EXECUTIVE SUMMARY

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Chinese subsidiaries of British firms play a vital role in Chinese economic growth. Many large British companies investing in China are well-known names such as GKN, Jaguar Land Rover, AstraZeneca, HSBC, Standard Chartered, Unilever, and JLL. In recent years, many smaller companies from the UK are entering the new growth sectors of the transforming Chinese economy: services, advanced technology, and consumer products.

With more than a decade of experience in China, the CBI is proud to launch its first *Sterling Assets: China* report. This report examines the UK's impact on the Chinese economy through mapping of investment and trade flows.

The close economic relationship between the UK and China is reflected in bilateral trade. Last year, the UK was China's 2nd largest trading partner in the EU, behind only Germany, and the 8th worldwide.

The UK ranks 8th among diversified economies in terms of foreign direct investment (FDI) in China over the last decade. In recent years, British FDI in China was marked by many new, smaller entrants in finance and various business services. There were also ambitious expansions by established automotive and consumer products companies, notably *GKN* and *Unilever*. In the period from 2015 to 2016, investments in greenfield projects in China by UK companies amounted to £2.25 billion.

As China embarks on a new path of economic growth, the very sectors it is looking to develop – services, high-tech, consumer products – are sectors that constitute the UK's competitive strengths.

Provincial level FDI data from 2015 shows that British FDI in China shifted inland,

Exhibit 1: Trade in goods with China, top countries, 2016 (£bn)

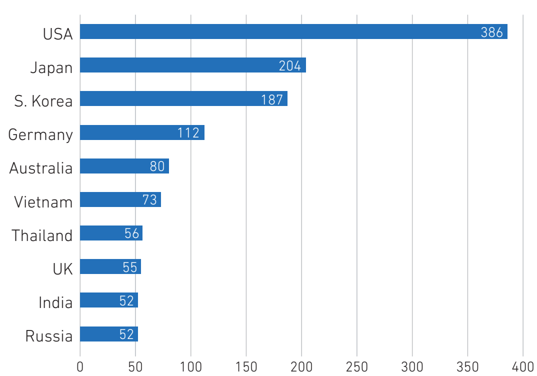


Exhibit 2: Trade in goods with China, top EU countries, 2016 (£bn)

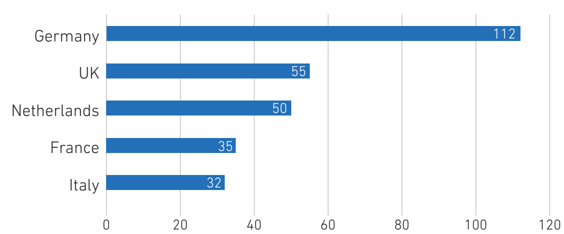
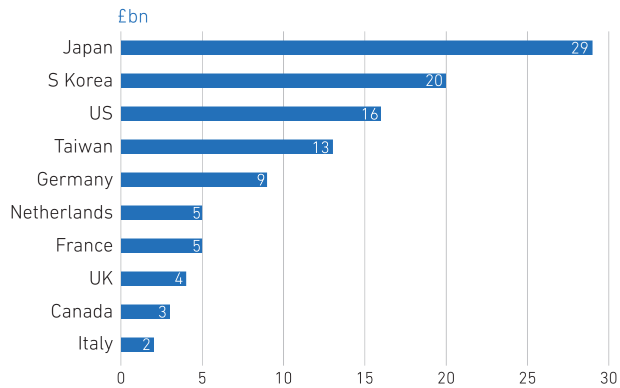


Exhibit 3: Inbound FDI in China, top diversified economies, 2006-15 (£bn)

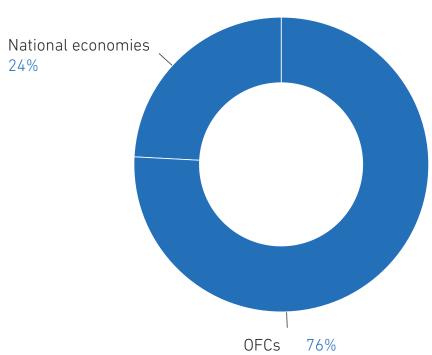


Most of FDI in China comes through Hong Kong

About three quarters of all FDI inflows into China comes through off-shore financial centres (OFCs), among which Hong Kong dominates.

OFC governments generally do not track the journey of capital flowing through their polities from source to destination, so an accurate figure of UK-originated OFC funds is difficult to establish. However, given the especially close ties between the UK and Hong Kong, and other OFCs such as Singapore, British Virgin Islands, and Mauritius, it is likely that a large percentage of funds flowing through these OFCs originate in the UK.

Exhibit 4: FDI in China by type of economy, 2001-15



in alignment with China's national development plans. The two Chinese provinces that received the most UK FDI in 2015, Heilongjiang and Henan, are landlocked. In total, an estimated 57% of UK FDI that year went to inland regions. Some UK investment was found in over 70% of all of China's administrative regions.

The UK picture contrasted the overall foreign investment trends, which saw coastal provinces receive the greater part of FDI. In 2015, over 50% of total FDI went to the six leading coastal provinces alone. The southern province of Guangdong, for example, received £18 billion in FDI in that year, a sum larger than the GDP of several European nations.

UK goods exports to China were led by gold reserves and transportation technology, a sector that includes all forms of automotive, rail, air, and maritime transport. UK auto brand *Jaguar Land Rover* is popular in China, the world's biggest automobile market. In 2016, automakers sold a total of 28 million passenger cars in China. By contrast, 2.7 million cars were sold in the UK that year.

UK service exports to China were led by airline travel and various categories of business services. Chinese students and tourists are travelling to the UK in record numbers, creating opportunities for growth and collaboration for airline companies. Universities in the UK had over 90,000 students from China enrolled in the past school year, far more than from any other country. The US and India, two other popular countries of origin, each sent under 18,000 students.

"British FDI in China shifted inland, in alignment with China's national development plans."

Exhibit 5: Total inbound FDI, top regions, 2015

Province	Location in China	£bn
Guangdong	south, coast	£18
Jiangsu	east, coast	£16
Tianjin	north, coast	£14
Shanghai	east, coast	£12
Zhejiang	east, coast	£11
Shandong	east, coast	£11
Henan	central	£11
Anhui	east, inland	£9
Beijing	north, inland	£9
Hunan	central	£8

Exhibit 6: UK inbound FDI, top regions, 2015

Province	Location in China	£m
Heilonjiang	northeast, inland	£313
Henan	central	£276
Zhejiang	east, coast	£219
Jiangsu	east, coast	£180
Anhui	east, inland	£103
Hunan	central	£100
Tianjin	north, coast	£94
Guangdong	south, coast	£86
Yunnan	southwest, inland	£56
Hebei	north, coast	£46

The UK & China: close and complementary economies

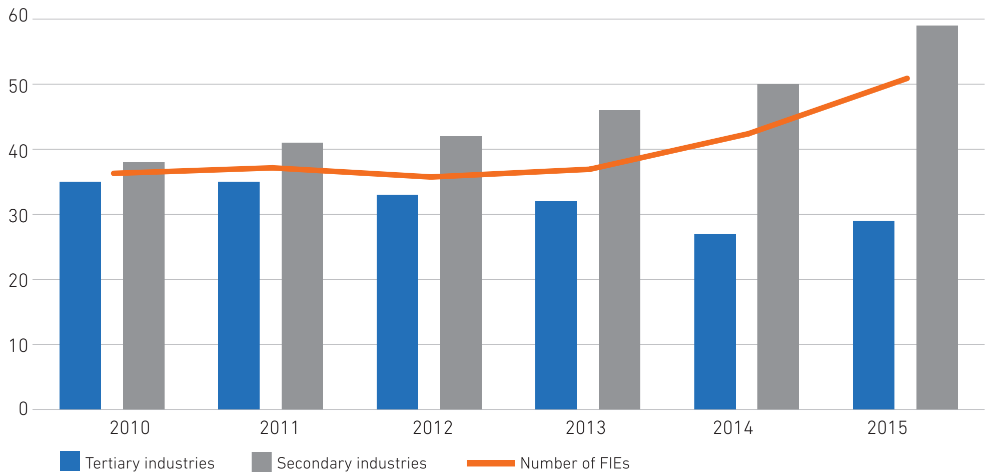
China's economy is entering an exciting chapter as it transitions from growth driven by export manufacturing and infrastructure development to the *New Normal*: growth derived from higher value-added technology, development of service sectors, and an expanding domestic consumer market. Accordingly, FDI in China has begun to shift from secondary to tertiary industries.[1]

British companies in China have been instrumental in the development of key industry sectors. UK manufacturing giants such as *GKN*, *Jaguar Land Rover*, and *AstraZeneca* have decades of high-tech innovation in China. *HSBC* and *Standard Chartered* banks have been offering financial services in the country since their founding over a century ago. Regarding consumption, *Unilever* has been selling its multiple lines of consumer goods in China since 1923, and British high-end brands such as *Burberry*

£700 billion

of planned Belt and Road Initiative investments

Exhibit 7: Inbound FDI in China by industry and number of FIEs (£bn)



and *Johnnie Walker* are in high demand among China's burgeoning middle class.

Looking overseas, the Chinese government is working on the *Belt and Road Initiative* (BRI): a plan to integrate about 60 countries, 63% of the world's population, and 29% of its economic output into a transcontinental trade network connected by land and sea routes. Current infrastructure plans call for over £700 billion in investment. The initiative is meant to increase China's role in international trade and drive domestic prosperity, especially in the underdeveloped western and central regions of the country.

Financial and infrastructure development subsidiaries of UK companies in China are competitively positioned for contracts related to the BRI. *Standard Chartered* has presence in 46 out of 60 BRI countries, and offices in China's inland regions that are expected to see BRI-related infrastructure projects on their territories. British infrastructure companies *Arup* and *Atkins*, which have been involved in some of the most iconic construction projects in China, have offices in Sichuan province and Chongqing municipality, key stops along BRI routes.