



House of Commons

Business, Innovation and Skills
Committee

**Trade and Investment:
China: Government
Response to the
Committee's Eighth
Report of Session
2010–12**

**Fourth Special 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.

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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. 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), Neil Caulfield (Second Clerk), Louise Whitley (Inquiry Manager), Ian Hook (Senior Committee Assistant), Jennifer Kelly (Committee Assistant), Pam Morris (Committee Assistant).

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Fourth Special Report

The Committee published its Eighth Report of Session 2010-12 on Tuesday 26 July 2011. The Government's Response was received on Thursday 13 October and is appended to this Report.

Government response

The UK's trade relationship with China

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)

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 have a clear strategy for those sectors and that it is put in place as a matter of urgency. (Paragraph 20)

1. The Government's approach to developing commercial relations with China has long been guided by the priorities set out in China's five-year plans. We recognise the growing complementarity between China's economic priorities and UK capability, and believe that the bilateral trade target of \$100bn a year by 2015 will best be achieved through focusing on those areas where UK companies and their expertise are closely aligned with the investment and growth priorities set out in China's 12th Five Year Plan.

2. UK Trade & Investment (UKTI) established sector strategies and plans in priority areas, developed in conjunction with UK business (and in some cases in consultation with key Chinese stakeholders). While we are reviewing these in the context of the new 5 Year Plan, it is important to recognise the significant progress achieved to date in helping raise the profile of UK capability in China, and the significant success that support provided to UK companies has helped deliver.

3. Our activities are stimulating demand for UK expertise and supporting businesses to access opportunities; helping to deliver value for companies, enhancing trade cooperation between UK and China, and making a significant contribution to the work to achieve our bilateral trade target. The first meeting of a new high-level dialogue with China's National Development and Reform Commission was hosted by Lord Green on 8 September. Subjects covered included the complementarities of the economies of the two countries

and the opportunities offered by the Chinese 12th Five Year Plan and the UK's Growth Strategy.

4. We take a comprehensive approach to developing commercial objectives in priority sectors in China. This includes furthering UK interests through discussions on macroeconomic policy and key market-access issues in Ministerial dialogues; intensive lobbying in support of UK business interests; holding events and missions to provide market advice and facilitate business cooperation; and providing individual, tailored support directly to business through UKTI and the China-Britain Business Council (CBBC). Details of the areas recognised by the Chinese as areas of UK expertise and which, aligned with economic priorities in China, present significant commercial opportunities for the UK, are as follows:

5. UKTI's Sustainable Cities programme, set up in 2007, is designed to foster commercial opportunities in sustainable urban development and low carbon technology and capability provided by UK companies. Chongqing, Changsha, Wuhan and Hangzhou are now signatories to the programme. UKTI and each of the four cities have agreed annual action plans outlining the activities to be carried out by both sides, in order to help foster cooperation between Chinese and UK companies in the relevant sectors.

6. The demographic changes and challenges that development and growth place on China's cities has made sustainable urban development a priority. Many of China's city authorities have turned to the expertise of the UK's urban planners and designers to help prevent urban sprawl, protect valuable architecture and provide a sustainable approach to regeneration and intelligent planning for better city living.

7. Enabling Innovation, the UK-China Partnership in ICT, was launched in 2008. The partnership aims to raise awareness of the proven track record, innovation and capability of the UK's ICT industry. Our Enabling Innovation strategy for 2011–2014 has put extra weight on supporting mid-cap companies as well as SME's. The UKTI China ICT team will continue to develop sub-sectors of the strategy, including communications and electronics, and broaden out the focus to include digital media and enabling technologies such as Machine to Machine (M2M), the Internet of Things (IoT) and Cloud Computing. The application of these enabling technologies in priority sectors including healthcare, transport, smart grids/metering and creative industries is a key element of the strategy.

8. Our support has helped the UK Financial and professional services sector, particularly banks, insurance companies and the major law firms to establish and expand their China footprint ahead of their competitors. Since 2006 we have had a comprehensive financial services sector strategy, aimed at positioning UK companies as the partner of choice in China and promoting the liberalisation of China's financial and related professional services. This is a business-led strategy under the direction of Sir David Brewer (former Lord Mayor and current chairman of CBBC), delivered through the China Market Plan, which maps UK and China stakeholders and identifies specific sub-sectors where effort in support of industry should be targeted. Progress is monitored on a quarterly basis by the China Britain Business Council (CBBC) and theCityUK committee representing broad private sector and public sector interests.

9. In Energy, China is developing a RMB 5 trillion (£470 billion) government plan for new energy covering the period 2011–2020. The main areas of planned investment that have significant synergies with UK expertise, include wind power (£141bn), smart grid (£94bn) and civil nuclear (£94bn). Our strategy is to help better position UK companies to pursue significant commercial opportunities in these three subsectors (UKTI has a programme of activity to highlight UK capability and develop relationships with key Chinese stakeholders in these areas), and bringing UK companies into the Chinese market through events and missions.

10. Low carbon underpins many of the areas highlighted above. This reflects UK strengths and demand in China for sustainable solutions. Opportunities have been identified across China's economy, in particular in sustainable urban development and advanced engineering, and in the potential for long-term cooperation in offshore wind and in carbon markets. UKTI is leading a campaign in China to champion UK expertise in these areas, having prioritised China as the market with the greatest immediate potential for the UK's low carbon solutions.

11. For the design sector, China has been a priority since the ratification in March 2006 of China's 11th 5 year plan, which placed the creation of a knowledge-led, innovation orientated economy supported by greater domestic consumption at its heart. UKTI, working with industry partners, established the China Design Taskforce to raise the profile of British design to buyers, intermediaries, public sector and press in China and to help attract Chinese design buyers to consider British design expertise in their procurement. Our strategy focuses on working with industry bodies and through other sector teams to highlight the value design brings to other sectors (including healthcare, ICT, advanced engineering, and infrastructure). We continue to organise a targeted programme of activity both in China and the UK.

12. Finally, UKTI's new strategy, Britain Open for Business, has recently launched a new programme to help UK companies of all sizes win business from major projects globally. The High Value Opportunities Programme provides a coordinated and enhanced level of support to help UK businesses win more, higher-value contracts. In China the programme is focussing on unlocking opportunities for UK business in major projects in key areas, including energy, transportation, and sustainable urban development. These areas are directly aligned with economic priorities set out in China's 12th Five Year Plan and are an integral addition to our sector strategies in the market.

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)

13. UK exports to China in 2009–2010 increased by over 40%. Goods exports from the UK to China have already grown this year (Jan-June 2011) by 19%, to £4.0bn. Over the next 10 years, Chinese domestic consumption will increase significantly. As the Chinese economy grows and moves up the value chain, with per capita income rising, we would expect China to buy more of the goods and services that the UK specialises in. As China seeks to increase

innovation, develop its services sector and diversify investments and business activities abroad, the UK has strong expertise which can help them achieve their aspirations.

14. However, the bilateral trade figures between the UK and China tell only part of the story. For example, a significant proportion of the value of an Airbus (and for that matter a Boeing) is created in the UK—especially when the airline customer has chosen Rolls Royce engines, as many do. So when the Germans or French or United States announce multi-billion aircraft sales to China, this represents a very substantial UK export to a Chinese end-user even though it is logged as a UK export to France, the US or wherever. In general, France, Germany, the US and Japan have many more “Primes” (like Airbus, Westinghouse, Siemens, Areva and Alstom) than does the UK, though our companies are key players in many of the relevant supply chains.

15. Germany's exports to China are also higher because they are specialising in products which the Chinese continue to import with enthusiasm i.e. machinery, car parts, electro-technic and chemicals. Germany's trade with China in 2010 already stood at €130.17bn, so their aspiration to reach €200bn (\$284bn) looks realistic. The trade/investment deals announced by the Germans during the visit of Premier Wen Jiabao were a mix of immediate and future value. There is no list available publicly of the deals signed but the available information listed agreements by: Airbus SAS (NB: some of the components in the Airbus will have been manufactured in the UK, but will register as a UK export to Germany rather than China), Volkswagen AG, Daimler AG in car-part production; and BASF's agreement to build a production plant in Chongqing.

16. The figure compiled for the deals announced at the June 2011 Summit in the UK did not include future value but it does demonstrate the correct direction of travel. Although we are starting from a lower base, the important thing is that Premier Wen Jiabao's meetings with the Prime Minister in London initiated improvements to the bilateral trade relationship and a concerted strategy to increase UK-China trade.

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)

17. Companies already bring their supply chain with them when they invest in China and there is already mentoring of SMEs by both UKTI and CBBC. Mentoring can play an important role, despite the obvious constraint that executives are very often busy with their 'day jobs'.

18. UKTI ran a grant competition over the summer of 2011 for a proposal to design and deliver the online peer-to-peer export service. UKTI is in discussion with a winning bidder and expects to reach an agreement shortly on the delivery of the service over the coming weeks. The service will be designed to provide SMEs in the UK with current, wide-ranging information to help them break into new markets faster and with a greater chance of

success. Individuals are likely to become contributors because doing this will raise their own reputation as well as that of their business, and help them forge stronger connections with potential business partners or clients. Service providers (e.g. law, accountancy, consultancy firms, UKTI staff, etc.) are likely to share content through the service. This will help SMEs with information and contacts, and also serve as a platform for service providers to make themselves known in their respective fields. Further details on this service will be made available towards the end of the year.

19. One of the benefits of membership of CBBC or the British Chambers in China is the ability to network with other companies and benefit from their experience/mentoring, which happens a great deal.

Government support for UK businesses

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)

20. In his statement of 11 May, the Foreign Secretary announced that the Foreign and Commonwealth Office (FCO) would embark on a substantial reinvigoration of the UK's diplomatic network to make it ready for the 21st century and to expand our connections with the emerging powers of the world. He announced plans to strengthen the FCO's front-line staff in China by up to 50 officials in an effort to transform the UK's relationship with the country's fastest growing cities and regions. These additional staff will: enhance the UK's wider diplomatic effort in China by broadening geographical coverage of China's regions; increasing the UK's public diplomacy and reputation work; deepening our understanding of China's economic and development policies and our capacity to influence them; enhancing our capacity to coordinate UK economic and business strengths with Chinese needs; extending our education links. This work will support our commercial diplomacy agenda. This work will help to increase the overall delivery against the Government's objectives in China while providing a net increase in our support for business in China—both for exporters and for inward investors.

21. UKTI will redeploy savings from Europe following behind the deployment of commercial diplomacy resource to High Growth Markets (including China). This is based on the significant redeployment of resource (over 20% of headcount) to these markets already undertaken and also the current level of demand from UK companies to those markets. We believe that our focus needs to be on further outreach in UK to encourage more companies to increase their activity in these markets.

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)

22. UKTI already undertakes a substantial amount of partnering with Chambers and trade associations, as well as with banks, across many markets. We value these partnerships as their support provides an enhanced business perspective, credibility and innovation to our service delivery. In four of the nine English regions, Chambers of Commerce or their representative bodies are partners in UKTI's trade delivery organisations. In all regions, UKTI will partner with different Chambers on a range of other activities such as business networking events or overseas trade missions. UKTI has significant contact with some 100 trade associations, particularly in support of overseas exhibitions via our Tradeshow Access Programme.

23. We recognise there is scope to do more, in reaching out to SMEs and promoting the benefits of exporting. Consequently, UKTI's new strategy highlights a range of support to help SMEs including leveraging partner networks. In our strategy we said:

"... we will leverage the communication channels of business partners such as the British Chambers of Commerce, the Confederation of British Industry, the Institute of Directors, Trade Associations, business schools and Local Enterprise Partnerships to reach the high growth and innovative companies with the potential to benefit by exporting. We will also develop outreach partnerships with the UK's major commercial banks and with the accountancy and legal professions. And we will plug into the business networks of communities with overseas connections and activities."

24. We have already embarked on an extensive dialogue with partner organisations which will lead to a major event in November 2011, bringing together partners to focus on the need to encourage more SMEs to export.

25. As well as working closely with the China Britain Business Council, UKTI also supports the UK India Business Council with a goal to advise business in the UK about the opportunities in that market, including the support available to help business access the market. In its 2011 strategy, UKTI has said it will establish an UK-ASEAN Business Council which will aim to bring key decision makers from South East Asia, business and political, to the attention of UK business in order to help them understand those growing markets and have UK business benefit from the opportunities in the region.

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)

26. TAP sector panels will undertake both the selection of trade shows in China and the support model for each one in what will be a more focused programme from 2012/13. To increase UK SME engagement with China, UKTI will agree more flexible approaches to trade show activity. In future TAP may support missions of newcomers to the Chinese market who would visit fairs and participate in tailored networking rather than exhibit in the traditional way. UKTI will agree with business representatives what is likely to work best for each event and sector in China. UKTI will also support UK networking with Chinese visitor delegations at major trade shows in Europe.

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)

27. UKTI is following up on the 3,000 senior contacts generated by Shanghai Expo across various business sectors for trade and investment. From the various elements of the UKTI programme a new senior contact database of some 3000 Chinese private sector decision makers was developed. The seniority of the contacts made during Expo, were corporate level executives including China's most successful and famous business leaders and this should have a long term positive impact on Trade and investment results. UKTI is supporting companies looking to do business and trade with China through the Overseas Market Introduction Services (OMIS) and tailored visits programmes.

28. Shanghai Expo's impact on FDI increased project numbers substantially for UKTI from 49 to 170. From May to July 2011, UKTI delivered 28 investment projects which was the same result as the total FDI for the 2008–09. This increase in projects in four months of 2011 is largely due to Shanghai Expo. A significant Shanghai expo deliverable is the Peel Holding International Trade Centre, to be developed in China, which is a direct result of the programme UKTI delivered during Shanghai Expo. An example of a Chinese investment due to engagement at Shanghai Expo is the Chinese company Neoglory which now have 5 UK stores and plans to grow the numbers in the UK.

29. The nature of Chinese investment is generally longer term and most tangible investments will be recognised in 24 months following Shanghai Expo.

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)

30. We welcome the committee's recognition of the investment in Longbridge by Shanghai. This reflects the fact that in recent years, UKTI has focused more of its resource on attracting higher value investments, for example linked to new technologies and services, R&D, headquarters functions and high tech manufacturing. Our goal is to continue to ensure that investment projects which come to the UK deliver the greatest impact on UK prosperity and jobs.

31. Securing investment in infrastructure remains a key priority, with an investment need of £200bn over the next five years alone. UKTI, supported by Infrastructure-UK, is working with UK developers to secure new sources of capital from overseas investment, including from Chinese sovereign wealth funds and other institutional investors. We are working to build strategic relationships with these investors, effectively mapping out their investment appetites, highlighting UK investment opportunities, and supporting new

entrants to understand more effectively the structure and function of UK markets. This role includes both helping to educate and inform potential investors along with facilitating introductions to UK developers, and helping UK project owners access new, and lower cost, sources of capital.

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 make getting the balance right ever more important. (Paragraph 51)

32. We acknowledge and agree with the Committee's view that a careful balance needs to be struck between the resources allocated to trade and those to inward investment. The Prime Minister and Premier Wen Jiabao have set a bilateral trade target of US\$100bn and 250 new inward investment projects by 2015. Our China network is set up to give us the best chance of meeting these targets, which we are currently on course to achieve. We also see great potential to increase the level of strategic investment from Chinese sovereign wealth funds and institutional investors, and are putting in place resources in China to pursue these opportunities. UKTI is working closely with other parts of the Embassy and China diplomatic network and alongside partners, such as the CBBC, and external stakeholders to deliver a joined-up approach towards achieving the prosperity and growth objectives within the China Business plan. This network approach enables us to realise synergies and maximise the contribution of the overseas diplomatic network towards supporting business and creating new growth in the UK economy.

Strengthening Relationships

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)

33. The Government has made strengthening and deepening our relationship with China a priority. The UK has the most substantial set of high level political and economic dialogues with China of any EU country.

34. The Prime Minister-level summit takes place annually, alternating between the UK and China, as does the Economic and Financial Dialogue, led by the Chancellor; the Strategic Dialogue, led by the Foreign Secretary; the recently-agreed People to People Dialogue to be led by the Culture Secretary; and a dialogue with China's National Development & Reform Commission to be led by the Minister for Trade & Investment.

35. We also engage on: an annual Joint Economic & Trade Commission led by the Business Secretary; an annual Education Summit led by the Education Secretary; and a biannual Joint Commission on Science & Innovation led by the Minister for Universities & Science. Allied to this activity are a wide range of other Ministerial and senior official visits

and dialogues held in both the UK and China each year. The majority of these support the UK's economic & commercial interests.

36. The UK and China are committed to working together as “partners for growth”. At the most recent Summit on 27 June, when the Prime Minister hosted Premier Wen, we announced £1.4 billion of trade deals. This was the third exchange of senior visitors between the UK and China in the last 8 months and those three visits have announced trade deals worth in excess of £5 billion. When the Prime Minister visited China in November last year we agreed an ambitious target of increasing bilateral trade between our countries to \$100 billion a year by 2015. Both our countries are committed to achieving that target and we are on course to do so.

37. The table at Annex A is a list of all the trade-related visits following the November 2010 Summit, and also includes details of proposed visits for the remainder of 2011.

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)

38. The UK-China trade and investment relationship attracts significant media interest from UK, Chinese, sectoral and international press. UKTI, along with the British Embassy in China, is working on a rolling programme of media and marketing activity to support the UK Government's commitment to developing the bilateral relationship as “Partners for Growth”. UKTI's Press Office proactively drives media messaging around UK and Chinese Ministerial visits, for example, via the UKTI website, press releases, working with companies to highlight success stories and setting up regular Ministerial interviews with Chinese media outlets based in the UK (e.g. Minister for Trade and Investment, Lord Green has been interviewed by Xinhua, Phoenix TV and CBBC Focus magazine on UK-China trade relations over the past few months). UKTI Marketing and Communications Group also work closely with BIS, FCO and posts in China, as well as the CBBC. CBBC is a UKTI delivery partner, delivering a wide programme of media and marketing activities including interviews, reports and events. Recent examples include the China business SME roadshows, and research on opportunities for UK firms in Chinese regional cities.

39. The CBBC recognise that in the short term, engaging with SMEs is an important and significant part of their work. They have an extensive programme of events which seek to raise the profile of the China opportunity amongst the SME business community across the UK and China networks, and are involved in approximately 400 interventions per annum. Many of these are in partnership with UKTI. CBBC also actively engages with national and local media to get as wide as possible coverage of the issue. CBBC also wrote to every MP after the election offering support to companies in their constituencies. A small number of MPs have actively pursued this offer, which still stands. CBBC also works with a range of partners in addition to UKTI to ensure as many companies as possible are aware of the China opportunity and support available to them. These include the CBI,

British Chambers of Commerce, IOD and county, city and town councils. CBBC is also forging links with Local Enterprise Partnerships.

The Visa regime

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)

40. The Government is committed to providing an efficient and accessible visa service in China. From Jan-June 2011 the UK Border Agency (UKBA) issued visas to 94% of the 168,000 Chinese nationals who applied for a visa.

41. UKBA regularly listens to feedback from its customers and has made a number of recent changes to improve the service they provide:

- Expansions and improvements of the visa processing centres in China in 2010/11 means they offer more accessible application points for customers (twelve) than any of the UK's major competitors. This has helped them exceed all customer service targets within the first six months of 2011—including processing all non-settlement applications within an average of four days;
- Business customers benefit from one of three priority schemes and an average processing time of three days for business visas.
- Changes made to the way UKBA processes student applications in 2011 has led to over 92% of all Tier 4 (points based) applications being granted in the first six months of 2011;

UKBA have also made additional efforts in 2011 to ensure Chinese business and student customers understand the visa rules and processes. This includes:

- Promoting a bilingual visa brochure for business customers, this was launched in China in May 2011 at a series of UKBA training sessions. Over 200 representatives of key companies invited by UKTI and the British Chamber of commerce attended the events.
- Publishing guidance in Chinese on completing a visit application in April 2011.
- Delivering, in collaboration with the British Council, 16 training sessions in China to over 1,500 student agents and representatives of UK institutions in the financial year 2010–11. A further six exhibitions and monthly online surgeries have attracted thousands of Chinese students.

In addition UKBA:

- Provides Chinese language checklists which guide applicants on which documents they need to submit to show they meet the immigration rules and check through application packages at the visa application centre to ensure applicants have included the required paperwork.
- Has a dedicated call centre to manage both phone and e-mail enquiries for Chinese applicants with Mandarin, Cantonese and English spoken.

42. In 2011, the launch of the reformed Tier 1 Investor and Entrepreneur routes, plus the introduction of the new Prospective Entrepreneur Visit Visa and Exceptional Talent routes have also been designed to increase foreign investment. Specifically this has included:

- Changes to Tier 1 Entrepreneur and Investor routes in April 2011, which makes it easier and more flexible for potential investors and entrepreneurs to come to the UK.

Introducing a new Prospective Entrepreneur visit visa in April 2011.

- Introducing a new Tier 1 Exceptional Talent Route in August 2011 for exceptionally talented migrants in the fields of science, humanities, engineering and the arts who wish to work in the UK.
- UKBA plans to introduce a Highly Trusted Sponsor scheme for Tier 2 in late 2011, which will make it easier for businesses to sponsor workers to come to the UK.

43. Although significant increases in demand in summer 2010 led to some short-term processing delays, growth of 86% in visitor visas since 2009 shows that the UK continues to attract an ever increasing number of high value Chinese nationals. The total number of Chinese nationals issued a visit visa increased by 42% in 2010 compared to 2009, while between January and June 2011 UKBA received over 106,000 visit visa applications. This is almost double (86%) the number of applications received in the same period only two years earlier. Significant demand increases for visit visas over the past few years highlight that the UK continues to attract large and ever increasing numbers of high value Chinese nationals.

44. UKBA has made substantial changes to ensure the provision of a first class service to Chinese customers, including:

- Around half of our business customers benefit from one of three priority schemes; Business Fast Track, an expedited service for holders of official passports (including those working for state owned enterprises) and a priority service for frequent visitors.
- UKBA has improved its exchange of information with UKTI to ensure it knows who UKTI's key investment targets are, so that it can provide them with a direct point of contact through the Business Fast Track scheme
- The average processing time for business visitors in 2011 is currently 3 days, 12 days within our 15 day target
- In 2010, we issued 58,000 business visit visas in China (96% of those who applied).

- The UK continues to attract the brightest and best students from China. Applications from students wishing to attend UK universities increased by over 80% Jan–June 2011¹ compared to the same period in 2009. Meanwhile applications to lower level courses, where visa rules were recently tightened, have dropped by over 60%.
- If a student visa application is received in China containing technical errors, UKBA endeavours to contact either the sponsor or applicant to rectify the error. Over 1,700 deferrals were made in 2010.
- Changes to guidance in 2011 now enable Entry Clearance Officers to overlook minor technical errors if they are assured the applicant is a genuine student.
- A combination of the deferral process, together with higher quality applicants and changes to guidance has seen the refusal rate for students drop from 16% in 2009 to 8% for the first 6 months of 2011. The average processing time for student applications in 2011 is 6 days compared to 10 days in 2010

Intellectual Property

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)

45. The IP framework in China is recognised, on the whole, to be good. Legislation is comparable to that in the UK and there appears to be a genuine will at State-level to improve the IP environment. The major problem for UK business is the patchy enforcement of IP rights at the provincial level. This affects both domestic and international businesses in China. It is through highlighting the benefits of effective enforcement and providing assistance in improving the domestic situation, that we feel the best progress will be made for UK businesses in China.

46. Current UK activity to address counterfeiting and piracy includes a mixture of participation in multi-lateral and bilateral initiatives. For example, the UK has supported work in a four-year EU-run €15 million IPR technical cooperation project with China, called IPR2. This included a range of initiatives such as improving the legal framework for trade marks, enforcement of intellectual property rights, and providing support to owners of trade mark and design rights in China. The IPR2 project is concluding in 2011 and the UK is actively working with its EU partners to establish a successor to this project. The EU-China Customs Action Plan to combat the international trade in goods infringing IPR is another example of co-operation to tackle an issue of common concern.

¹ All Jan-June 2011 stats will need to be verified again once control of immigration stats are published on 24th August 2011

47. The main bilateral engagement on IP Policy is through China's State Intellectual Property Office. The UK's Intellectual Property Office (IPO) takes the lead on this relationship, which has been in place for 15 years, with intensified activity over the last three years, including a formal annual work programme. Joint seminars for patent officials have been held in Beijing and Chongqing. The IPO also has Memoranda of Understanding with the State Administration for Industry and Commerce, and the National Copyright Administration of China. Both of these relationships are beginning to turn to address IP enforcement concerns. We also have early-stage dialogues with the Supreme People's Court, General Administration of Customs in China, and Ministry of Public Security to discuss IP enforcement policy.

48. UKTI leads on specific company issues around IP and it lobbies at all levels on behalf of UK business. At the same time, education and advice on IP for UK companies doing business, or wanting to do business, with China is provided through a variety of mechanisms which includes a China IP Primer that highlights live issues on the subject. The focusing here is on awareness-raising through regional business seminars; website resources; and promotion of information provided by other organisations such as the China-Britain Business Council and the European Commission-funded China IPR SME Helpdesk.

49. In the March 2011 budget, the Chancellor announced the establishment of an IP attaché network. The first of these postings will be in the British Embassy in Beijing, with one aspect of the role to provide information, expertise and signposting for UK businesses in China. The attaché should be in post by the end of this year.

Conclusion

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)

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)

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)

50. China's markets remain protected in many areas where the UK excels, such as insurance, legal and professional services, telecoms, energy and creative industries. For the UK/China trade relationship to fulfil its great potential, therefore, depends not just on UK action but also on Chinese action to open progressively its markets to foreign participation,

a process which would also support China's own development objectives. That is why the Government devotes considerable effort to making the arguments for greater economic openness in China.

51. We have continued to keep up the momentum on our engagement with China as "Partners for Growth". This has been re-enforced by the visit of China's Premier Wen in June 2011 for the UK-China Summit where deals worth £1.4 billion were announced, and follows the Prime Minister's visit to China last November which was the largest ever British ministerial delegation to visit China, which resulted in a broad range of commercial and government agreements, including a Rolls Royce deal worth US\$1.2 billion. Since then the Chinese Vice-Premier Li Keqiang has visited the UK in January 2011, when we announced deals worth over £2.6 billion. In addition, there have been visits to China by the Chancellor, Lord Green, David Willetts and others to keep up the momentum on economic cooperation, trade and investment.

52. This has helped establish a constructive relationship with China. Our growth strategies are a good fit. We have the goods and services, experience and skills to match China's ambition to restructure and develop.

53. We are progressing well on our target of \$100bn of bilateral trade by 2015. UK goods exports to China in 2009–2010 increased by over 40% and UK-China bilateral trade in 2010 is estimated at over £40 billion.

Annex A – High Level Trade and Investment Visits Between UK and China

Visitor Name	Dates
UK-China Summit	November 2010
Lord Brittan, Economic Adviser to PM	December 2010
Vice-Premier Li Keqiang visit to UK	9-12 January 2011
BIS Parliamentary Committee	1-5 March
John Alty (IPO)	1-4 March
John Fingleton (OFT)	20-22 March
Trade Minister Stephen Green	19-23 March
Jim Mather, Scottish Minister for Enterprise, Energy and Tourism	28-31 March
Visit to UK by Yu Zhengsheng, Party Secretary of the Shanghai Municipal Government	April
Lord Mayor Visit	9–18 April
Douglas Alexander, Shadow Foreign Secretary	April
HRH Duke of York	12-21 May
Lord Turner, Chairman of the FSA,	18-19 May
Chairman of the City of London	May
Jeremy Browne, FCO Minister	1-2 June
David Willets, Science & Innovation Minister	6-7 June
Innovation Dialogue John Dodds, BIS Innovation Director & delegation, with MoST Policy & regulation DG and others	8-9 June
UK-China Summit in UK	27 June
John Hayes, Minister of State for Further Education, Skills and Lifelong Learning	11-12 July
Economic and Financial Dialogue Vice-Premier Wang Qishan visit to the UK	8 September
First meeting of Dialogue with National Development and Reform Commission hosted by Lord Green. Vice-Chairman Pang Sen of NDRC visited UK	8 September
Philip Hammond, Secretary of State for Transport	18-24 September
Martin Donnelly, PUS BIS	18-22 September
Lord Marland and 3 Business Ambassadors	26-30 September
Ed Vaizey Minister for Culture	September
Julia King Business Ambassador	October
Duke of York	Autumn
Carwyn Jones, First Minister Wales	October

Susan Haird, Deputy Chief Executive UKTI	October/November
Lord Green Minister of State for Trade and Investment and Nick Baird, Chief Executive of UKTI	November/December
Alex Salmond, First Minister Scotland	December