



House of Commons

Business, Innovation and Skills  
Committee

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# Trade and Investment: China

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**Eighth Report of Session 2010–12**

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## Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

### Current membership

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Mr Brian Binley MP (*Conservative, Northampton South*)  
Paul Blomfield MP (*Labour, Sheffield Central*)  
Katy Clark MP (*Labour, North Ayrshire and Arran*)  
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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/parliament.uk/bis](http://www.parliament.uk/parliament.uk/bis). A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are James Davies (Clerk), Charlotte Pochin (Second Clerk), Louise Whitley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Ian Hook (Senior Committee Assistant), Jennifer Kelly (Committee Assistant).

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>5</b>
Inquiry into Trade and Investment	5
<b>2 Visit to China</b>	<b>6</b>
Programme of meetings	6
<b>3 UK Trade with China</b>	<b>9</b>
Why China is important	9
UK Government Policy and China	9
UK performance in the Chinese market	11
Latest trade agreements	12
Comparisons with Germany and the supply chain	12
<b>4 Issues arising from the visit</b>	<b>15</b>
UK trade services in China	15
UKTI CBBC Partnership	17
Trade Shows	17
Shanghai Expo	19
Inward investment to UK from China	20
Developing Relationships	20
Ministerial visits	20
The wider relationship	22
Visa Regime	24
Intellectual property rights	26
<b>5 Conclusion</b>	<b>29</b>
<b>Conclusions and recommendations</b>	<b>30</b>
<b>Formal Minutes</b>	<b>33</b>
<b>List of Reports from the Committee during the current Parliament</b>	<b>34</b>



## Summary

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China is now the world's second largest economy and the Government is right to target it as a key market in its strategy to improve the UK's exports. This Report considers the evidence we received on China as part of our main inquiry into Trade and Investment. It also reflects the key messages we received during our visit to Beijing and Shanghai in March 2011.

Our Report broadly welcomes the Government's strategy for engagement with China and acknowledges the recent improvements in our trading relationship. However, the performance of countries such as Germany has demonstrated how much more work still needs to be done. China's latest 5-year plan has targeted a number of key areas for its economy, areas where UK sectors, for example professional services, banking and information technology, have a comparative advantage. The Government needs to be alert to these opportunities and actively target them so that UK companies can exploit that advantage.

Support for inward investment is equally important. The example of Shanghai Automotive is a shining example of the benefits to the UK of long-term investment by an overseas investor. The Government needs to ensure that similar companies are alive to the benefits of investing in the UK and to support that investment. It should also consider whether resources are better targeted at inward investment rather than supporting major UK companies in overseas markets, which are more able to stand on their own.

Trade delegations and ministerial visits are vital to the success of any strategy to enhance our trade relationship with China. We therefore welcome last year's trade delegation led by the Prime Minister, which was seen as both a political and economic success. This visit should not, however, be seen as a one-off event. We believe that it is in the UK's economic interest to make that visit an annual event.

For the export strategy to succeed, overseas markets must have confidence in the Government's declaration that the UK is "open for business". In China, this message was undermined by negative perceptions and experiences of the UK visa regime in both the business and higher education sectors. We were deeply concerned that Ministers seemed to be unaware of the level of disquiet in China on this issue. We therefore recommend that the Government, as a matter of urgency, addresses its lack of awareness of these concerns, and how it will rectify both the problems and the perceptions of the UK visa regime in China.

There remain genuine concerns about the protection of intellectual property rights of UK companies working in China. The importance of resolving the problem cannot be underestimated. IP intensive companies will be reluctant to enter the Chinese market until they have the confidence that their IP is protected. We acknowledge that the UK and Chinese governments are working towards a solution, but we believe that the UK Government needs to set out clearly what protection it can provide UK companies in the interim period.

The Chinese market offers the potential for the UK to deliver significant improvements in

its export performance. China's latest 5-year plan offers the UK a window of opportunity to deliver a step-change in the volume and breadth of its trade relationship with China. The speed in which the Chinese economy is developing means that it will not be open for long. It is therefore vital that the Government acts now to ensure that UK companies can realise the potential of the China market.

# 1 Introduction

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## Inquiry into Trade and Investment

1. On 24 November 2011, we announced our inquiry into Trade and Investment. That inquiry focused on the role of Government both in supporting UK firms in expanding their trade overseas and in attracting foreign investment into the United Kingdom. Our main Report on this inquiry, *Rebalancing the Economy: Trade and Investment* was published on Monday 11 July.<sup>1</sup>

2. As part of that inquiry we considered China as a case study because it was a country the Government had identified as a key export priority. Not only has the importance of the China market to the UK been highlighted in a number of key BIS publications—for example the Plan for Growth and the Trade White Paper,<sup>2</sup> but also a significant number of Ministers have visited China to build on existing bilateral relations.<sup>3</sup>

3. Such was the concentration on China, we decided to see, at first hand, the work of the Government and its lead agency UKTI, in this important market. We also wanted the opportunity to talk to UK companies based in China, and Chinese companies looking to invest in the UK, about their experience and the support they received. Constraints on time and costs restricted the visit to two centres, Beijing and Shanghai. While it would have been helpful to visit a tertiary city in China, these two centres offered the opportunity to be appraised of both the political and economic situation, and allowed us to meet with a wide range of representatives from both business and politics.

4. We took the view that given the importance of this subject, and the need to obtain maximum value from our time in China, that we would report separately on our visit to China and to set out the key messages we received. While some of the issues we raise are already well-known, we believe it important to set them out in this Report, so that the Department can address them, in detail, in its Response. The importance of China to the UK economy, and the Government's policies to encourage greater bilateral trade, means that this is an area which we intend to monitor during the course of this Parliament.

5. We started the process by holding an evidence session on China. Our first panel—Stephen Phillips, Chief Executive, China-Britain Business Council, Dr Kerry Brown, Head of Asia Programme, Chatham House, and Professor Peter Nolan, Cambridge University—provided us with valuable insights into the UK's economic and political relationship with China, while our second panel—Simon Carter, fashion designer, Joan Turley, author, and Steve Young, Head of Business Development and Sales, Surrey Satellite Technology Ltd—provided us with their experience of doing business in China. Their oral evidence and accompanying written evidence was published in our main Report.

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1 Business, Innovation and Skills Committee, Seventh Report of Session 2010–12, *Rebalancing the Economy: Trade and Investment*, HC 735

2 These documents can be found at [www.bis.gov.uk](http://www.bis.gov.uk)

3 We set out these visits in more detail in paragraphs 53 to 60.

## 2 Visit to China

6. The delegation comprised four Members of the Committee—Brian Binley, Simon Kirby, Ian Murray and David Ward. In the absence of the Chair of the Committee, Brian Binley led the delegation.

### Programme of meetings

7. Our programme of meetings is set out in the table below:

<b>Monday 28 February</b>	
13:15 hrs	Meet at Members' Entrance. Transport to Heathrow Airport.
14:30 hrs	Arrive Heathrow Airport.
16:30 hrs	Depart London Heathrow for Beijing [journey time 10 hrs].
<b>Tuesday 1 March</b>	
10:25 hrs	Arrive Beijing Airport
12:50 hrs	Briefing from the UK's Ambassador to China.
14:30 hrs	Transfer to Ministry of Commerce (Mofcom).
15:00 hrs	Meeting with Director General, European Affairs Department.
16:15 hrs	Roundtable with Chinese companies and Trade Associations and key Chinese inward investors including representatives from China Council for the Promotion of International Trade (CCPIT), China Chamber of Commerce for Import and Export of Machinery and Electronics (CCCME), Chrystal Digital, FD-Johnson Security, China International Capital Corporation and Huawei.
<b>Wednesday 2 March</b>	
08.30 hrs	Briefing with Economic and Trade Policy section, British Embassy.

09.00 hrs	Meeting with members of the China-Britain Business Council (CBBC) and British Chamber members.
10.30 hrs	Site visit to BT's Innovation Centre.
11.00 hrs	Roundtable discussion with leading UK companies in China to discuss business environment and market access issues. Representatives included: Diageo, British Sugar, Tesco, BT, BUPA, BP, and Dulwich College.
12.20 hrs	Lunch with UK commentators on China including Jardine Matheson, Vermillion, Reuters, FT, EU Chamber, ExCo, BritCham, CBBC, CBI, and Li Jia Zhang, an author and social commentator
14.10 hrs	Science Site Visit:  Nottingham University and Chinese Academy of Surveying and Mapping (CASM) collaboration on 'network real-time kinematic (NRTK) GPS positioning'.
17.30 hrs	Meeting with members of the National People's Congress Foreign and Economic Affairs Committee.
18.30 hrs	Dinner hosted by Vice Chairman of NPC Foreign and Economic Affairs Committee.
<b>Thursday 3 March</b>	
09.00 hrs	Briefing by Tesco and store visit.
10.30 hrs	Science Site Visit:  Queen Mary, University of London and Beijing University of Posts and Telecommunications joint programme.
13:30 hrs	Depart for Shanghai.
18.15 hrs	Briefing from the Consul General.

<b>Friday 4 March</b>	
08.00 hrs	Visit to Huawei R&D.
10.45 hrs	Visit to BP Lubricants Centre followed by round table meeting with BP and representatives of Jaguar Land Rover, Pinsent Masons, B&Q and Johnson Matthey.
13.30 hrs	Meeting with Shanghai Automotive.
15:00 hrs	Presentation by Mary Boyd, Economist Intelligence Unit.
16.00 hrs	Meeting with UK SMEs including Abacus Lighting, Chapman Taylor Architects, Sondrel, Peel Group/Simon MacKinnon, EA Technology, RAPRA, Manchester Business School and Nottingham University.
18.30 hrs	Dinner hosted by FOSUN.
<b>Saturday 5 March</b>	
07:30 hrs	Wash-up with the Consul General.
08:30 hrs	Depart Hotel for Shanghai Airport.

8. Overall, the visit gave us a valuable insight into the strengths and weaknesses of UK trade with China and we record our thanks to all of those individuals and companies which gave up their time to share their experiences with us. The following chapters of this Report set out some key messages from that visit.

## 3 UK Trade with China

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### Why China is important

9. The potential of the Chinese market has long been identified. Over the past 30 years, the Chinese economy has grown at an average rate of just under 10% per year<sup>4</sup> and in 2010 overtook Japan to become the world's second largest economy.<sup>5</sup> In recent years, this impressive level of growth has been accompanied by a fast growing middle class. According to the Chinese Academy of Social Sciences, 23% of China's population, or 300 million people, were defined as middle class at the end of 2009.<sup>6</sup> While the figure was disputed by Professor Nolan—who thought a more accurate figure was 100 million—the expansion of a wealthy professional class can be seen in the fact that in 2002 China had no dollar billionaires but had 15 in 2006, 101 in 2007, and 189 in 2009.<sup>7</sup>

10. In its Trade White Paper, the Government highlighted the fact that China was the world's largest exporter and the third largest importer and it noted that China was “expected to continue on its rapid growth trajectory over the next five years”.<sup>8</sup> The importance of China to global trade was also highlighted in recent research conducted by UKTI and the Economist Intelligence Unit which found that over the next two years, the top three destinations for business investors will be China (20%), Vietnam (19%) and India (18%).<sup>9</sup>

11. The speed of this growth has been accompanied by a rapid rise in foreign investment in China. Professor Nolan from the London School of Economics told us that it had risen from less than \$30 billion in 2000 to \$500 billion today.<sup>10</sup> In the last year alone, foreign direct investment rose by \$106 billion.<sup>11</sup>

### UK Government Policy and China

12. The most recent document outlining UK Government Policy on China is *The UK and China: A Framework for Engagement* which was published under the previous administration in January 2009. The strategy had three pillars:

- Getting the best for the UK from China's growth;
- Fostering China's emergence as a responsible global player; and

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4 HC (2010–12) 735, Q 286

5 HC (2010–12) 735, Q 286

6 HC (2010–12) 735, Q 286

7 HC (2010–12) 735, Q 300

8 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, CM 8015, February 2011, para 2.40

9 HC (2010–12) 735, Ev 183

10 HC (2010–12) 735, Q 299

11 HC (2010–12) 735, Q 299

- Promoting sustainable development, modernisation and internal reform in China.<sup>12</sup>

The key economic message contained in *Framework for Engagement* was set out as follows:

This is about maximising the benefits, and mitigating the risks, which flow from our bilateral relationship. It is about securing the greatest possible value for the UK from the rise of China. This means encouraging the Chinese to see the UK as a global hub; boosting our business, educational, scientific and cultural gains from the bilateral relationship; putting the right domestic policies in place to take full advantage of the opportunities and to respond to the challenges that China's rise represents for the UK; and equipping the British people to seize the China opportunity through better understanding of China and better Chinese language skills.<sup>13</sup>

In that context, the then Government set itself 15 targets to further and improve on the economic relationship which covered business, banking and education.<sup>14</sup>

13. Although *Framework for Engagement* is now two years old, our witnesses believed it remained highly relevant. Dr Kerry Brown, Head of Asia Programme, Chatham House believed that it was unnecessary to rewrite the Framework because it continued to deliver “successful engagement” with China.<sup>15</sup> The China British Business-Council agreed that it remained a relevant strategy for engagement but believed that it could benefit from updating:

Given the government's greater focus on supporting British business overseas and somewhat improved global economic conditions the document should be refreshed.<sup>16</sup>

14. To a certain extent, the Government has done this with the publication of its Trade White Paper. The White Paper made specific reference to China and set out the Government's ambition for UK-China trade relations:

The UK will continue to use the full range of its ministerial and official level contacts with China, including its annual Summit, Economic and Financial Dialogue and Joint Economic and Trade Commission, to raise with the Chinese authorities the difficulties faced by individual UK companies, as well as to encourage greater Chinese investment in the UK including by Sovereign Wealth Funds. We look to take full advantage of the opportunities afforded by WTO dispute resolution mechanisms. The UK is also working to encourage the EU to adopt a more strategic, systematic and sustained approach to lobbying on market access and business issues, notably through the High-Level Economic and Trade Dialogue established in 2008.

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12 Foreign and Commonwealth Office, *The UK and China: A Framework for Engagement*, p 5

13 Foreign and Commonwealth Office, *The UK and China: A Framework for Engagement* p 13

14 Foreign and Commonwealth Office, *The UK and China: A Framework for Engagement*, May 2009, p15–16

15 HC (2010–12) 735, Q 303

16 HC (2010–12) 735, Ev 169

The EU is actively working to assist China in applying to join the Global Procurement Agreement.<sup>17</sup>

**15. We welcome the Government's focus on China as a key export market for the United Kingdom. We also welcome the fact that the Government has resisted the temptation to develop a brand new strategy for engagement with China but, instead, has refined the previous Government's strategy to take account of new economic realities.**

## UK performance in the Chinese market

16. The statistics set out in the previous section demonstrate the size of the Chinese market. However, the UK's share of this market is small. In 2009, the UK's exports to China totalled just over £5 billion. Despite China being the UK's biggest trading partner outside the EU and the US, in 2009 this represented only 2.4% of UK exports of goods. However, the fact remains that the UK exports more to Ireland than it does to the combined emerging economies of Brazil, Russia, India and China (commonly referred to as the BRICS). By comparison, Germany's exports to China in the same year were valued at £32 billion.

17. Our witnesses highlighted a number of factors which had affected the UK's performance. Dr Brown, Head of Asia Programme at Chatham House, asserted that the UK had been at a relative disadvantage to European countries such as Germany because the UK's areas of expertise—for example, financial and professional services—were not yet in high demand.<sup>18</sup> However, he believed that the demand for these services would increase as a result of the emergence of a Chinese professional, urban class who now had significant purchasing power.<sup>19</sup> Professor Nolan from Judge Business School, Cambridge University, agreed that the UK was now in a good position to trade with China in these areas and added that the UK also had marketable expertise in “issues of dealing with climate change, issues of dealing with our natural environment”.<sup>20</sup>

18. The Chinese Government approved its twelfth 5-year plan, which was approved on 5 March 2011. The plan set as priorities, the expansion of domestic consumption as a key part of China's economic structural adjustment towards more balanced growth. The plan also identified environmental protection and energy conservation as investment priorities and it has been projected that China will commit \$600bn (£370bn) to growing sectors such as information technology, clean energy, environmental protection and scientific research and innovation.

19. When we visited Mofcom, in Beijing, the Chinese Economic Minister highlighted the service industries (financial, professional and IT), petrochemicals and pharmaceuticals as areas in which the UK had a competitive advantage which could meet China's future demand. It was particularly interesting to hear of Mofcom's interest in green technologies

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17 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, CM 8015, February 2011

18 HC (2010–12) 735, Q303

19 HC (2010–12) 735, Q303

20 HC (2010–12) 735, Q 303

and how UK expertise was in a prime position to exploit China's increasing demand for green solutions to its energy needs.<sup>21</sup>

**20. There is now a close match between a number of economic priorities in China's latest 5-year plan and UK expertise in professional services, finance, information technology and design amongst others. If the UK does not react quickly to these opportunities, China will look elsewhere and a golden opportunity to deliver a step change to our volume of trade with China will be lost. It is vital that the Department and UKTI has a clear strategy for those sectors and that it is put in place as a matter of urgency.**

### Latest trade agreements

21. During his November 2010 visit to China the Prime Minister and Premier Wen Jiabao went some way to improving the bilateral trade relationship and agreed to a target of doubling the value of bilateral trade to \$100 billion a year by 2015.<sup>22</sup> This was followed-up in June 2011 by a visit to the UK by Premier Wen Jiabao during which bilateral trade agreements worth £1.4bn were signed.<sup>23</sup> This appeared to be an example of the shift of emphasis towards increased Chinese demand for UK goods and services.

22. However, the size of the agreement was put into stark relief by subsequent agreements signed by Chancellor Angela Merkel and Premier Wen Jiabo in Germany. The agreements totalled \$9 billion and included a target to increase bilateral trade to \$284 billion over the next five years.<sup>24</sup> If both Germany and the UK meet their respective targets, Germany's trade with China will still dwarf that of this country. This does not seem to support the assertion that the future China market is the UK's for the taking.

**23. The size of the task facing both the Department and UKTI is clearly seen by the fact that Germany continues to out-perform the UK in trade with China. The agreement between the UK and China to increase bilateral trade to \$100 billion by 2015 pales in comparison to the German target of \$284 billion over the same period. Given the fact that this will be in the period in which UK should have an economic advantage, this is deeply worrying.**

### Comparisons with Germany and the supply chain

24. Commenting on the difference between the performance of the UK and Germany, Stephen Phillips, Chief Executive of the China-Britain Business Council argued that Germany had been better placed to supply China with the "kit and the machines" that China had needed during its rapid industrialisation.<sup>25</sup> He acknowledged the fact that the UK also had an excellent advanced engineering sector but believed that there was a vital difference which had given Germany a competitive advantage:

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21 Meeting with Mofcom, Tuesday 2 March 2010, Beijing

22 [www.fco.gov.uk](http://www.fco.gov.uk)

23 [www.bbc.co.uk/news/uk-politics-13919917](http://www.bbc.co.uk/news/uk-politics-13919917)

24 [www.bbc.co.uk/news/business-13954148](http://www.bbc.co.uk/news/business-13954148)

25 HC (2010–12) 735, Q 305

From a Chinese point of view, what that means is that the UK makes something that tends to go into somebody else's kit, so they do not see the UK element. What China wants overall is turnkey solutions, and the UK isn't great at offering that. Other countries tend to be a little bit better about giving an end-customer in China the whole kit that they're looking for.<sup>26</sup>

This view was supported by Professor Nolan, who believed that the supply chain was also a factor:

German firms do not just export to China; they produce in China in huge volumes. Those firms that are capable of doing it—and many are—have taken with them their SMEs within their supply chain.<sup>27</sup>

25. When we were in China, few of the major UK companies we met appeared to have taken their domestic supply chains with them. They explained that this was because local supply chains now fitted better with their long-term position in China. That said, several of them acknowledged that bringing their supply chain with them would have offered UK SMEs a lower risk approach to entering the China market.<sup>28</sup> SMEs we met with agreed that more could be done in this area to support SMEs. Members of the British Chamber of Commerce in Shanghai believed that large British companies should be encouraged to assist smaller UK SMEs, from within the same industry sector, to enter the Chinese market through “leveraging their local experience, partners and relationships”. This, they argued, could be done either through a mentoring scheme run by business or by seminars led by major UK companies already in the Chinese market.

26. Joan Turley was of a similar view and argued that sharing experience would be extremely helpful:

let's share those experiences in a way that is practical and accessible. Let's put those literally into distillations—dos and don'ts—not just of behaviour, but also explaining a little bit why the Chinese are that way. When you transfer knowledge with the correct cultural explanation, it readily becomes a skill because people understand it. They see exactly what to do, why they need to do it and how they need to do it.<sup>29</sup>

27. The benefits of major UK companies bringing their domestic supply chains with them when they invested overseas was highlighted in our main Report which concluded:

UKTI can play an important role in providing incentives to larger companies to take their supply chain with them, and we recommend that the Government consider how companies receiving UKTI support through the scheme be encouraged to help 'pull through' their SME supply chains.<sup>30</sup>

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26 HC (2010–12) 735, Q 305

27 HC (2010–12) 735, Q 306

28 Visit to China, 3–4 March 2010, Beijing and Shanghai

29 HC (2010–12) 735, Q 328

30 Business, Innovation and Skills Committee, Seventh Report of Session 2010–12, *Rebalancing the Economy: Trade and Investment*, HC 735, para 141

28. Our Report on Trade and Investment recommended that UKTI considers how it can encourage larger companies to bring their supply chain with them when they enter foreign markets. Our experience in China was that this would greatly benefit SMEs entering the Chinese market. Mentoring of SMEs by major UK companies, and a greater dissemination of their experience of doing business were suggested to us by SMEs in China. We recommend that UKTI incorporate these suggestions in their strategy to better inform UK SMEs of the opportunities and benefits of exporting to China.

## 4 Issues arising from the visit

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### UK trade services in China

29. It is clear that China represents a huge potential market for the United Kingdom. But it is not necessarily the easiest market to enter. Support for UK business is provided through UKTI and the UK Embassy with the support of the China-Britain Business Council (CBBC)—UKTI’s delivery partner for trade services in China—and the British Chambers of Commerce in China.<sup>31</sup> The CBBC told us that it was well-placed to provide that support as it had “a proven track record of successfully developing British trade in China” dating back to the 1950s, and that it was “recognised and respected at the highest levels of both the Chinese and British Governments”.<sup>32</sup>

30. The China-Britain Business Council works in both China and in the UK and on the domestic front has organised more than 200 events across the country to help companies understand opportunities in specific sectors or regions, as well as understand key business issues. It has also hosted around 80 inward delegations from China each year, introducing them to UK companies.<sup>33</sup> Together with UKTI, the CBBC also publishes a range of documents which provide companies with information about the changing shape of the Chinese economy and the opportunities available to UK companies. For example, in 2008, UKTI commissioned a Report from CBBC and the University of Leeds which was published in August 2008 as *Opportunities for UK Businesses in China’s Regional Cities*.<sup>34</sup> The Report highlighted 274 cities with a population of more than 1 million of which 35 cities were identified as having the best business prospects for UK business. Those cities account for approximately 16% of China’s population and 36% of its GDP.<sup>35</sup> CBBC also provides sector specific research in its “Opportunities for Business” series, recent examples of which covered the creative industries, software industries and financial services.<sup>36</sup>

31. A key purpose of our visit was to see, at first hand, the support offered to UK companies by UKTI and its delivery partners. Overall, the companies we met were impressed by the service available to them. Members of the British Chamber of Commerce in Shanghai, made clear to us the value of UKTI in China. They told us that the services and support offered by UKTI were both “valuable and useful” and that UKTI provided companies with “lots of useful resources and information on the China market”.<sup>37</sup> Furthermore, one member highlighted the fact that UKTI also helped to facilitate discussions between UK companies and local government when problems arose when

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31 HC (2010–12) 735, Ev 169

32 HC (2010–12) 735, Ev 169

33 HC (2010–12) 735, Ev 171

34 [www.ukti.gov.uk](http://www.ukti.gov.uk)

35 HC (2010–12) 735, Ev 171

36 HC (2010–12) 735, Ev 171

37 Visit to China, Shanghai, 4–5 March 2011 and British Chamber follow-up on the visit.

dealing with local Chinese companies. These views were also reflected in our meetings with a number of the large UK companies we met in Beijing, who also valued UKTI support.<sup>38</sup>

32. Our experience in China matched the comments of our witnesses at Westminster. Joan Turley, a business author specialising in how relationships assist the creation of success with China, believed that both the CBBC and UKTI provided a good service:

The CBBC, UKTI and the commercial departments of our Embassies provide wonderful information and analysis to help companies know whether they really should be in China. That is crucial, because when we send companies out there who should not be there, we also lose face. It harms the dialogue; it harms the seriousness and gravitas with which we are perceived.<sup>39</sup>

Joan Turley also stated that in her experience UKTI and CBBC did an “absolutely fantastic job in analysing and adapting the business offer for China”.<sup>40</sup>

33. Simon Carter, a fashion designer who has entered the Chinese market, said that UK Embassy support was “absolutely invaluable” as it provided a high level of local knowledge and that the staff were “highly respected” by the Chinese.<sup>41</sup> Steve Young, from Surrey Satellites, agreed that such knowledge of China and the Chinese economy was key to achieving success:

There may not be some of the—as you put it—coalface business people who are used to closing commercial deals, but if the goal of those organisations is to help create the environment within which British companies can achieve success within the marketplace, the expertise some of those people have is absolutely fundamental to helping us.<sup>42</sup>

34. At the time of our visit, UKTI had around 90 staff working in China. Even with the assistance of the China-British Business Council, this is a small complement of staff given the size of the target market. There has been considerable uncertainty over the number of posts which would be funded by Government in the future. Our Report on Trade and Investment highlighted the potential risks of reducing the resources available to UKTI.<sup>43</sup> In China, the Government have understood those risks and the FCO recently announced that it would “strengthen our frontline staff in China by up to 50 officials” in recognition of the importance to the UK of that market. With the increased focus of the FCO on trade and commercial activities, this should provide greater capacity for business support.<sup>44</sup>

**35. We welcome the increase in the number of FCO staff working in China. It is clear that the size of the China market, and the UK’s modest success in exploiting it, merits**

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38 Visit to China, Shanghai, 4–5 March 2011 and British Chamber follow-up on the visit.

39 HC (2010–12) 735, Q 328

40 HC (2010–12) 735, Q 331

41 HC (2010–12) 735, Q 331

42 HC (2010–12) 735, Q 331

43 Business, Innovation and Skills Committee, Seventh Report of Session 2010–12, Rebalancing the Economy: Trade and Investment, paras 84 and 85

44 [www.fco.gov.uk/en/news](http://www.fco.gov.uk/en/news)

**further resources. Given the considerable cuts being made elsewhere—as noted in our Trade and Investment Report—the FCO and UKTI in China will need to demonstrate that these resources have been put to good use. Increases in activity will not be sufficient; UKTI will need to justify this increase in staff with evidence of their role in increased UK exports to China, and increased inward investment from China.**

### **UKTI CBBC Partnership**

36. It was clear from our meetings in China that the partnership between UKTI and CBBC is a successful one. Together they offer a wide range of advice and the involvement of the CBBC provides the UK with a presence in a larger number of cities than could be provided by UKTI alone—UKTI have offices in four cities, but with CBBC support cover many more.<sup>45</sup> As Lord Green pointed out, UKTI support in China was more than “just being in Beijing and Shanghai” and needed to be targeted at far more Chinese centres of commerce.<sup>46</sup> Our Report on Trade and Investment highlighted the potential for UKTI to work with business groups and other organisations to enhance the range and reach of support to UK exporters:

The provision of export support should not solely be the responsibility of the UKTI and the Government. We recommend that the Government and UKTI work with the Chambers of Commerce, trade associations and banks to project a clear message on exporting with clear signposting on where to go for help, advice and financing.<sup>47</sup>

Clearly the partnership between UKTI and the CBBC provides this in relation to China, not only in the UK, but also on the ground in China.

**37. We welcome the partnership between UKTI and the China-Britain Business Council as a cost-effective way of providing a greater range and reach of support to UK companies, both in the UK and in China. We recommend that Government consider how this approach to delivering services can be replicated in other key markets.**

### **Trade Shows**

38. In our Report on Trade and Investment, we considered the Department’s Trade Show Access Programme and made the following recommendation:

124. We have heard from a variety of industries the importance of Trade Shows and therefore the invaluable services of the UKTI’s Trade Show Access Programme. A more selective approach to supporting Trade Shows may be both beneficial and more efficient but we recommend that funding from the programme is reviewed before it is cut. We also look forward to detail from UKTI on how the Trade Show Access Programme will be enhanced in 2012 with potentially less funding.<sup>48</sup>

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<sup>45</sup> HC (2010-12) 735, Q 475

<sup>46</sup> HC (2010-12) 735, Q 475

<sup>47</sup> Business, Innovation and Skills Committee, Seventh Report of Session 2010–12, *Rebalancing the Economy: Trade and Investment*, para 133

<sup>48</sup> Business, Innovation and Skills Committee, Seventh Report of Session 2010–12, *Rebalancing the Economy: Trade and Investment*, para 124

39. Our witnesses were of the view that well-targeted trade shows were highly beneficial to companies looking to export for the first time to China. Simon Carter argued that trade shows were a particularly important aspect of support for UK companies looking to enter the Chinese market:

It is my belief that the most effective use of government resources is to support viable, focussed, small to medium companies through subsidised trade fairs. It is the best way to showcase product, and meet both customers and prospective business partners. It is also vital to have continuity with such a programme. One criticism often levied in the past is that there is no certainty as to the subsidy for a certain trade fair and the policy seems to be at the whim of politics. It takes time to establish a market. Limiting subsidies to two or three showings is never enough.<sup>49</sup>

He concluded that:

There is absolutely no doubt that Simon Carter, as a business and a brand, would not be in the position of strength that is now without the British Fashion Fair.<sup>50</sup>

40. Steve Young of Surrey Satellites, a current exporter to China, also thought that trade shows were a valuable tool, even if a particular company might not choose to attend in person. The expense of attending a trade show made his company highly selective when it came to attending in person, but he said that the UKTI presence could be drawn on to get a message across:

Where there are exhibitions we have decided are not of value, or which we do not have the resources to go to, there is often a UKTI presence that we can then draw upon. For example, there is an export support team in the DSO, which is part of UKTI as I am sure you know, and we often have the opportunity to train those people and then send models or brochures or examples of our capability out, which then go on essentially a UKTI stand or presence at that exhibition. That is essential to us. The capability that gives us in terms of our market penetration, market access and market exposure, for the amount of money it costs us, is fantastic.

41. Joan Turley commented that there was an active programme of trade shows to China, which were well-organised and well supported by some “very savvy” UKTI advisers.<sup>51</sup> She described them as “great celebrations of knowledge and expertise”. However, she stressed that they were only the start of a longer process:

They are only as good as what one does next, and what one does next in China is make sure that within a relatively short period of time, you are back there—back there to take the business dialogue further and more seriously. But as a window, as an opportunity to make a very good beginning and as an opportunity to source the beginnings of crucial relationships that will support your business dialogue, they are very important. But they are only important if they are handled with an

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49 HC (2010–12) 735, Ev 203

50 HC (2010–12) 735, Ev 203

51 HC (2010–12) 735, Q 339

understanding of why the way we handle them has to be slightly different in China than in other markets.<sup>52</sup>

42. When we were in China, a large number of companies highlighted the value of this activity to companies aiming to enter the Chinese market and “business networking” was seen as an area in which UKTI should increase its activity. While some companies believed that they could be better focused overall, they believed that trade shows greatly assisted companies looking to export for the first time to China. The main concern raised by SMEs was affordability. We were told that attending trade fairs abroad was expensive and although UKTI had some funds to subsidise SMEs’ costs of attendance, it was from a limited budget and therefore not always possible to access.

**43. In our report on Trade and Investment we highlight the importance of trade shows and recommended that UKTI provide detail on how the Trade Show Access Programme will be enhanced in 2012 with potentially less funding. We now recommend that in its Response to this Report it sets out details of how the Trade Show Access Programme in China will be sustained and enhanced over the coming years.**

### **Shanghai Expo**

44. From May to October 2010, China hosted the latest World Expo<sup>53</sup> in Shanghai. It was the biggest Expo to be organised with over 190 countries represented and was visited by over 70 million people.<sup>54</sup>

45. According to the UKTI, the UK Pavilion received just under 8 million visitors over 6 months; with many 100s of millions engaging online. It hosted over 150 businesses, held over 100 other events and received over 10,000 VIP delegations. The Pavilion was the platform for over 300 events promoting UK business and UK/China partnership. UKTI estimated that 3000 new senior business contacts had been made during the life of the Expo which it would use to generate opportunities for business in the future. UKTI also believed that the Expo had the potential to “fundamentally improve” UKTI’s ability to deliver FDI from China long term.<sup>55</sup>

46. We note that the UK Pavilion won a gold award in the design category for the largest pavilions and was rated as one of the top three “must see” pavilions. The Pavilion also won the prestigious Lubetkin prize for best overseas building by a UK architect, and the best designed foreign pavilion from the Chinese.<sup>56</sup>

**47. We congratulate the work of UKTI at the Shanghai Expo and the success of the UK Pavilion. The levels of activity were impressive but these inputs will count for little if they do not deliver tangible business results. The success of the UK Pavilion will be**

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52 HC (2010–12) 735, Q 339

53 Expos, or World Fairs as they are also known are major opportunities for counties to show-case their culture and economy, and to provide a platform for a county’s business to export.

54 UKTI briefing

55 UKTI briefing

56 UKTI briefing

**judged on outcomes and we ask the Government to provide us with evidence that those high levels of activity are now being turned into additional business for UK companies.**

## **Inward investment to UK from China**

48. During our visit we also met with two major companies investing in the UK, Shanghai Automotive and Huawei. Shanghai Automotive is the more established of the two in the UK and owns MG Rover. Huawei we were told was at the starting point of its investment in the UK, although it already employs 500 people in Basingstoke. Both companies provided us with valuable insights in how UKTI and the UK Government can help facilitate major investment in the UK by Chinese companies, and both were impressed with the level of UK Government engagement. Huawei told us that the development of its “cyber security” centre in Banbury came as a direct result of the positive interaction between themselves and Government.<sup>57</sup>

49. The success of Shanghai Automotive can be clearly seen in the production of the new MG6 Magnette. The car was designed in the UK and is manufactured at the Longbridge Plant using components made in China. During his official visit to the UK, Chinese Premier Wen Jiabao visited Longbridge for a launch ceremony of the MG6. Should production at Longbridge reach its capacity the workforce at the plant could rise considerably. This represents a significant boost to jobs and the local economy.

**50. Inward investment from China is important to the UK economy and we welcome the commitment by the Prime Minister and the Chinese Premier to increase bilateral trade. The example of Shanghai Automotive’s long-term commitment to MG, the local economy and job creation is a model of the benefits of attracting inward investment. The potential to expand production at Longbridge highlights the success of Shanghai Automotive’s investment and its value to the UK. This commitment has to be matched by the Government.**

**51. With limited resources available for trade support, the Government needs to prove that it can attract many more companies with a similar desire to invest in the UK. We appreciate that there is a balance to be struck between support for UK exports to China and support for Chinese investment into the UK. Therefore, the limited resources available to UKTI makes getting the balance right ever more important.**

## **Developing Relationships**

### ***Ministerial visits***

52. The importance of regular high-level engagement with China should not be underestimated. When we took evidence on the UK’s relationship with China, all of our witnesses stressed that relationship building should be seen as a key strand of the UK’s strategy. Stephen Phillips argued that this form of activity was “absolutely critical” to successful business in China,<sup>58</sup> while Dr Brown stated that it was “really important to have

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57 Visit to China, Shanghai, 4 March 2011

58 HC (2010–12) 735, Q310

senior political leaders from the UK open doors”.<sup>59</sup> This was a key message we received when we were in China that engagement at all levels—Ministerial visits, Parliamentary visits and trade missions— all had a highly beneficial impact on the development of the political and economic relationship with China.<sup>60</sup>

53. In that context, last November’s visit by the Prime Minister was a significant event. The visit was described as “the largest British trade delegation ever to visit the country”<sup>61</sup> and comprised the Chancellor of the Exchequer, the Secretary of State for Business, Innovation and Skills, the Energy Secretary and Education Secretary; as well as 50 British business and education leaders.

54. The visit included a business summit at which four sectors were identified as having a high potential to match UK capability and export potential with Chinese economic need:

- high-end manufacturing and advanced manufacturing
- financial services
- low carbon urban development
- digital media.<sup>62</sup>

The visit also delivered a number of tangible business outcomes. Trade deals announced included a \$5 billion deal with Airbus and a £750 million deal with Rolls Royce. Speaking in Beijing, the Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills, described China as:

The biggest source of demand in the world for many of the products that we in the UK have to offer. This makes it a very lucrative market for our businesses and thousands have now taken the leap abroad and become highly successful in regions across China.<sup>63</sup>

55. The China-Britain Business Council, who played a key role in the visit concluded that its members considered the visit to be a success. In particular, the Council believed that the number of Senior Government Members taking part was an important factor in its success:

Good political relations are an important foundation for good commercial relations. The visit built upon an already sound political relationship forged by the previous government. It is up to individual businesses to make the most of these good relations, accessing support from government and organisations like CBBC.<sup>64</sup>

59 HC (2010–12) 735, Q 312

60 Visit to China, Beijing and Shanghai, 2–5 March 2011

61 [www.number10.gov.uk/news/latest-news/2010/11/pm-leads-largest-ever-trade-delegation-to-china-56796](http://www.number10.gov.uk/news/latest-news/2010/11/pm-leads-largest-ever-trade-delegation-to-china-56796)

62 A Business Summit was held during the visit which was co-hosted by the China-Britain Business Council on behalf of UK Trade & Investment. It gathered together over 400 UK and Chinese business people and officials. It was attended by Chinese Vice Premier Li Keqiang, Foreign Minister Yang Jiechi, Vice Commerce Minister Gao Hucheng and Business Secretary Vince Cable

63 [www.ukti.gov.uk/fr\\_fr/export/exporthome/item/120401.html](http://www.ukti.gov.uk/fr_fr/export/exporthome/item/120401.html)

64 HC (2010–12) 735, Ev 169

56. This view was supported by Steve Young from Surrey Satellites. From his experience, he believed that the ability to demonstrate UK Government support was a factor in his company's success:

We have to show that not only do we have a company that has the right capability and right products that they want, but also that we have the support from the UK Government when we are doing business there. The Chinese companies and authorities want to see that we are a reputable company that will support them and have a long-term relationship that will maintain that face. If we do not have that overt Government support when we go into China, we find it very, very difficult to continue that relationship.<sup>65</sup>

57. He went on to argue that while companies can demonstrate this commitment by “sending out your important people, showing that you want to be there and you want to do business with China” it needed to be backed up with a political commitment “the UK Government has to be showing that it wants this too”.<sup>66</sup>

58. The importance of regular visits by politicians as a visible means of support was made clear to us by a number of individuals we met. In particular, one UK company was strongly of the view that being able to have a strap-line of “supported by the UK Government” was a powerful tool at a company's disposal. Our meetings with Chinese politicians and officials also highlighted political visits as an important way to embed trust and friendship out of which closer economic ties could be formed. That approach to business was summed up neatly by one of our interlocutors who said that in Britain, you do business and then become friends, in China you become friends and then you do business.<sup>67</sup>

**59. We welcome last year's trade delegation to China, led by the Prime Minister. It was a demonstrable success with tangible outcomes for business. However, it should not be seen as a one-off event, but the start of an extended series of political and economic visits. The development of the China/UK relationship will depend on regular contact between the political elites of both countries. We believe that it is in the UK's economic interest to make that visit an annual event.**

### *The wider relationship*

60. Despite the positive impact of the Prime Minister's visit, the China-Britain Business Council believed that more work needed to be done to improve the UK's knowledge of China and to promote it in the UK as a country of opportunity:

The level of understanding and awareness of modern China in the UK is not as good as it needs to be. The way China is portrayed in the media tends to be quite negative, and little is taught throughout our education system. This needs addressing.

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65 HC (2010–12) 735, Q 326

66 HC (2010–12) 735, Q 339

67 Visit to China, Beijing and Shanghai, 2–5 March 2011

Improved trade and investment relations require, inter alia, a much enhanced understanding of China today amongst the British business community.<sup>68</sup>

61. The Trade White Paper acknowledged that the perception of China in the UK was not always delivered in a positive light:

Some commentators believe that the foreign business environment in China has deteriorated in recent years.<sup>69</sup>

62. Joan Turley argued that relationship-building was key to successful business in China:

Essentially, doing business in China is relationship-based. This is a relationship-centric culture and relationships are the things that open doors; they are the things that facilitate and oil the momentum of a business dialogue; and they are the things that protect the deals when they get done and guarantee the safety of those deals thereafter. They are absolutely at the core of the skill set we should be trying to communicate and transmit to our companies.<sup>70</sup>

On a cultural level she said that support was necessary to ensure that business were better prepared:

Inter-culturally in terms of what to expect, how to communicate and how to signal the right things about their business, about their proposition and—equally important to the Chinese—about themselves. “Are these people we can do business with? Will they maintain our reputation? Will they keep our public face well?” These are central issues to the Chinese.<sup>71</sup>

63. Steve Young said that China placed great emphasis on trust and that it takes time, resource and effort to develop that. He believed UKTI and other British “support networks” could help SMEs in that regard.<sup>72</sup> He went on to give the following example of how, if this works well, it can deliver excellent results:

I watched one SME within a very short time have the opportunity to sign a joint venture with the largest media company in the north of China, having arrived in that area as relative unknowns. But they were culturally prepared, they were well underpinned, they had good stakeholder backing, they had prepared their stakeholders for the time that it might take for this extended getting-to-know process, so they could participate well in the model, and they had given all the right signals to the Chinese in the way that they built both relationships and joint reputation.<sup>73</sup>

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68 HC (2010–12) 735, Ev 170

69 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 2.41

70 HC (2010–12) 735, Q 325

71 HC (2010–12) 735, Q 325

72 HC (2010–12) 735, Q 327

73 HC (2010–12) 735, Q 327

64. We agree with the China-Britain Business Council that a much enhanced understanding of China today amongst the British business community is needed if we are to achieve a step-change in the level of our exports to China. Equally, we agree that this is also necessary to present the UK as premier destination for Chinese investment. We look to the Government to provide us with details on how it, and the China-Britain Business Council will use the recent bilateral visits to better publicise the positive benefits of our relationship with China.

## Visa Regime

65. Problems with access to UK visas was a key message delivered to us during our visit to China. Many companies raised this with us including, among others Huawei, University of Nottingham, Queen Mary College and Dulwich College. Furthermore, concerns about visas were also raised by our political counterparts in China. In our meetings with businesses, we were given a number of illustrative examples of difficulties in gaining visas for Chinese staff and students to attend conferences or training courses in the UK; and that the time taken to process applications meant that those opportunities were missed. The same message was delivered to us when we met with representatives of UK universities. They told us of severe difficulties in obtaining visas for students either to study in the UK or to continue work in joint ventures between UK and Chinese universities.

66. The ability of employees working for companies based both in the UK and China to move between the two countries is vital to developing strong and lasting links. The level and number of concerns raised during our visit led us to hold an evidence session on the visa regime as it affected both business and education. At that session we sought details from Ministers from both the Home Office and the Foreign and Commonwealth Office on these concerns in general, but also specifically in relation to China.<sup>74</sup>

67. Damian Green MP, the Minister of State for Immigration, set out the Government's statistics in relation to visa applications from China. He told us that the UK had 12 visa application centres in China which, he argued, was more than any other country. This concentration reflected the importance the UK placed on what he described as "a hugely important market".<sup>75</sup> He went on to explain that the visa section in China had issued 55,000 business visit visas, which, he said, represented a 21% increase on 2009.<sup>76</sup> He also explained that a target had been set to process 90% of business visa applications within 15 working days. According to the Minister, the average processing time for a business visit visa in China was four days and 83% of business visit visas were processed in five working days.<sup>77</sup> The Minister also said that in 2010, 44,000 student visas were issued to Chinese students which was "an increase of 27% over the previous year".<sup>78</sup> The Minister believed

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74 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12), 886-i

75 HC (2010–12), 886-i, Q 53

76 HC (2010–12), 886-i, Q 52

77 HC (2010–12), 886-i, Q 52

78 HC (2010–12), 886-i, Q 53

that together, the statistics and the level of the footprint across China demonstrated that the UK was delivering a good service in respect of Chinese visas.<sup>79</sup>

68. When pressed on the concerns raised with us when we were in China, the Minister thought that the probable cause was the fact that our visit coincided with the consultation period on the Government's proposals for a new visa regime. He understood that this was the "period of maximum uncertainty" in the process but argued that it should be considered a "temporary phenomenon",<sup>80</sup> and that concerns would be "largely allayed" once the details of the new regime become clear.<sup>81</sup>

69. This explanation was endorsed by Jeremy Browne MP, the Minister of State at the Foreign and Commonwealth Office with specific responsibility for China. He argued that the concerns were probably based on:

A nervousness of the unknown, that the British Government, the new government, had stated an intention to reduce the net levels of immigration and in some cases they were anxious that that might mean that forms of migration into Britain, which they felt were beneficial to their citizens or their country, would be severely curtailed or stopped altogether".<sup>82</sup>

In relation to China, he argued that in his meetings with the Chinese Ambassador to the UK concern about the visa system "is not the headline top issue that he is seeking to raise with me".<sup>83</sup> Despite our concerns Jeremy Browne MP did not consider there to be a problem:

Last time I was in China, I visited the Nottingham University China campus. Such is the appetite for British higher education that Nottingham University can't accommodate all of the Chinese people who would like to study in Nottingham, so they are taking the product to the customer, if you like, because they can't accommodate all the customers on their site on the edge of Nottingham. It appears to be the case that far from deterring people, the demand remains strong.<sup>84</sup>

70. Jeremy Browne MP said that together the Home Office, Foreign Office and the Department for Business, Innovation and Skills were sending out "a clear signal to countries like China that we do want to attract their best minds, their best students to study here; we want to develop those relationships."<sup>85</sup>

**71. An efficient and accessible visa regime is vital if the Government is to demonstrate that the UK is open for business. A key message we brought back from China was that businesses and universities—both British and Chinese—faced severe difficulties in obtaining UK visas for their employees and students. Ministers appear to be unaware of**

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79 HC (2010–12), 886-i, Q 53

80 HC (2010–12), 886-i, Q 64

81 HC (2010–12), 886-i, Q 63

82 HC (2010–12), 886-i, Q63

83 HC (2010–12), 886-i, Q 63

84 HC (2010–12), 886-i, Q 64

85 HC (2010–12), 886-i, Q 64

**the seriousness of the situation and their account and their characterisation of our experience as a “temporary phenomenon” smacks of complacency. When it responds to this Report, the Government has to set out in detail how it will address its lack of awareness of these concerns and how it will rectify both the problems and perceptions of the visa regime in China. We caution the Government that monitoring of the system will not be enough, it needs firm action now.**

## Intellectual property rights

72. The protection of intellectual property rights has been a considerable area of concern for many companies considering investments in China and has been well documented in the British media. In November 2010, Sir Anthony Bamford of JCB warned that UK companies’ enthusiasm for new markets was “somewhat tempered by concerns about how Chinese and other Far Eastern manufacturers often infringe the IP of western companies”.<sup>86</sup> This view was echoed by James Dyson who made the following observation in the Sunday Times:

What use is a robust and solid EU patent system if companies in China continue to ignore it? Stealing intellectual property, the production of counterfeit goods and other corporate pilfering are common there.<sup>87</sup>

73. Simon Carter, told us that he had “first-hand experience” of intellectual property issues in China, in which his designs had been copied by Chinese factories. He described this as “a headache more than a real disaster” as action could be taken quickly to stop retailers stocking the products. However, he said that he had been advised that it was “almost impractical to try to take action at the source of this problem, which is the factory itself in China”.<sup>88</sup>

74. When we raised this with businesses in China, they all were aware that it remained an issue, but believed that there were ways to mitigate the risk. For example, a number of companies said that keeping “off-shore” from China, those parts of their operations which create IP—either in the UK or in Japan, for example—lessened the impact. Steve Young, Head of Business Development and Sales at Surrey Satellite Technology Ltd agreed and made an interesting distinction between existing Intellectual Property and what he described as “cutting edge IP”:

We look at it in terms of the currentness of that intellectual property. If you are looking at intellectual property from five or 10 years ago and you are concerned about where that might end up now, then you are probably looking in the wrong place, because it is the IP that you develop now that is of value to you in the future and that is absolutely reliant on how much research and development you do now to develop that IP. So we can use that IP essentially as part of training and development for Chinese customers [...] they are not necessarily in the same place we are at the

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86 *Daily Telegraph*, 9 November 2010

87 *Sunday Times*, 16 January 2011

88 HC (2010–12) 735, Q 329–30

moment—but while retaining our cutting edge IP with our R and D to make sure we are ahead of the game.<sup>89</sup>

75. Stephen Phillips, Chief Executive of the CBBC, acknowledged that many concerns about Intellectual Property were valid but cautioned that the “perception of the issue in the marketplace is lagging the reality”.<sup>90</sup> He argued that China had made a great deal of progress in this area, and that the legal framework in China was now “very well developed”. The enforcement of IP judgments remained a problem but Mr Phillips believed that improvements were also being made in this area. Mr Phillips believed that a significant driver for change was the expansion of Chinese Intellectual Property:

It is very notable, though, that in excess of 90% of IP cases in China are Chinese against Chinese, and as China moves further up the value curve there is a vested interest in China having an environment that is supportive of developing IP.<sup>91</sup>

76. Professor Nolan from Cambridge University agreed that China was making progress but believed that it had “a long, long way to go” before the issue could be fully resolved.<sup>92</sup> That said, he cautioned against concentrating solely on China in respect of IP theft:

The high technology is all embedded in multinational companies, in investment in research and development. Global companies fight: they do not just have to think about IP in China; they have to think about Western companies trying to capture their knowledge.<sup>93</sup>

77. Joan Turley argued that IP had become an “insidious bête noire” in many people’s minds which put off companies from entering the Chinese market. However, she believed the reality to be different and that the Chinese government was serious in its attempts to address the problem and were tackling it through legislation, enforcement and education.<sup>94</sup>

78. Our experience in China was that while it remained an issue, it was one that was being addressed. Discussions on IP with Mofcom were an important part of our meeting and it is clear that they now consider it to be a high priority for them. That said, it was made clear to us that the picture was not uniform. Major centres including Beijing and Shanghai were reasonably advanced in their procedures, but this was less so further away from the major centres of commerce.

79. In September 2010, the UK and Chinese Governments signed a new Memorandum of Understanding on copyright. The Department stated that the new agreement would see “both countries cooperate and work together on copyright issues to help to promote a strong national and international economy”.<sup>95</sup> The China Britain Business Council saw this as a very important step:

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89 HC (2010–12) 735, Q 330

90 HC (2010–12) 735, Q 313

91 HC (2010–12) 735, Q 313

92 HC (2010–12) 735, Q 314

93 HC (2010–12) 735, Q 314

94 HC (2010–12) 735, Q 330

95 <http://nds.coi.gov.uk/content/Detail.aspx?ReleaseID=415282&NewsAreaID=2>

There have been material improvements in the last decade. The commitment of the Chinese government cannot be underestimated and it has recognised that a full IP system—from efficient and effective trade mark and patent examination to high quality judges sitting in dedicated IP chambers—is not only necessary but critical for China’s own development. So whilst IP protection is still an important consideration and companies need to develop a strategy to manage it, the picture is not as bleak as it was.<sup>96</sup>

**80. We acknowledge that China takes seriously the need to address both the problems and perception of intellectual property theft and that the UK Government is actively working with the Chinese Government to find a solution. The importance of resolving the problems of IP theft cannot be underestimated. If it is not resolved, UK companies which are IP-intensive will not have the confidence to enter the Chinese market. That would undermine the UK’s ability to increase its share of the China market. We will expect from the Government a clear route-map to solving this issue. Furthermore, we ask the Government to set out what support it will provide in the meantime so that IP intensive companies will have the confidence to trade in China.**

## 5 Conclusion

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81. The Chinese market offers the potential for the UK to deliver significant improvements in its export performance. The latest 5-year plan for the Chinese economy offers the UK a window of opportunity to deliver a step-change in its trade relationship with China. The speed with which the Chinese economy is developing means that it will not be open for long. It is therefore vital that the Government acts now to ensure that UK companies can realise the potential of the China market.

82. The Government has clearly targeted China as a key part of its strategy to increase the UK's trade and exports. However, despite hearing that the Chinese economy is now playing to the UK's strengths we continue to be out-performed by countries like Germany. The recent announcement of \$100 billion target for UK/China bilateral trade was quickly overshadowed by the German target of \$284 billion. The contrast between the two should serve as a wake-up call for the Government.

83. The UK is playing catch-up in its trade relationship with China. If the UK is to realise its potential in this key market, the Government, as a matter of urgency, will need to up its game.

## Conclusions and recommendations

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### The UK's trade relationship with China

1. We welcome the Government's focus on China as a key export market for the United Kingdom. We also welcome the fact that the Government has resisted the temptation to develop a brand new strategy for engagement with China but, instead, has refined the previous Government's strategy to take account of new economic realities. (Paragraph 15)
2. There is now a close match between a number of economic priorities in China's latest 5-year plan and UK expertise in professional services, finance, information technology and design amongst others. If the UK does not react quickly to these opportunities, China will look elsewhere and a golden opportunity to deliver a step change to our volume of trade with China will be lost. It is vital that the Department and UKTI has a clear strategy for those sectors and that it is put in place as a matter of urgency. (Paragraph 20)
3. The size of the task facing both the Department and UKTI is clearly seen by the fact that Germany continues to out-perform the UK in trade with China. The agreement between the UK and China to increase bilateral trade to \$100 billion by 2015 pales in comparison to the German target of \$284 billion over the same period. Given the fact that this will be in the period in which UK should have an economic advantage, this is deeply worrying. (Paragraph 23)
4. Our Report on Trade and Investment recommended that UKTI considers how it can encourage larger companies to bring their supply chain with them when they enter foreign markets. Our experience in China was that this would greatly benefit SMEs entering the Chinese market. Mentoring of SMEs by major UK companies, and a greater dissemination of their experience of doing business were suggested to us by SMEs in China. We recommend that UKTI incorporate these suggestions in their strategy to better inform UK SMEs of the opportunities and benefits of exporting to China. (Paragraph 28)

### Government support for UK businesses

5. We welcome the increase in the number of FCO staff working in China. It is clear that the size of the China market, and the UK's modest success in exploiting it, merits further resources. Given the considerable cuts being made elsewhere—as noted in our Trade and Investment Report—the FCO and UKTI in China will need to demonstrate that these resources have been put to good use. Increases in activity will not be sufficient; UKTI will need to justify this increase in staff with evidence of their role in increased UK exports to China, and increased inward investment from China. (Paragraph 35)
6. We welcome the partnership between UKTI and the China-Britain Business Council as a cost-effective way of providing a greater range and reach of support to UK companies, both in the UK and in China. We recommend that Government

consider how this approach to delivering services can be replicated in other key markets. (Paragraph 37)

7. In our report on Trade and Investment we highlight the importance of trade shows and recommended that UKTI provide detail on how the Trade Show Access Programme will be enhanced in 2012 with potentially less funding. We now recommend that in its Response to this Report it sets out details of how the Trade Show Access Programme in China will be sustained and enhanced over the coming years. (Paragraph 43)
8. We congratulate the work of UKTI at the Shanghai Expo and the success of the UK Pavilion. The levels of activity were impressive but these inputs will count for little if they do not deliver tangible business results. The success of the UK Pavilion will be judged on outcomes and we ask the Government provide us evidence that those high levels of activity are now being turned into additional business for UK companies. (Paragraph 47)
9. Inward investment from China is important to the UK economy and we welcome the commitment by the Prime Minister and the Chinese Premier to increase bilateral trade. The example of Shanghai Automotive's long-term commitment to MG, the local economy and job creation is a model of the benefits of attracting inward investment. The potential to expand production at Longbridge highlights the success of Shanghai Automotive's investment and its value to the UK. This commitment has to be matched by the Government. (Paragraph 50)
10. With limited resources available for trade support, the Government needs to prove that it can attract many more companies with a similar desire to invest in the UK. We appreciate that there is a balance to be struck between support for UK exports to China and support for Chinese investment into the UK. Therefore, the limited resources available to UKTI makes getting the balance right ever more important. (Paragraph 51)

### Strengthening Relationships

11. We welcome last year's trade delegation to China, led by the Prime Minister. It was a demonstrable success with tangible outcomes for business. However, it should not be seen as a one-off event, but the start of an extended series of political and economic visits. The development of the China/UK relationship will depend on regular contact between the political elites of both countries. We believe that it is in the UK's economic interest to make that visit an annual event. (Paragraph 59)
12. We agree with the China-Britain Business Council that a much enhanced understanding of China today amongst the British business community is needed if we are to achieve a step-change in the level of our exports to China. Equally, we agree that this is also necessary to present the UK as premier destination for Chinese investment. We look to the Government to provide us with details on how it, and the China-Britain Business Council will use the recent bilateral visits to better publicise the positive benefits of our relationship with China. (Paragraph 64)

## The Visa regime

13. An efficient and accessible visa regime is vital if the Government is to demonstrate that the UK is open for business. A key message we brought back from China was that businesses and universities—both British and Chinese—faced severe difficulties in obtaining UK visas for their employees and students. Ministers appear to be unaware of the seriousness of the situation and their account and their characterisation of our experience as a “temporary phenomenon” smacks of complacency. When it responds to this Report, the Government has to set out in detail how it will address its lack of awareness of these concerns and how it will rectify both the problems and perceptions of the visa regime in China. We caution the Government that monitoring of the system will not be enough, it needs firm action now. (Paragraph 71)

## Intellectual Property

14. We acknowledge that China takes seriously the need to address both the problems and perception intellectual property theft and that the UK Government is actively working with the Chinese Government to find a solution. The importance of resolving the problems of IP theft cannot be underestimated. If it is not resolved, UK companies which are IP-intensive will not have the confidence to enter the Chinese Market. That would undermine the UK’s ability to increase its share of the China market. We will expect from the Government a clear route-map to solving this issue. Furthermore, we ask the Government to set out what support it will provide in the meantime so that IP intensive companies will have the confidence to trade in China. (Paragraph 80)

## Conclusion

15. The Chinese market offers the potential for the UK to deliver significant improvements in its export performance. The latest 5-year plan for the Chinese economy offers the UK a window of opportunity to deliver a step-change in its trade relationship with China. The speed with which the Chinese economy is developing means that it will not be open for long. It is therefore vital that the Government acts now to ensure that UK companies can realise the potential of the China market. (Paragraph 81)
16. The Government has clearly targeted China as a key part of its strategy to increase the UK’s trade and exports. However, despite hearing that the Chinese economy is now playing to the UK’s strengths we continue to be out-performed by countries like Germany. The recent announcement of \$100 billion target for UK/China bilateral trade was quickly overshadowed by the German target of \$284 billion. The contrast between the two should serve as a wake-up call for the Government. (Paragraph 82)
17. The UK is playing catch-up in its trade relationship with China. If the UK is to realise its potential in this key market, the Government, as a matter of urgency, will need to up its game. (Paragraph 83)

# Formal Minutes

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**Tuesday 19 July 2011**

Members present:

Mr Adrian Bailey, in the Chair

Brian Binley  
Paul Blomfield  
Margot James

Dan Jarvis  
Mr David Ward  
Nadhim Zahawi

Draft Report (*Trade and Investment: China*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 83 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 6 September 2011 at 10.00 a.m.]

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2010–12

First Report	The New Local Enterprise Partnerships: An Initial Assessment	HC 434 (HC 809)
Second Report	Sheffield Forgemasters	HC 484 (HC 843)
Third Report	Government Assistance to Industry	HC 561
Fourth Report / First Joint Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010, licensing policy and review of export control legislation	HC 686
Fifth Report	Government Assistance to Industry: Government Response to the Committee's Third Report of Session 2010–11	HC 1038
Sixth Report	Is Kraft working for Cadbury?	HC 871
Seventh Report	Rebalancing the Economy: Trade and Investment	HC 735-III