



China-Britain
Business Council
英中贸易协会

**CHINA-BRITAIN BUSINESS COUNCIL SUBMISSION
HMG'S AUDIT OF THE CHINA RELATIONSHIP**

EXPORT TO GROW:

WHY TRADE WITH CHINA IS KEY TO OUR ECONOMY



INTRODUCTION

The British Government has put boosting growth at the top of its agenda. Trade and investment are key drivers of economic growth and employment, and at a time when the UK's trade deficit is nearing record levels, maximising UK exports to the world's second largest economy is more important than ever.

As well as protecting our national security, we need to maintain the UK's economic and trade relationships with China and other major economies, and the tens of thousands of British jobs and businesses that depend on those links. National security should also include a recognition of the importance of *economic* security.

It is in our national interest – especially as we look to grow the economy – for British firms to grow their exports to China, subject of course to sensible national security safeguards. In 2023, UK exports to China were worth £31.3bn¹, placing us behind the US, Japan, Australia, and Germany, who each export at least twice as much.

The UK is already Europe's largest single recipient of Chinese FDI, but, according to latest available figures, this still constitutes just 1.1%² of all overseas investment into the country. So there is tremendous scope for growth. Clearly, as with trade, so with investment, we must not compromise national security, and there is a need for open and consistent guidelines, but further Chinese investment is a key opportunity for growing the UK economy.

The government has been firm in its commitment to achieving net zero by 2030. To realise this target, we must acknowledge China's vital role in enabling the UK to fulfil this ambition. The reality is that it would be difficult or impossible to reach its net zero target on time without using China's advanced technology, such as wind, solar, and batteries (including EVs). Thus, CBBC applauds the decision *not* to impose tariffs on EVs. And we urge the Government to acknowledge the advantages of working with China to develop these new technologies and to encourage investment and job creation on the back of our targets for net zero.

Consistency – Clarity – Engagement

WHAT DO YOU CONSIDER THE CHINA AUDIT PUBLIC REPORT SHOULD ADDRESS?

- A consistent, clear, and inclusive strategy that ensures a mutually beneficial business relationship.
- *Challenge, cooperate, compete* is useful shorthand, but one should not take precedence over the other, and there should be an acknowledgement of potential unintended consequences of an imbalance in priorities.
- As the Prime Minister mentioned when he met President Xi on 18 November, the UK should be a sovereign actor, and should, as far as possible, ensure that this balanced approach to China is not impacted by decisions taken by third party governments.
- Consistency is key. The lack of a coherent and consistent strategy towards China has undoubtedly put the UK at a disadvantage compared with its peer nations, which have continued to pursue high-level contacts, while at the same time raising issues where they are not necessarily aligned with China.
- We fully understand the need for legislation to deter and prevent ill-intended covert foreign political influence in the UK, and respect genuine national security issues. But business is

¹ Office for National Statistics (ONS); 2023 data China and Hong Kong have been combined

² Office for National Statistics (ONS); 2022 data China and Hong Kong have been combined.

deeply concerned about the Foreign Influence Registration Scheme (FIRS). There needs to be further, full, consultation with business across sectors and across size of business about applying the Enhanced Tier to China. Placing a major economic partner such as China on the Enhanced Tier, alongside Russia, Iran and North Korea, would do huge political and economic damage, and risk doing serious damage to all that the new British Government has achieved in rebuilding a sustainable and balanced relationship with China

- Including China on Enhanced Tier has the potential for serious unintended consequences, with the possibility of damaging reciprocal action by the Chinese side, which would impact growth opportunities for the UK economy and jobs.
- We believe that national security issues for businesses in China can be managed better by setting clear guard rails rather than adding a considerable burden on UK companies doing legitimate business, a burden which requires a level of bureaucracy that has led our members to comment that they would need to employ whole new compliance teams devoted exclusively to such disclosure, bringing into question the very value of that business in the first place.
- In terms of investment to the UK, surveys undertaken by the Chinese Chamber of Commerce in the UK have shown marked concern from Chinese companies about hostility towards China. Chinese companies see opportunity in investing in the UK, and understand, of course, legitimate security concerns. But there need to be very clear guidelines as to what is off limits and a consistent approach where investment is encouraged.
- It should be noted that Chinese investment is not limited to London and the South East, but covers the whole of the UK, offering an opportunity for growth and jobs throughout the country.
- In 2023, the UK welcomed 368,000 Chinese visitors, who spent an average of £2,167 per visit, making a total expenditure of £798.1 million³. But the withdrawal of the VAT Retail Export Scheme has had a material impact on this spend. We have evidence from our consumer sector members, who have seen Chinese spending in their European outlets rise dramatically (Paris), and drop in the UK (London), as a direct result of this policy.
- This is underscored in a recent survey by British Chambers of Commerce, which noted that research found that Chinese tourists rated the UK as their least popular European shopping destination, preferring to travel to other European destinations where tax-free shopping was available⁴.
- We believe that the loss of VAT revenue would be substantially offset by tourist visits, hotel stays, F&B and other spend.
- It is vital that the Audit takes into consideration business confidence in government policy – it must be consistent and clear. Companies see this as providing credibility to UK commitment to the China market.

IN WHAT WAY HAS THE RELATIONSHIP BETWEEN THE UK AND CHINA SUPPORTED OR INHIBITED THE PURSUIT OF INTERESTS IN YOUR SECTOR/AREA OVER RECENT YEARS?

- China is first and foremost a political economy, and therefore government to government engagement and dialogue matters to the development and success of British business interests in and with China.
- Business is able to develop strategies to deal with global challenges and to assess business risks

³ [VisitBritain](#)

⁴ [British Chambers Welcoming the World – The role of Businesses in the Visitor Economy](#)

inherent in the geo-political landscape. Those risks can, however, be significantly mitigated when there is a pragmatic and business-oriented dialogue at a government-to-government level. This ensures a much higher level of business confidence to engage and to invest in the business opportunity.

- For many firms, the opportunities of the China market have been a crucial lifeline in tough economic times. For others, it has led to transformational growth. But the lack of high-level political engagement, and the general downbeat tone in the UK-China relationship, have had a negative impact in the business environment.
- Whilst remaining resilient, UK's exports to China have nonetheless been affected by the challenging relationship. The opportunities for UK business looking to tap into the dynamic Chinese market remain unrivalled in their sheer scale and potential for growth.
- CBBC members are clear in their commitment to the China market. In the recent CBBC Member Survey, nearly three quarters of respondents expressed optimism about their business outlook in China over the next 5 – 10 years, with more than half planning to increase capital investment in the market over the same time period, as they see the opportunity for continued and increased demand and expansion, not least if there is greater access and engagement.
- It's worth noting that UK goods exports to China have grown more than six-fold over the past 20 years (549%), with demand for British services also rising more than six-fold over the same period (529%).⁵

ARE THERE CRITICAL GAPS WHERE HMG GUIDANCE WOULD BE USEFUL, IF SO WHAT ARE THEY?

- There is a distinct demand for a clearer government strategy and support system to facilitate market entry, with robust guidance that focuses on the commercial aspects of business including monitoring of regulatory changes, coordinated across Whitehall, and offered in market as well as in the UK.
- Moreover, business is keen that the government pursues an approach that prioritises market access and offers growth opportunities by looking to reduce unnecessary regulatory obstacles. By doing this, UK business can expand trade and develop stronger business relationships with China.
- CBBC has clear evidence that the current process for export licences is putting UK companies at a competitive disadvantage with companies from peer nations; moreover, it is putting UK jobs at risk. There is also concern over the efficiency and functioning of the system, not least an apparent lack of transparency in the decision-making process
- Companies need a clear and responsive system for getting answers to specific questions.
- According to results from the CBBC Member Survey, more than two-thirds of respondents would find it helpful to have further guidance on business risks, not least with regard to national security legislation

ARE THERE AREAS WHERE YOU SEE A NEED FOR HMG CAPABILITY ON CHINA TO BE IMPROVED?

- Doing business with China is more complex and challenging than in most other major markets. What UK business needs most is advice from experienced professionals with deep knowledge of the market and regional coverage to give access and support in cities and provinces across China.
- There are deep pockets of China capability across government, and in posts overseas. But sometimes business feels that it might be possible to adopt a more consistent cross-government approach to understanding China, and developing collective policy towards the issues engagement with China raises. We hope very much that the Audit will recommend that China capability is increased both across government, and in those bodies with whom government works on engagement with China.

⁵ Office for National Statistics (ONS); data for China and Hong Kong have been combined.

- We thus urge government to use organisations such as CBBC to facilitate market knowledge and access and to support the development of UK business opportunities in China.
- Over the decades, CBBC has been able to reinforce the formal UK-China government relationship with strong, consistent and continuous business engagement, through a dedicated and knowledgeable team – in both countries.
- With an unrivalled network of members and staff with specialist China knowledge, CBBC supports and encourages growth in the market, and provides an indispensable source of intelligence and sharing of experience for government, officials and the wider British business community.
- Businesses are experts in their field, using that knowledge will be increasingly important to the growth of bilateral trade.
- A growth in capability across government and Whitehall, building an understanding of China in terms of both politics and business is vital for the growth of our relationship. Understanding China, its motives and needs, will help to mitigate unintended consequences, such as trade defence measures that lead to retaliation from China, and which have the potential to damage the UK economy.
- For a country, where government outranks all else, CBBC members consider the resumption of G2G dialogues, in particular the EFD and JETCo, to be vital for the growth of their business operations in China. Moreover, in a culture where the group is more important than the individual, bringing companies together under a government banner, as part of ministerial delegations, and dialogues, is invaluable.

CBBC MEMBER ASKS

- A more positive albeit pragmatic tone and approach towards China would help build partnerships with both public and private sector organisations.
- Increased high-level ministerial visits.
- Support in areas such as market access facilitation, access to government decision makers, regulatory lobbying in support of business licence applications.
- A reciprocal visa-free access system would underpin and support the priorities of both government and business community.
- Greater access to financing options.
- Partnerships on clean energy transition and access to critical minerals.
- Increase alignment with likeminded countries in terms of processes, engagement, technical processes e.g. export licences.
- Provide a clear central point of government support for China trade and investment.
- The multilateral dimension: China has significant impact on other trading blocs like ASEAN, which should be factored into the bilateral relationship.
- The people aspect is important: government needs to build China capability in the UK education system to enhance the relationship over the long term.

CHINA AND HONG KONG

- According to the CBBC Member Survey, more than half of the respondents operate in and through Hong Kong, making it an important connector into the mainland China market.
- Hong Kong is a key route for trade to China - some 55% of imports to the SAR were destined for China, and 45% of re-exports from Hong Kong were of Mainland origin.
- Hong Kong operates an independent commercial system built and based upon its British inheritance, so we should nurture and deepen the business connections with the SAR (including legal, accounting, insurance, banking, healthcare, creative, hospitality, real estate). Hong Kong is a very natural access point to China and its British inheritance is a very natural advantage to UK businesses looking to expand in the mainland.
- The Greater Bay Area (GBA), connecting nine cities in Guangdong with Hong Kong and Macao also offers tremendous opportunities, with its enhanced connectivity, the sheer size of the market, the depth of the talent pool and the policy incentives available.
- It is worth remembering that Britain does more trade with Hong Kong than with Japan, and that Hong Kong invests three times in the UK what mainland China does.
- Maintaining good relations with the SAR Government is therefore vital. Hong Kong remains a major economic and commercial asset for the UK.

THE UK-CHINA BUSINESS RELATIONSHIP IN NUMBERS

CBBC member firms tell us that the absence of engagement at a G2G level in the UK-China relationship has had an impact on trade figures, but CBBC and its members remain convinced that there is increasing synergy in our economies, offering potential for huge growth in exports and investment opportunities in both directions.

- China (including Hong Kong) is the **UK's third largest trading partner** for goods and services after the USA (£283.1b) and Germany (£141.7b), with total trade amounting to £103.1 billion (-11% YoY) in the four quarters ending Q2 2024.
- China is the **UK's sixth largest export market**, with exports worth £38.6 billion (-2.2% YoY) in the four quarters ending Q2 2024, equal to 6.5% of total UK exports.
- UK goods exports to China fell just 2.7% YoY to £22.4 billion in the four quarters ending Q2 2024, while goods imports from China decreased 18% YoY to £56.7 billion.
- China is the UK's third largest import market after the US (£99.2b) and Germany (£85.4b). The UK imported £64.5 billion worth of Chinese goods and services in the four quarters ending Q2 2024.
- UK service exports to China fell by just 1.5% YoY to £16.2 billion in the four quarters ending Q2 2024, while service imports from China grew 6.8% YoY to £7.8 billion.
- The recent downward trend appears to be indicative of China's current economic challenges, not least with slowing demand, but according to the CBBC member survey, respondents remain overwhelmingly optimistic for growth in both the short and medium-term, and a majority of respondents plan to increase investment in market. Moreover, they see the Chinese economy returning to strong growth over the next five to 10 years, with increased opportunity and demand.

While the overall UK-China trade figures show a decrease, the picture is more nuanced if we look at the UK from a regional perspective, with some showing real growth, offering opportunity for local prosperity and jobs. In the four quarters ending Q2 2024:

- The Midlands (East and West) were the UK's largest goods exporter to China, with outward trade amounting to £6.7 billion, growing by 13.4% year-on-year.⁶
- Scotland saw its seafood exports rise 62.2% to a record £58.5 million, and its top export to China, 'Power Generating Machinery & Equipment', grew by 9.2% to a record

⁶ HM Revenue and Customs (HMRC); data for China and Hong Kong has been combined.

£282 million.

- The North East experienced the second-highest growth in exports to China (10.6%), with eight of its top 10 exports to China recording double-digit growth.
- Yorkshire and the Humber was by far the UK's largest exporter of unprocessed textile products to China, accounting for 94% of all such exports and generating £82 million.
- Wales had the third-highest proportion of exports to China relative to GDP among UK regions, following the East and West Midlands.
- Goods exports from England's South West to China, the region's fourth-largest export market, grew by 10.4% to £1.7 billion.

CBBC

As a non-government, non-political, business organisation CBBC offers a common platform for members of all sizes and sectors.

We are the UK's national business network promoting trade and investment with China. Since 1954 we have acted as the independent voice of business: located at the heart of the action, engaging across both countries in every sector and region. We support our Members, clients and partners by delivering the advice, analysis, advocacy and access which they need to seize the China opportunity.

With 70 years' experience, we have an established track record and are uniquely positioned to provide clear, impartial advice to help companies thrive in the rapidly evolving Chinese market.

Our China network has extensive coverage both regionally and sectorally, with offices in 9 locations, and a team of experienced in-market specialists dedicated to guiding British companies towards commercial success in China.

Providing our Members with cutting-edge local market intelligence and access to contacts is at the heart of any successful market entry or expansion strategy. Our objective is to support UK business in making informed decisions to help business grow in and with China.