



## British Embassy Beijing

### **UK-China 5th Economic and Financial Dialogue: Factsheet**

***15 October, 2013***

Today the Chancellor of the Exchequer George Osborne and Chinese Vice-Premier Ma Kai concluded the 5th UK-China Economic and Financial Dialogue (EFD). The EFD comes as part of the Chancellor's five day visit to China. The Chancellor and Vice-Premier Ma Kai agreed a number of outcomes:

#### **Macroeconomic situation**

Both sides agreed that:

- growth has picked up in some advanced economies and growth continues in emerging market economies, although it has slowed down in some of them. Recent UK economic news has been encouraging, with tentative signs of a balanced, broad based and sustainable recovery;
- serious challenges to the global economy still remain, which require active actions and greater economic policy coordination among countries to boost economic activity and job creation; and
- the G20 is the premier forum for international economic cooperation, and reaffirmed their commitments made at the G20 St Petersburg Summit in September.

#### **Trade and Investment**

Civil Nuclear Collaboration. Both sides signalled their intent to work closely on civil nuclear and witnessed the signing of a UK-China Civil Nuclear Memorandum of Understanding. This is the first agreement of its kind between the two governments supporting closer collaboration between UK and Chinese nuclear companies through investment, the deployment of technology and the sharing of expertise.

Shanghai Free Trade Zone. Both sides agreed that the China (Shanghai) Free Trade Zone (FTZ) pilot represents an opportunity for increased co-operation. In particular, the two sides believe the experience of British professional and commercial firms operating across the world would contribute to cooperation on the FTZ. Both agreed to hold a symposium to consider how to promote bilateral co-operation on free trade and on the service sector development in the FTZ, and to explore the opportunities for British engagement.

Inward Investment. Both sides agreed to continue the strong UK-China investment partnership. This partnership has seen Chinese investment into the UK increase by 95 per cent, with the UK becoming the most popular destination for Chinese investment in 2012. China's National Development and Reform Commission (NDRC) will next year publish UK Investment Guidance to support Chinese companies investing in the UK, the first guidance of its kind in China.

Science and Innovation. Both sides celebrated the news that the UK is now China's second biggest global partner in terms of research co-publications, and cumulative bilateral research funding between Research Councils UK and key Chinese partners has now reached over £47 million.

### **London as a major global centre for RMB business**

Both sides agreed a series of groundbreaking developments set to cement London's position as a global RMB hub, and they welcomed these developments as an important step that cements London's major role as one of the most important global centres for RMB trading. The main developments agreed are:

- for the first time, investors in London will be able to apply for licences to invest RMB directly into China, under the RMB Qualified Foreign Institutional Investor (RQFII) quota. London will be the first place outside of greater China to be allocated such a quota. The People's Bank of China agreed to allocate London an initial quota of 80 billion RMB;
- following a decision by the Prudential Regulatory Authority, Chinese banks will be able to apply to establish wholesale branches in the UK, enabling Chinese banks to significantly scale up their activity in the UK; and
- the UK and China agreed to work to ensure that the London market had continued access to ample RMB liquidity, through appropriate additional settlement and clearing arrangements in London, and once operational, the new China International Payments System

The UK delegation for the EFD includes the Financial Secretary to the Treasury (Sajid Javid MP), the Commercial Secretary to the Treasury (Lord Deighton), the Science Minister (David Willetts MP), Trade Minister (Lord Green), the Deputy Governor of the Bank of England (Charlie Bean) and the Chairman of the China-Britain Business Council (Lord Sassoon).

In addition to the EFD, the Financial Secretary shall also lead a delegation from the UK's asset management industry to Shanghai, Beijing and Shenzhen. The Chancellor will also be accompanied for part of the trip by a delegation of tech business leaders, who will meet the Chancellor on Wednesday in Shenzhen.

There have already been a number of UK-China commercial successes in the lead up to the talks, with more expected to follow:

- Beijing Construction and Engineering Group will join Manchester Airports group, Carillion PLC and the Greater Manchester Pension Fund as founding partners in a 'joint venture' to build Manchester's £800 million 'Airport City' development. The investment coincided with the launch of the Manchester-China Forum, a new business-led body set up to promote ties between Manchester and China;
- the UK based International Nuclear Services (INS), a wholly owned subsidiary of the Nuclear Decommissioning Authority (NDA), has signed a Memorandum of Understanding with the Chinese Power Engineering Company Ltd (CNPE) this week, to share UK experience on radioactive waste management, and will start initial training activities for Chinese technicians in the UK later in October; and
- Manchester University and Peking University signed a new £10 million collaboration that establishes a Centre for advancing Genomic Medicine.

These recent deals are illustrative of a series of UK-China trade and investment successes since the last EFD, including:

- China Investment Corporation, China's sovereign wealth fund, took an 8.68 per cent stake in Thames Water in January 2012 and a 10 per cent stake in Heathrow Airport Holdings Ltd in October 2012;
- Sinopec formed a joint venture, Talisman Sinopec Energy UK, with a £1 billion investment for 49 per cent of the operations in December 2012;
- CNOOC purchased Nexen in February this year for £9.4 billion, which includes significant North Sea assets;
- Jaguar Land Rover announced earlier this year that China has overtaken Britain to become their biggest market, with 71,940 cars sold in 2012, an increase of 71 per cent;
- BRE, the UK built environment research centre, was appointed by Shanghai International Shipping Services Centre (SISSC), in April, to collaborate on its £4 billion flagship commercial marina development on the Huangpu River;
- Stella McCartney opened her first free-standing boutique in Arup designed Parkview Mall Beijing in May of this year;
- Advanced Business Parks (ABP) announced they would undertake a £1 billion redevelopment of London's Royal Albert Docks in May this year, and announced they were moving their global HQ to London in September;
- Dalian Wanda purchased Sunseeker Yachts for £300 million and invested £700 million to redevelop Nine Elms on London's South Bank in June of this year; and
- Ineos Phenol and Sinopec broke ground in September for a new joint venture investing \$500 million in the largest Phenol and Acetone plant to ever be built in China. The plant is expected to generate annual revenues of around \$800 million.

#### Background facts about China/UK trade and investment relations

- The ONS estimate UK exports of goods to China were £10.5bn in 2012, a 13% increase from the previous year. At the end of 2012, China was the UK's 7th largest goods' export market, up from 9th place in 2011. From January to June 2013, UK goods' exports to China were up by 18% from the same period of 2012.
- Chinese Ministry of Commerce (MOFCOM) statistics estimate that for 2012 the UK was China's 3rd largest source of goods imports in the EU (after Germany and France). This was one place up from 2011 (overtaking Italy).
- ONS estimate UK services exports to China were £3.1bn in 2012, roughly the same as 2011. China is the UK's 14th largest services' export market.
- In 2012, China's outward FDI stock is equivalent to only 10.2 percent of US', 29.4 percent of UK's, and 34.5 percent of Germany's outward FDI stock.
- MOFCOM estimate that in 2012 the UK was the 4th most popular destination for Chinese outward investment (behind Hong Kong, the US and Kazakhstan), up from 8th place in 2011 and 21st place in 2010. The flow of investment was estimated at \$2.77bn in 2012, up 95 percent on the previous year.
- MOFCOM estimate the overall stock of Chinese investment in the UK to be around \$8.9bn.
- MOFCOM estimate that the UK was the second largest EU investor (after Germany) to China as of end 2012, with a cumulated direct investment value of \$18.76bn.
- In the first half of 2013, the number of visit visas issued to Chinese nationals increased by over 30% compared to the same period in 2012.
- The numbers of UK visas issued to Chinese nationals continues to rise. UK Visas & Immigration (UKVI) issued 289,000 visas in Year 2012-13, around 30 percent more than in 2010-11.
- According to SWIFT, London now accounts for 62% of offshore RMB trading outside of Hong Kong according.