China Talking Points

Introduction

The UK’s policy towards China rightly sits at the forefront of our national debate for a variety of reasons. We at the China-Britain Business Council (CBBC) offer the following contribution both as a resource for our Members and the wider public, and in the interest of stimulating discussion based on hard evidence and up-to-date information.

‘Getting Real’ About China

- CBBC is the UK’s national business network promoting trade and investment with China. Since 1954 we have acted as the independent voice of business, at the heart of the action, engaging across both countries in every business sector and geographical region.
- We support our members and partners by delivering the advice, analysis and access which they need in order to seize the China opportunity. Our diverse, 500+-strong, membership includes some of the UK's leading companies and universities, many of the most dynamic UK SMEs, and an increasing number of Chinese companies exporting to and investing in the UK.
- Some -- including a former No 10 Chief of Staff -- have called for the UK to "get real" about China.
- We agree. 'Getting real' about China -- our third biggest trading partner -- means understanding the benefits our engagement brings for British jobs and investment.
- Weaving China into a close economic relationship is the most effective way for Britain to engage with Beijing on global priorities -- from pandemics, to the health of the global economy, to climate change -- none of which can be seriously addressed without China.
- Such engagement is the best platform from which to influence China, upholding our values where we have disagreements.

The Economic Case

- Before the pandemic UK-China bilateral trade ties had never been so strong.
- Our economic relationship with China supports between 114,000 and 129,000 full-time equivalent jobs in the UK, according to recent research from Cambridge Econometrics (CE).¹
- Trade in goods and services accounts for the bulk of those jobs, thanks to the tremendous success of British exporters selling into China’s vast market in recent years.
- The UK exported £25.8 billion worth of goods direct to China in 2019, up 38% year-on-year, and a rise of 240% since 2010².
- China is our third biggest export market for goods -- up from 28th in 2000³.

¹ ‘UK jobs dependent on links to China’ – Cambridge Econometrics, July 2020.
³ https://comtrade.un.org/data; CBBC calculations
These exports originate from all over the UK, with 16% from the North of England and 26% from Scotland, as against 18% from London and the South East.\(^4\)

Crude oil, cars and pharmaceutical products have been among the top five fastest-growing categories of UK goods exports to China over the last five years.\(^5\)

China is a key export market for major companies, from JCB to Jaguar Land Rover, Burberry to BP, and Rolls-Royce to Rio Tinto.

The UK’s sizable deficit in goods trade with China narrowed last year, with our imports from there rising by 9% in 2019.

The UK’s services trade surplus with China quadrupled from 2010 to 2018, according to OECD data.\(^6\)

The UK has attracted 50.3 billion euros (£45.1 billion) of Chinese direct investment since 2000, the most of any EU country: Germany, in second place, received just 22.7 billion euros over the same period.\(^7\)

The City of London is the largest centre for renminbi trading outside Greater China; it is also playing an important role in funding China’s Belt and Road Initiative.\(^8\)

Bringing together two of the world’s largest capital markets, the ground-breaking Shanghai-London Stock Connect was launched in June 2019.\(^9\)

Chinese tourists made a total of over 880,000 visits to Britain in 2019, up nearly sevenfold from a decade ago.\(^10\) Those tourists spent some £1.7 billion here.

Tourism from China in turn supports an estimated 16,000 British jobs, according to CE.

Nearly 120,000 Chinese students attend British universities – a quarter of all overseas students in the UK – with applications rising at double-digit rates pre-crisis.\(^11\) Those students support a further 18,000 British jobs, according to CE estimates.

Major UK sports and entertainment brands prosper in China. The English Premier League was last year ranked the most popular European league there.\(^12\)

Peppa Pig is a phenomenon in China, where the children’s entertainment sector is worth over £600 billion.\(^13\)

The British Museum, the Tate, the British Library, the V&A and Royal Shakespeare Company have all either toured or exhibited in China in recent years. BBC documentaries like Blue Planet are highly regarded by Chinese viewers.

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\(^4\) HMRC and CBBC calculations
\(^5\) Office for National Statistics
\(^7\) [https://www.oecd.org/sdd/ts/international-trade-in-services-statistics.htm](https://www.oecd.org/sdd/ts/international-trade-in-services-statistics.htm)
\(^9\) [https://www.cityoflondon.gov.uk/business/asia-programme/greater-china/Pages/default.aspx](https://www.cityoflondon.gov.uk/business/asia-programme/greater-china/Pages/default.aspx)
\(^12\) [https://www.premierleague.com/news/981869](https://www.premierleague.com/news/981869)
The Future

- China's economy has suffered from the pandemic. But as the world's second largest economy it will be a vital driver of the world's -- and Britain's -- recovery.
- Even if the Chinese growth rate were to slow to 5% in 2020, it would still add GDP equivalent to a country the size of Switzerland\(^\text{14}\).
- Yet China's economy is evolving too. For the country to avoid the middle income trap, it will need to raise its productivity and boost domestic consumption.
- This should play to Britain's strengths, given our vibrant services industry, unrivalled education and tourism offer and world-beating brands. China has already taken major steps to open up its financial services sector\(^\text{15}\).
- China's efforts to tackle its environmental problems and improve its healthcare system should also bring opportunities for UK businesses in sectors like green technology and medical devices.
- It is clear that China has already overtaken the West in many of the technologies of the future. Decoupling from China not only won't fix that, but will put UK R&D at a further disadvantage.
- Chinese expertise in, and capital for, infrastructure development are well placed to help with the Government's levelling-up agenda\(^\text{16}\).

Challenges

- British companies still have much less market access in China than their Chinese counterparts have in the UK. And many foreign companies in China complain that business conditions have become tougher in recent years\(^\text{17}\).
- Increasing tensions between the US and China are leading to calls for the UK to choose sides between the two.
- The UK's history in Hong Kong imposes specific responsibilities, enshrined in the Sino-British Joint Declaration of 1984.
- Anyone who cares about China will be concerned about its human rights record, for example the treatment of the Uighur population in the western province of Xinjiang.
- We should address these challenges in ways which are both effective and robust, and based on verifiable evidence.

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\(^{14}\) CBBC calculations
\(^{15}\) [https://www.cnbc.com/2019/10/16/china-opens-up-finance-industry-to-foreigners-as-trade-war-with-us-simmers.html](https://www.cnbc.com/2019/10/16/china-opens-up-finance-industry-to-foreigners-as-trade-war-with-us-simmers.html)
\(^{16}\) [https://www.ft.com/content/d5b6aaaa-4f1a-11ea-95a0-43d18ec719f5](https://www.ft.com/content/d5b6aaaa-4f1a-11ea-95a0-43d18ec719f5)
Continued engagement is the only responsible option

- We should not compromise our principles in dealing with China. British companies recognise that proportionate, evidence-based safeguards may be needed to protect the UK’s interests in areas such as technology and intellectual property.
- But we should use our economic engagement to increase our influence and look for the most effective ways to get our views across.
- Some argue that the West’s engagement has given China huge benefits without much changing its way of doing business.
- In fact China is unrecognisable from the 1970s, in the scale of its development and in the extent to which market forces operate there.
- We must use the repatriation of commercial policy following Britain’s exit from the EU to negotiate further advantageous economic arrangements with China, taking our own decisions on how to calibrate the bilateral relationship.
- We can achieve this while encouraging China on the path of becoming a responsible actor on the global stage. In particular, the UK should continue to argue for a trade and investment relationship with China that is based on adherence to internationally agreed rules.
- China’s first Premier Zhou Enlai set its strategic approach in international relations as following the ancient principle of "seeking common ground while preserving differences". We must be just as clear-sighted.
- Maintaining commercial engagement will ensure we get our fair share of the China dividend. It will also bind China ever closer into a world economic order characterised by free markets, level playing fields and transparency.
- One of our first strategic moves post-Brexit should not be to damage severely our relationship with what is likely to become the world’s largest economy, and a market of 1.4 billion consumers.
- Engagement with China, founded firmly in realism, is the patriotic choice for Britain.