

Trade Talks

Sino/UK Trade Review

贸易论坛：中英贸易评述

March 2018



Introduction

Against a backdrop of Brexit and the groundwork being set for the UK to become an independent global trading nation, UK plc increasingly needs support and guidance. Our Trade Talks initiative will provide businesses with current guidance and opinions, along with the resources and contacts to help them to make strategic business decisions.

Whether you are exporting or importing, looking for global investment opportunities, or just need to be aware of economic and political issues, Trade Talks can help.

We will bring together colleagues who have on-the-ground knowledge from key jurisdictions, such as the US, China, the EU, the Commonwealth, India and further afield. This, coupled with experts from our global network of business leaders and influencers, will keep you abreast of economic and political issues in this fast-paced environment.

Our next stop on our Trade Talks tour is the People's Republic of China. Friday 16 February saw the celebration of the Chinese New Year, which ushered in the Year of the Dog. To coincide with the Spring Festival, we asked Guy Dru Drury MBE, CBI Chief Representative China SE NE Asia, about the outlook for the Sino-UK relationship and trade in 2018 and beyond. Our interview probed economic trends, the forecast for trade in 2018, the word on the street in Beijing, barriers and an insight into the relationship between China and the UK.

Here, as a supplement to our interview with Guy Dru Drury MBE, our international trade experts offer their insight on the Sino-UK trade relationship.



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What Are the Top Five Economic Trends You Are Seeing in the Chinese Economy and How Are Those Relevant to Trade With the UK?

Michelle Chen – Partner, London

Chinese Consumer/Retail



- Increasing number of middle income citizens
- Retail sales continue to grow by 10% year on year
- Market worth £33 trillion
- Growing rural access to goods via the internet, with 160 million new internet users between 2015 and 2018

What This Means for the UK

- Sales of luxury goods expected to increase, note the demand for high-quality Yorkshire textiles
- Overseas travel shopping expected to increase
- Increased opportunities for tourism – By way of example, famous Chinese poet Xu Zhimo (whose work is studied by every child) studied in the UK

Health and Lifestyle



- Increase in spending, living higher quality of life
- Increasing focus on health and fitness, with organic food and health food sales growing
- Child obesity
- Higher sales of vegetables
- Increase in health and wellbeing apps – used by 19% of the Chinese population

What This Means for the UK

- Domestic travel/holidays expected to increase in the next three years
- There may be the opportunity to sell specialist leisure and beauty products developed in the UK into the Chinese market

Technology



- More home technology
- Expansion of smart cities and new smart skyscrapers
- Smog reducing technologies
- Pop-up stores and 3D printing will have a focus in 2018
- Increased use of electronic cash apps
- Increasing interest in reality and augmented reality in gaming, travel, shopping and entertainment
- More rural access to internet
- Opportunities for agricultural technology

What This Means for the UK

- There may be opportunities for exports of UK technology to China
- However, how will Brexit impact on this – Will it assist or impede the UK's ability to trade with China?

Energy and Infrastructure



- £300 billion to be invested into renewable energy by 2020
- Significant growth in biofuels and renewable energy automobiles
- Guangdong, Fujian and Shaanxi to receive high infrastructure investment
- Transport infrastructure is a key focus
- 20% increase in infrastructure spend
- Market worth £1.9 trillion
- “Belt” and “Road” initiatives – building infrastructure to boost trade and growth by connecting to other key countries. An estimated US\$150 billion to be spent per year, a reported US\$900 billion in projects are planned or underway:
 - “The Belt” (Modern Silk Road) – There are plans for pipelines and a port in Pakistan, bridges in Bangladesh and railways to Russia
 - “The Road” (Maritime Silk Road) – Running from the Chinese coast, through Singapore, to the Mediterranean

What This Means for the UK

- There may be opportunities for UK construction companies to work on these projects
- How will projects be funded? If through debt capital markets, it may produce opportunities for the City of London to assist in the debt funding process.





What Is Your Forecast for How the Sino/UK Trade Relationship Will Develop in 2018?

Daniel Roules – Partner, Shanghai

In the absence of any major geo-political event, we anticipate meaningful growth in trade between China and the UK in 2018, mostly in the second half of 2018, and continuing into 2019. That will be driven mostly by domestic forces in both countries. The UK wants (and needs) a post-Brexit trade agreement with its 8th largest export market and its 4th largest source of imports. China wants (and needs) a major Western government to endorse its One Belt One Road program (OBOR), which to date has failed to achieve acceptance by the US and most leading EU powers. Britain, of course, will not be able to negotiate a separate trade arrangement until the Brexit transition begins in March 2019, but we predict the outline of a deal agreement between the two countries will evolve later this year, with Britain joining OBOR and trade between the two countries expanding as a consequence.



Tea Leaf Time, Where Do You See the Political Landscape in China in 2027 and How Will That Affect UK Business?

Sungbo Shim – Partner, Beijing

China's 19th Party Congress, held in October 2017, confirmed a growing consolidation of power under the leadership of President Xi Jin Ping. As a result, his leadership and policies will likely continue for the next 10 years. While China will continue to undergo social and economic challenges as a developing economic and political superpower, Beijing is likely to keep tightening its internal controls for stability. UK businesses may face further challenges in doing business with China, as Beijing will closely calibrate its trade and monetary policies and continue to seek expansion of its political influence, but UK-China business relations are likely to expand and deepen. If the political and economic relations between China and the US grow increasingly tense, this will bring both challenges and opportunities for post-Brexit UK businesses.



What Is Special About the Relationship Between China and the UK?

Timothy Jarvis – Partner, Leeds

More emphasis will be placed on the "golden era", following Prime Minister Theresa May's three-day visit to Wuhan, Beijing and Shanghai, where £9 billion of deals were signed. This, coupled with British exports to China growing by 60 percent since 2010, and China being expected to be one of the UK's biggest foreign investors by 2020, demonstrates the importance of the relationship post Brexit.

With the much talked about Hinkley Point C project now underway, the relationship between Britain and China has improved and Theresa May will continue to seek investment and look for investments across finance, high tech, and energy sectors, as well as the creative industries, infrastructure (belt and road), food and life sciences. The growing middle class and service sector in China also appeals greatly to Britain.

What Barriers to a UK Business Growing a Successful Trading Relationship in China Do You See?

Daniel Roules – Partner, Shanghai

In addition to duties and tariffs arising under the trade agreement in effect at any particular time, UK companies should be sensitive to the fact that China's currency is not freely convertible. Concern in 2016 and early 2017 with the depreciation in its currency and the prospects of accelerating capital flight prompted the Chinese government to tighten currency controls. The authorities established quotas for currency conversions that made it difficult for many local companies to exchange PRC currency and to purchase products and assets abroad or to obtain letters of credit, which are often essential for international trade. In addition, China's anti-corruption campaign in recent years has, sometimes, had a negative impact on Chinese trading companies, which often operate at the margins of profitability. UK businesses experienced in trade with other countries might not anticipate such issues, but should bear these in mind when seeking to grow trade ties with China.



What Do UK Businesses Need to Be Aware of in Building Trading Relationships With China?

Hua Li – Partner, Beijing

UK businesses need to be aware of Chinese cultural characteristics and Confucian cultural influences, as well as the geographical differences in doing business with China.

Chinese society is heavily influenced by the traditional values associated with Confucianism, which promote strict norms and propriety. UK businesses should understand and respect Chinese culture if they are to succeed in China.

Today, China has a unique social regime that is a combination of a planned economy and a socialist market economy in which the discretionary power of the government is strong. Implementation of the same laws and regulations may vary greatly among different provinces and other jurisdictions throughout the PRC. Certain acts may be determined to be illegal in some provinces, but may not be in others. Fines imposed by the authorities and the courts also vary widely in different jurisdictions. Lack of transparency and predictability are crucial concerns in operating within the PRC. Many regulations are imprecise and ambiguous. UK businesses, like other foreign businesses in China, may also face discriminatory treatment in relation to domestic companies in legislation and in implementation of the law and regulations.



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