its own image. Made in China 2025 on the other hand promotes China's domestic capacities – it represents an opportunity to move away from being the source of "made in China" low quality goods, towards "designed in China" and high end manufacturing.

Five-Year Plan

China's 13th Five-Year Plan (2016-2020) was ratified during the government's annual 'Two Sessions' policy meetings in March 2016. The plan comes at a crucial time – the last five-year period before China reaches its 2020 deadline for achieving a 'moderately prosperous society' – and it reveals how the government is planning to relieve the numerous pressure points on the economy.

Medium-to-High Growth Target

The government has set a target to achieve at least 6.5% average annual growth with immediate effect. By 2020, it hopes to double GDP and per capita income as compared with 2010 levels.

Although the 6.5% target is much lower than the nearly 8% in the previous Five-Year Plan, and lower even than the 6.9% achieved in 2015, this still falls in the range of medium-to-high-speed growth and remains higher than that of all other major economies.

This suggests that the government is driving towards more sustainable, higher-quality, long-term development. Efforts are being made to harness new engines of growth, including supply-side reform, technological innovation, green development, urbanisation and agricultural modernisation.

> We can expect China to make a concerted effort over these five years to cultivate a more dynamic, mature and outward-looking market

Supply-Side Reform

'Supply-side reform' is one of the key phrases in the new plan. It is best understood as the attempt to optimise the allocation of production factors in the economy – capital, resources and labour – to tackle inefficient supply and production overcapacity.

It includes restructuring many state-owned 'zombie' enterprises (so called because they rely on government support and subsidies to keep them alive); enforcing mergers and close-downs and moving production away from industries with overcapacity (e.g. steel, cement, coal); and injecting new resources into emerging industries. Estimates of the amount of workers that will be laid off as a result range between 3 and 6 million, for whom the government has introduced a £12 billion redeployment fund.

Innovation

The plan stipulates that, by 2020, the proportion of GDP accounted for by R&D should increase to 2.5% (from less than 2.2% in 2015) and that accounted for by science and technology to 60% (from 55% in 2015). 1,200 training bases, aiming to cultivate 10 million skilled workers, will be established by 2020.

Further aims include removing institutional barriers that currently hinder the commercialisation of innovative ideas; and offering incentives to encourage innovation, which, it is hoped, will boost Chinese industry in concert with the 'Made in China 2025' initiative.

Infrastructure Investment

Alongside the measures to improve supply-side efficiency, infrastructure investment will continue to grow under the new plan. This includes investment of ¥800 billion (around £80 billion) on railways and ¥1.65 trillion (£165 billion) on roads; 20 major new water conservation projects; and large-scale projects relating to hydro and nuclear energy, high-voltage power transmission, smart-grid technology and networks, oil and gas pipelines and further urban transport infrastructure projects.

Targets set for the end of 2020 include the building of 50 new civil airports; the realisation of a 30,000km high-speed rail network covering 80% of big cities; the building or rebuilding of 30,000km of motorways; and the construction of 3,000km of urban railways in cities with more than 3 million residents.

Environment & Green Development

'Environmental sustainability' has become a priority for the first time in the Five-Year Plan. Energy efficiency and green growth will come under closer scrutiny in the effort to combat environmental pollution, and the government promises to take 'the most exacting environmental protection measures ever' over the next five years to achieve a number of goals. These goals are to decrease fine particulate matter concentrations by 25%; to raise the amount of 'good air quality days' to 80%; and to cut water consumption, energy consumption and carbon dioxide emissions per unit of GDP by 23%, 15% and 18% respectively.

Acquisitions and corporate mergers, particularly in the state-owned sector, will continue in high-energy-consuming industries and some of those with overcapacity, and the use of clean energy is being encouraged. Government support programmes are being introduced to achieve cumulative production and sales of 5 million new-energy vehicles by 2020.

Financial Reform

Financial reform remains firmly on the agenda. The government hopes to encourage private capital into the banking sector to develop an 'inclusive' financial system encompassing diverse medium, small and micro institutions. The plan contains proposals to increase the proportion of direct financing, to reduce financing costs and to accelerate the development of the foreign exchange, gold, insurance and reinsurance markets.

What Does this Mean for UK Business?

The 2016-2020 plan is an ambitious one, and we can expect China to make a concerted effort over these five years to cultivate a more dynamic, mature and outward-looking market. British companies are well placed to take advantage of this in a vast range of industries, but first they need to grasp the new direction of travel, understand that China is far more than one single market, and then position themselves accordingly – and fast – to seize the growing opportunities.

The Belt & Road Initiative

The Belt and Road Initiative (BRI) – first put forward by President Xi Jinping in 2013 – comprises a number of political, economic and infrastructure developments within a single strategic plan. Its blueprint, as described by the Chinese government, is to connect the vibrant East Asia economic circle at one end with the developed European economic circle at the other.

It will encompass over 60 countries and has two elements:

1. **The Silk Road Economic Belt** – which is a land route designed to connect China with Central Asia, Eastern and Western Europe. It will also link China with the Mediterranean Sea, the Persian Gulf, the Middle East, South Asia and Southeast Asia.

2. **The 21st Century Maritime Silk Road** – a sea route rather than a road – which runs west from China's east coast to Europe through the South China Sea and the Indian Ocean, and east into the South Pacific.

The Silk Road Economic Belt to the north (orange/red) and the 21st Century Maritime Silk Road to the south (blue)

> UK companies can play an important role in supporting the development and connectivity of China's provinces and neighbouring countries, while simultaneously benefiting from new commercial opportunities both within China and in countries along the routes.

It is part of China's aim to realise its 'Going Out' strategy, leading to new markets for some of China's industrial overcapacity, creating new markets for exports, and securing energy and resource supplies. It is also seen as an attempt to re-establish some of China's historical trade routes, and to promote China as an economic powerhouse in the region.

What will it mean for China?

- **Improving Prospects for Provinces Along BRI Routes**
  BRI aims include improving prosperity in underdeveloped parts of China, particularly in the west of the country, and increased integration, connectivity and economic development along both routes through the movement of goods, services, information and people.

- **Tackling Overcapacity**
  The infrastructure investment and building boom of the last few years has left China with an overcapacity in several sectors. This is especially true of steel, cement, coal, shipbuilding and glass. BRI is a potential solution in terms of finding new outlets for China's production capacity.

- **Creating New Markets for Products and Services**
  Exploring new overseas markets to boost China's economic growth is a key objective of BRI. The diversification of Chinese exports into developing countries will extend the lifecycle of products and will also assist China in upgrading traditional industries and developing emerging industries.

- **Securing Energy Supplies**
  Reducing reliance on sea routes for the supply of energy resources is another motive. China has, for example, already surpassed the US to become the world's largest net importer of petroleum. Currently, imports of petroleum rely heavily on the sea routes of the Strait of Malacca and the Indian Ocean. Land routes across Central Asia and the Middle East will provide alternatives.

- **Strengthening Regional Influence**
  BRI will also help to extend China's influence by both land and sea, enabling it to develop existing economic bonds with South-East Asian countries and to create new areas for cooperation with other neighbours and regional powers such as Russia and India.

Why is it of Interest to UK Companies?

UK companies can play an important role in supporting the development and connectivity of China's provinces and neighbouring countries, while simultaneously benefiting from new commercial opportunities both within China and in countries along the routes.

The key sectors are infrastructure, maritime & logistics, banking & financial services, professional services and energy. Further opportunities also exist in the agriculture, fishing, food processing, light equipment manufacturing, education, tourism and consumer sectors.

Certain provinces, such as Xinjiang and Fujian, are positioned as "core areas" of the BRI initiative due to their geographical locations. Xinjiang aims to become a financial hub in West China and Fujian will focus on further development of its logistics, shipping and marine sectors.

Many western provinces, such as Sichuan, Shaanxi, Chongqing, Xinjiang and Yunnan will be more focused on infrastructure and urbanisation projects, and expanding its international trade opportunities. Some underdeveloped western provinces, such as Gansu, Ningxia, Shaanxi and Xinjiang that

have excellent natural and agricultural resources, will need to upgrade its technologies and improve productivity and efficiency. It is important that UK companies consider how they can become part of the process.

Eastern coastal provinces, such as Fujian, Guangdong, Jiangsu and Zhejiang are also expected to present new opportunities in more advanced sectors, such as finance and professional services, shipping and logistics, advanced manufacturing, e-commerce, healthcare and life sciences.

CBBC's BRI Reports & Activities

In 2017, CBBC launches its third milestone report on the BRI, following previous publications in 2015 and 2016 which were published in partnership with the UK's Foreign & Commonwealth Office and Tsinghua University respectively.

Over the past two years CBBC has undertaken many seminars, briefings and roundtable meetings, across China and in the UK, to help businesses begin to understand the new opportunities BRI will bring, and to facilitate and develop closer partnerships between UK and Chinese businesses working together on BRI projects.

A new 2017 report will be part of a partnership CBBC has with the Chinese Academy of International Trade & Economic Cooperation (CAITEC) – a think tank of China's Ministry of Commerce. It tracks the progress of routes along BRI's southern land and maritime routes, particularly through ASEAN and South Asia countries, and is especially relevant to UK companies with business in these countries.

Within China, it highlights the role of the southern provinces of Guangxi, Yunnan, Guangdong, Fujian and Hainan as BRI connectors. Beyond China, three economic corridors in southern routes are analysed, these are: China-Indochina Peninsula Economic Corridor, China-Pakistan Economic Corridor and Bangladesh-China-India-Myanmar Economic Corridor.

Opportunities will be varied, so careful planning, sufficient due diligence and risk assessment are strongly recommended. To learn more about BRI and more opportunities by sector and by province, please visit www.cbbc.org/sectors/oborcasestudies to view CBBC's comprehensive 2015 and 2016 reports.

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The “Made in China 2025” plan was released by the Chinese government in May 2015. It is part of a long-term vision for the future of China’s manufacturing sector with “Three Steps”, intended to continue to make China into one of the world’s manufacturing powers.

Made in China 2025

Phase 1:
By 2020 – further strengthen China’s position as a major manufacturing nation; master key technologies in selected important fields; raise the standard of smart manufacturing; and markedly reduce consumption and emissions.

By 2025 – improve the all-round quality of manufacturing sectors and the integration of industry and IT; substantial focus on energy consumption, material consumption and emissions in line with advanced global levels; establish a group of competitive multinational companies to significantly elevate China’s role and position in global industry and value chains.

Phase 2:
By 2035 – raise China to a mid-ranking position among the most powerful manufacturing nations; substantially increase innovation; develop key sectors to realise important breakthroughs; make China a leading player in worldwide innovation; and complete China’s industrialisation.

Phase 3:
By 2049 – advance China to a place among the leading ranks of the world’s most powerful manufacturing nations; in the main industrial sectors enable China to drive innovation and possess distinct competitive advantages; and form world-leading technological and industrial systems.

The Made in China 2025 plans highlights ten key sub-sectors:

- Integrated circuits and professional equipment
- High-end numerical-control machine tools and robotics
- Aviation and aerospace equipment
- Marine engineering equipment and high-tech ships
- Advanced rail transit equipment
- Low-energy and new-energy cars
- Electronic equipment
- Agricultural machinery
- New materials
- Biopharmaceuticals and high-performance medical equipment

Five Focus Points
The plan highlights five major objectives:

1. Establishing Manufacturing Innovation Centres
By 2020, China will establish around 15 such centres to boost technological breakthroughs and innovation in key fields, chief among which are new-generation IT, smart manufacturing, additive manufacturing, materials manufacturing, new materials and biopharmaceuticals.

2. Encouraging Smart Manufacturing Projects
Outstanding companies will be involved in setting up smart projects or digital factories to promote smart techniques in key industrial processes, to robotise key posts, to oversee the optimal use of smart techniques in the production process, and to optimise the supply chain.

3. Investing in Strong Industrial Bases
Research centres known as the “Four Bases” are being mapped out and established to overcome bottlenecks in developing core infrastructural components, techniques and materials, and production technology.

4. Emphasising Green Manufacturing
Green projects will be set up, as well as key model projects in the fields of energy efficiency and environmental protection, the comprehensive use of resources, re-manufacturing and the industrial adoption of low-carbon technology. One thousand model green factories and a hundred model green industrial parks will also be established by 2020.

5. Emphasising High-end Equipment Manufacturing

Innovative and industry-specialised projects will be set up in a number of fields: large aircraft, aircraft engines and gas turbine engines; civil aerospace; smart/green trains; low-energy and new-energy vehicles; marine engineering equipment and high-tech ships; equipment for smart integrated electricity grids; high-end numerical-control machine tools; nuclear power equipment; and high-end medical equipment.

What Will Chinese Companies Be Doing?

Chinese companies will be encouraged to forge links with foreign companies based on “strong-strong” cooperation and complementary strengths, so as to improve their global competitiveness. They will want to develop intellectual property, by drawing on overseas expertise in R&D, design and engineering structures. This will also involve international acquisitions to accelerate new technology development and to position Chinese companies firmly in the global supply chain.

More R&D centres will be established in provincial regions or indeed in third countries with advanced manufacturing industries, including specialist technological R&D centres. The blueprint for China’s industrial parks will evolve in line with policy changes – with clusters of themed R&D parks to be mapped out and efforts made to implement model projects. For example, Zhangjiang Hi-Tech Park near Shanghai has already set out its Action Plan for a Global Technology Innovation Centre.

In 2017

The Ministry of Industry and Information Technology (MIIT) released implementation guidelines for each of the “Five Focus Points”. It also published two action guidelines on developing manufacturing related service industry, and on fostering quality and brand building in manufacturing equipment; and four development plans for talent and development in new materials, information technology, biopharmaceuticals and manufacturing.

The majority of the provinces in China have also published their own implementation guidelines for “Made in China 2025”. Furthermore, some cities, such as Shenyang, Changchun, Chengdu, Qingdao and Ningbo were selected by MIIT as the “Experimental Demonstration city of implementing “Made in China 2025”.

CBBC has hosted a number of seminars in both the UK and China to help UK businesses better understand the implications from “Made in China 2025” and better take advantage of the business opportunities for UK companies.

To download CBBC’s report on MIC2015, please visit http://www.cbbc.org/mic2025/

This article was written by CBBC.

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1.5 Opportunities in China for a Global Britain

2016 was a tumultuous year. In the Western world the Brexit vote and the US election were two of the more notable events. To what extent the US under a Donald Trump presidency becomes more protectionist remains to be seen. But the UK must clearly work for greater constructive engagement with global partners such as China as it leaves the EU. We have a unique opportunity to be a Global Britain, and a clear responsibility as business leaders to make it so.

Golden Era

As the UK economy is predominantly built on services and innovation, we are ideal partners for the Chinese economy and for Chinese firms. The UK is more open to foreign investment and international collaboration than almost any other major economy. Furthermore, the UK government can conclude trade deals and get them ratified within months, whereas in the US and the EU ratification can be delayed for years or indefinitely due to the need for approval by Congress or each parliament of the EU.

Britain is home to a large proportion of China's investment in Europe. So far, China's FDI stock in the UK has totalled nearly $17 billion (£13.8 billion) and more than 500 Chinese companies have settled in the UK. The 'Golden Era' of the UK-China relationship has been re-affirmed by President Xi Jinping and Theresa May at the G20 in Hangzhou, and many practical steps were agreed when Vice-Premier Ma Kai and Philip Hammond met in London in November 2016.

So where are some of the specific opportunities? Let us focus on just three of the many:

1. **E-commerce** – by far the best way to reach the Chinese consumer or SMEs
2. **Services sector** – including R&D, innovation, design and globalisation
3. **Joint international collaboration** – between UK and Chinese firms

E-commerce

China had 731 million internet users at the end of 2016 – more than twice the population of the Eurozone (340 million) or the number of Internet users in the EU excluding the UK (353 million). Chinese people live their lives on the mobile internet to an extraordinary extent, and at present WeChat (owned by Tencent) is ubiquitous at all levels of Chinese society including Chairmen and CEOs. Many people in the UK are aware of Alibaba which primarily provides marketplaces rather like a souped up version of e-Bay. The other major player in Chinese e-commerce is JD.com which is more like Amazon – owning its own warehouses and stock, and indeed going beyond Amazon in controlling the distribution chain to the point of employing its own delivery drivers. JD.com is owned 15% by Tencent, so WeChat users find it easy to buy from JD. There are also a large number of specialist e-tailers for particular segments. UK companies with something that can be sold by e-commerce to Chinese consumers should regard this as their dominant or sole channel and should form good relationships with one of more strong partners in this field.

Advanced or High Quality Services

50% of China's economy is now services. But partly because they have a manufacturing culture they are not really used to paying for quality in services and therefore many, though by no means all, of the Chinese services companies are of pretty low quality.

The UK excels at advanced services, and some UK services companies are highly successful in China. There is a lot more scope for this, although the cultural differences are not to be under-estimated. In addition, the UK is the strongest centre for R&D and technical innovation outside the US, and it is also a global hub of artistic and cultural creativity. Deep partnerships between the UK and China in these areas will provide rich rewards. Don't expect quick results, but on a 5-15 year view, engagement with China can be highly lucrative and is indeed almost essential for anyone who is really world-class.

International Collaboration

With a handful of notable exceptions, almost all big Chinese firms have more than 90% of their turnover and 98% of their profits in China. They are strongly encouraged by their government and by their economic situation to "go global" but this is fraught with pitfalls if you have built your business in the Chinese domestic market which is unlike any other. Almost any successful UK firm has many years of experience of international business and many have been pretty global for decades. Indeed, the UK has a history of global trading engagement stretching back centuries.

Consulting firms can certainly help but there are also larger opportunities for firms that can be meaningful partners with large Chinese enterprises as they navigate the complex regulatory and political terrain of unfamiliar geographies. So if your company has deep experience or contacts in particular international markets outside China, it is well worth considering whether you can cooperate with complementary Chinese partners who have financial and technical resources but less experience of successful international business.

The President Xi Jinping's Belt & Road Initiative provides an important international focus in over 60 countries. And there are other possibilities – for example Chinese companies have vast experience in building infrastructure but there are some countries, such as the US, where having a UK partner leading a consortium might be much more acceptable.

Looking Ahead

Chinese businesses already cooperate closely with UK business and invest in them with great freedom. Chinese and UK business leaders and officials will be cooperating over the next two years to find win-win international trade deals that can be put in place shortly after the UK leaves the EU, likely in 2019. At a time when many countries and trading blocs are becoming more inward-looking and protectionist, blocking Chinese investments and reacting with suspicion, the UK remains the most attractive international partner for Chinese businesses. This will increase after Brexit as Great Britain becomes, to an even greater extent, Global Britain.

Britain has clearly demonstrated its strategic insight and courage to take the lead in international cooperation, by becoming the first major Western country to join the Asian Infrastructure Investment Bank. 2017 marks the 45th anniversary of ambassadorial diplomatic relations between China and the UK. Looking into the future, both China and the UK need perseverance and enterprise to ensure a steady and enduring "Golden Era" of win-win cooperation that will benefit China, the UK and the global economy.

This article was written for CBBC by Nicholas Beale, Chairman of Sciteb 思特 which provides Special Thinking: Strategy and Search to UK, Chinese and US clients.

For more information contact:
nicholas.beale@sciteb.com

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1.6 Policy Dialogue: Improving the Business Environment

In this section we outline some of the important mechanisms which government and industry have put in place to help UK companies as they engage with China. Successful commerce is underpinned by a conducive business environment which can only be improved by long-term, strategic engagements with policy makers. Sometimes these efforts seem abstract, but they show their value over time as market entry barriers come down.

Government Exchanges

Over the past five years, the relationship between the UK and China has continued to grow and strengthen, with a constant stream of senior-level visits in both directions. With the State Visit by President Xi Jinping in October 2015, the two countries opened a 'golden era' which continues to develop, and in which business has an integral role.

Whilst Brexit and other economic/geo-political issues will have an impact on bilateral relations, there are undoubtedly opportunities going forward, and both governments have pledged to continue to work closely together. There is a full programme of visits to China by UK ministers planned throughout 2017 and, following her first visit to China in September 2016 for the G20 Summit, the Prime Minister has indicated that she will pay a return visit later this year.

The UK and China have a number of regular, structured top-level dialogues in place, which cover a spectrum of political, cultural and economic activity. These include the Economic and Financial Dialogue (EFD) and the People to People Dialogue (P2P), as well as the Joint Economic and Trade Commission (JETCO), which focuses specifically on business issues and includes opportunities for UK and Chinese business to interact. CBBC plays a role in these activities to make sure that businesses' voices are heard. During the EFD in 2016, CBBC hosted a dinner where companies could meet with Vice Premier Ma Kai; we attended and spoke at events during the P2P; and managed the business seminar and matchmaking event for the JETCO.

The Prosperity Fund

The UK Foreign and Commonwealth Office manages a Prosperity Fund, which is set up to create the conditions suitable for global growth and prosperity. By supporting targeted projects, the Fund focuses on areas where the UK is a world leader and has high quality policy and commercial expertise to offer China.

There are three key strands to promote: 1. Sustainability; 2. Openness; and 3. Opportunity (for UK companies to contribute).

CBBC leads or supports a range of projects under the Prosperity Fund, with the aim of building a healthy business environment in China, including working to promote sustainable economic development in line with international best practice.

Projects in 2017 will fall under specifically themed strands, including:

- ***Infrastructure***
  Announced during the visit of President Xi to the UK, and an outcome of the Economic & Financial Dialogue. This initiative is a platform for UK and Chinese companies to work together through a UK-China Infrastructure Alliance on projects in third markets.

- ***Rule of Law***
  Helping China achieve an even playing field for all businesses through support of legislative reform, and capacity building to enhance effective implementation of existing laws and regulations. Areas of focus for this work will likely include a Commercial Intellectual Property Programme, encouraging international standards for corporate governance, and promoting accountability in the judicial system.

- ***Financial & Professional Services***
  Support in this area will focus on areas China aims to expand market access for foreign companies and also plays to the UK's strengths, including in areas around wealth management, insurance, etc.

- ***Low Carbon & New Energy***
  Helping alleviate pollution issues and energy needs in China and also developing opportunities for UK private sector expertise to support nationwide goals.

- ***Healthcare***
  Support for the development of the healthcare sector and its ability to tackle issues such as elderly care, chronic illness, rural population challenges, whilst positioning the UK and its healthcare sector's vast experience in these areas to the front of the queue.

- ***Smart Livable/Cities***
  Tackling China's growing urbanization challenges in areas such as transport, energy usage, utilities, environmental challenges and water supply. Initiatives in this field will leverage UK firms' specialisms and experience around the world coming up with innovative solutions to difficult problems.

- ***Education & Skills***
  Upskilling and improving China's education system to promote innovation, talent development, re-skilling, entrepreneurial talent and creativity whilst developing UK interests as service providers ready to meet China's needs.

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1.7 Your Support Network: CBBC & Partner Organisations

Companies doing business with China need practical support, to navigate the business environment in China as it stands today and be successful.
In this section we also outline a whole framework of organisations offering practical support across the UK and China. To understand more about CBBC and DIT services for SMEs, see *SMEs: Trade Advice & Available Support* in this Handbook.

China-Britain Business Council

The China-Britain Business Council (CBBC) is the leading organisation helping UK companies grow and develop their business in China. With 11 offices in the UK, and a presence in 15 cities across Greater China, CBBC helps companies of all sizes and sectors, whether new entrants or established operations, access the full potential of the fastest growing market in the world.

For companies serious about growing a China business, CBBC membership provides the advice, on-going support and connectivity necessary to achieve long-term success. CBBC members also benefit from reciprocal membership of the Beijing-based British Chamber of Commerce in China (BritCham).

As a partner of the Department for International Trade (DIT), CBBC delivers business-to-business services in China, including Business Support Services (BSS) which enables UK companies to identify partners, arrange market visit programmes and carry out market research. All UK companies are eligible to access the service, which is an excellent way of addressing a one-off business challenge and to get a taster of the China market. To find out more please visit: www.cbbc.org/services

The China Outbound Network

CBBC's China Outbound Programme offers a comprehensive platform for UK companies and organisations to identify and develop partnerships with potential Chinese investors interested in the UK, and to explore opportunities for UK firms to partner with Chinese counterparts on third country projects. We work with M&A advisors, corporate finance boutiques, investment managers as well as other financial service providers in the cross-border transactions, to bridge the connection with the high profile investors from China. For more information please see: www.cbbc.org/services/china-outbound-programme-2017/

Department for International Trade

The Department for International Trade (DIT) is a UK Government department working with businesses based in the United Kingdom to ensure their success in international markets, and encourages the best overseas companies to look to the UK as their global partner of choice. DIT is located throughout the UK and around the British Embassy and four Consulates-General in China. CBBC is DIT's strategic trade service delivery partner for the mainland Chinese market. To find out more please visit: https://www.gov.uk/government/organisations/department-for-international-trade and https://www.great.gov.uk/uk/

DIT has a network of International Trade Advisors across the UK, who work closely with CBBC's 10 regional offices. DIT has 12 regional offices – for locations and contact information please see: www.contactus.trade.gov.uk/office-finder

British Chambers of Commerce in China

CBBC has close relationships with British Chambers (BritChams) in China, including longstanding reciprocal membership with BritChams in Beijing, as well as Southwest China. There are also BritChams in Hong Kong, Shanghai and Guangzhou which have separate membership schemes but cooperate with CBBC and British government on a broader level in different ways. Participating with a BritCham in the city you are located in provides an instant network, and a community of companies to share knowledge and ideas with you.

You'll find the BritChams in China are very proactive, setting up hundreds of events every year to take your pick from.

EU SME Centre

The EU SME Centre is a European Union funded initiative helping small & medium-sized enterprises get ready to do business in China. The Centre provides practical information, confidential advice, and training in the areas of business development, legal issues, standards and HR to facilitate market access for European SMEs. The Centre also acts as a platform to facilitate coordination amongst Member State and European public and private sector service providers to SMEs. The EU SME Centre is operated by a consortium of European Chambers of Commerce, led by CBBC and also including the Benelux, French, Italian and EU Chambers and Euro Chambers. For more information please see: http://eusmecentre.org.cn/

EU-China Business Association

The EU-China Business Association (EUCBA) is the EU-wide federation of national non-profit business organisations in the European Union with specialisation and particular expertise in exchange of knowledge on investments and trade with China. EUCBA promotes direct investment and trade between China and the EU through international exchange of information and joint projects of its members – providing European companies a stronger base for expanding trade cooperation with China. EUCBA unites 18 members in 18 countries, for which CBBC is the UK representative. For more information see: http://www.eucba.org/en/

CBBC Events for your Business

CBBC and our partners run a vast range of events for companies of all sizes from all sectors, both across the UK and China. This includes workshops, seminars, webinars, 1-2-1 business clinics and social events.

Find out more at www.cbbc.org/events

Flagship Events – UK

CBBC holds its annual China Business Conference each year in London, normally in March. Go to www.chinabusinessconference.org for more information.

Each year in the autumn, CBBC holds the SME China Forum in a different UK location. In previous years it has been held in Manchester, Birmingham, Nottingham and Glasgow. In 2017, the forum will move to Bristol. Find out more at www.smechinaforum.org

Flagship Events – China

The China Outbound Conference is the leading UK-focused event in China supporting Chinese investment into the UK. It is held each year in October/November and has visited Beijing and Shanghai a number of times. The 2017 conference will be held in Shenzhen 29/30 November. Find out more on our events pages.

CBBC UK Head Office
3rd Floor, Portland House,
Bressenden Place,
London, SW1E 5BH

Tel: +44 (0) 20 7802 2000

CBBC China Head Office
The British Centre,
Rm 1001, China Life Tower,
16 Chaoyangmenwai Avenue,
Beijing 100020

Tel: +86 (0) 10 8525 1111

ChinaBritain

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