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China Chamber of Commerce in the UK

2020

Report on the Development of Chinese Enterprises in the UK

November 2020 | London

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China Chamber of Commerce in the UK

Chairman's Message

FANG Wenjian

Chairman, China Chamber of Commerce in the UK (CCCUK)
General Manager, Bank of China London Branch

With the unprecedented challenges posed by COVID-19 in 2020, coupled with the uncertainties around Brexit and increasing global geopolitical tensions; business communities and business leaders both in the UK and around the world have had to rethink and reconfigure their strategies to adapt to this fast-changing environment.

The long-established Chinese business community in the UK has continued to make contributions to the UK economy. Together with over 1 million inbound Chinese tourists in 2019, 120,000 Chinese students enrolled in higher education for the 2018/19 academic year, £25bn in goods exports and £5bn in services exports to China in 2019; these activities have directly supported an estimated 100,000 jobs in the UK(1).

The China Chamber of Commerce in the UK (formerly known as the Chinese Enterprises Association in Britain) was established in 2001 with the aim of supporting Chinese investors into the UK market and those Chinese businesses that had already established operations in the country. The membership covers a wide range of industry sectors from financial services, e-commerce, telecommunications, technology, and energy and utilities, to industrial manufacturing, real estate, infrastructure, trading, education, media, transport and logistics. Its footprint covers all regions across the British Isles, from the North Sea in Scotland to Portsmouth in Southern England, and from the Midlands to Norwich and Essex in the East of England.

This 2020 Report on the Development of Chinese Enterprises in the UK is based on a survey of our membership across all sectors and all regions. It is the first time that such a comprehensive survey has been carried out. Against a significant slowdown in the global economy, and a rising tide of uncertainties across a wide range of sectors, we have noted a cautiously optimistic sentiment among our member companies, and a determination to continue creating business and economic value in the UK domestic context as well as to the success of the Sino-British bilateral trade and investment relationship.

Chinese businesses' commitment to the UK market has come through loud and clear in the survey results, be it from Bank of China who have been in London for 91 years, or from one of our latest newcomers, Jingye Group, whose rescue deal for British Steel in March 2020 saved over 3,000 jobs in the North East of England.

(1) China Britain Business Council/Cambridge Econometrics, 'UK jobs dependent on links to China', July 2020

Such is the level of commitment that over 53% of our members surveyed reported that they reinvested all of the profits generated by their UK business in the UK. A further 23% reported local reinvestment of the majority of their profits. In terms of local employment, 60% of those surveyed employed fewer Chinese employees than they do those of other nationalities, with 53% saying that Chinese expatriates made up less than 10% of the total Chinese employee population.

It is evident that our members have firmly taken root in British society, economically, financially and socially. We hope this report helps highlight many of the stories we heard throughout the survey and interview process, in which our members demonstrated their determination to collaborate, grow and flourish in the UK market, creating jobs and value for their local communities.

2021 will be the first year of the 14th Five-Year Plan in China. It also marks the beginning of the UK operating independently of the European Union. These will create more opportunities for us to seek better collaboration. Our two great countries have numerous shared interests and objectives, be it increased trade and investment flows, climate change and net zero targets, digital skills and workforce, or innovation and technology, education, and better economic opportunities in all regions of the two countries.

If we work closer together to create a fairer, more transparent, and more open and stable investment environment, we will be able to create more jobs, support vulnerable populations, nurture greater creativity, increase bilateral trade flows, widen market access across sectors, and build competitive advantages together to improve the livelihoods of our peoples.

In these uncertain times, there are always opportunities which, with a pragmatic approach and a positive mindset, can help create greater business and economic value for all of us.

FANG Wenjian

Foreword

John Edwards

HM Trade Commissioner
Department for International Trade

In China the international Chambers of Commerce regularly produce surveys and positions papers charting sentiment among foreign businesses and pinpointing specific recommendations for market opening, levelling the playing field and enhancing the business environment. This is the first time that the Chinese investment community in the UK has produced a report on its contribution to and experience in the UK. It is a welcome addition to our understanding of this important group. And I am grateful to the China Chamber of Commerce in the UK for producing it.

As the Prime Minister has made clear, the UK is and will remain the most welcoming place in the world for business and investment. Over the past decade, foreign direct investment worth three-quarters of a trillion dollars has poured into the UK. Across the UK 4.5 million people are employed by foreign companies and these jobs sustain supply chains and local enterprises in communities right across the country.

China is an important member of the international community. Its size, rising economic power and influence make it an important partner in tackling the biggest global challenges. We have a policy of engagement with China and our approach will remain consistent even if difficulties emerge. Our two countries continue to create wealth and jobs together, with a trade relationship of more than £80bn in 2019. We want this to grow because our relationship with China contributes to mutual prosperity and our economies are complementary in many areas. As an open economy, we welcome Chinese investment, where it supports UK growth and jobs and meets our legal, regulatory and national security requirements.

The UK is open for business. As we leave the European Union we want to build bridges with friends, allies and trading partners old and new in every corner of every continent. It is an opportunity for even more of the world to see just what we have to offer and for all of us to benefit from that.

John Edwards

Executive Summary

After over two decades of significant and positive growth, the UK-China trade and investment relationship is at a crossroads, partly due to the coronavirus pandemic and Brexit, and partly attributable to increasing geopolitical tensions resulting from the deterioration of the US-China relationship.

UK-China bilateral trade has continued to increase in recent years

According to 'Statistics on UK trade with China' published by the House of Commons on 14 July 2020, UK exports of goods and services to China in 2019 were worth £30.7bn (£25.1 bn in goods and £5.5bn in services), a record high, up from £23.4bn in 2018. This was the fourth successive year on year increase in British exports to China. UK imports of goods and services from China in 2019 were £49.0bn (£46.9bn in goods and £2.1bn in services), which represented a successive year on year growth every year since 1999.

Overall, UK exports to China represented 4.4% of all UK exports and UK imports from China represented 6.8% of all UK imports. Outside of the EU, China was UK's second largest export market and source of imports (after the USA).

The UK remains Europe's largest single recipient of FDI

Between 2000 and 2019, the UK received a cumulative EUR 50.3bn of Chinese FDI[2], being the largest recipient of Chinese investments in the EU. This was more than double the FDI in Germany - which was number two on the list - with cumulative investment standing at EUR 22.7bn. Although the total Chinese FDI into the EU continued to contract in 2019, the UK remained the second largest recipient of Chinese FDI by volume in that year, and also topped the list for the highest number of single transactions.

COVID-19, Brexit and change in UK-China relations have created significant challenges for businesses in both countries

At the beginning of 2020 when the pandemic started in China, numerous UK companies, their supply chains and customer channels in China were hugely disrupted, directly impacting their operations globally. This was then followed closely by the first wave of lockdown across Europe, putting a sudden stop to almost all economic activities.

Against this complex and challenging environment, CCCUK conducted the 1st Annual Survey of its member companies in the UK. Although most respondents to the survey expressed concerns about the state of the economy around the world in the wake of the pandemic and the uncertainties relating to Brexit, and the changing geopolitical landscape, the majority are confident about their own organisation's growth prospects and their abilities to adapt to future changes.

Despite these challenges, most companies remain cautiously optimistic

In relation to the future of the UK-China relationship, most respondents expressed optimism around the fundamentals of the mutual economic benefits that could be generated through further collaborations between the two countries, be it around combating COVID-19 together, reviving the economy, addressing the net zero agenda or increasing trade and investment flows.

(2) Rhodium Group and the Mercator Institute for China Studies, 'Chinese FDI in Europe: 2019 update', April 2020

A number of key themes emerged through the survey which demonstrated a clear and strong commitment of the Chinese enterprises to the UK market. This included their desire to build trust in society and in local communities and their intention to enhance the skills of their workforce whilst creating more job opportunities, driving more innovation and providing better services.

Chinese businesses are committed to the UK for the long term

64% of the Chinese businesses surveyed have been in the UK for over 5 years, with Bank of China having the longest history of 91 years. Over 90% of the respondents established their UK businesses organically, continuously created incremental job opportunities and developed their core capabilities in the UK market for future growth. Over the years, there has been a shift in the mix of Chinese enterprises entering the UK market. While listed companies continue to lead the charge, there has been a marked increase in participation from private businesses.

The key drivers for investing in the UK cited by the survey respondents include stability and transparency of the UK political, legal and regulatory environment, size of the UK domestic market, access to the European market and other regional markets, and the openness and fairness of the market underpinned by the rule of law. Against the current geopolitical environment, over 93% of entities surveyed expect there to be little or no change to the overall business environment and have the confidence to continue investing in the UK market.

Looking ahead into the post-Brexit era, all interview respondents remain confident that UK will strengthen the stability of its trade and investment policies, maintain its market openness, reduce trade barriers and continue to encourage FDI. Chinese businesses are also focusing on opportunities around the Levelling Up, Building Back Better, and Net Zero agendas, where they can bring complementary capabilities to the UK market.

Chinese businesses are integrated into the UK ecosystem and part of their local communities. They are a great contributor to the UK economy

Based on the 75 entities surveyed, Chinese enterprises appear to have a broad industry coverage, represented in 7 out of 11 Industry Classification Benchmark (ICB) sectors. The top three with the highest participation are Industrials (24%), Financials (20%) and Technology (17%). Although 83% of the entities surveyed have established their UK headquarters in Greater London, many of them have a regional presence across the UK.

79% of surveyed entities have seen stable or improved performance over the past two years despite Brexit uncertainties. 74% have reinvested all or the majority of their UK profits in the UK. 81% of the entities said that their key strategic and operational decisions are made solely by the management team in the UK.

The impact of Chinese investments on job creation and job retention was felt prominently throughout the survey and the interviews, from the 3,000 local jobs saved at British Steel by Jingye Group to the high proportion of local employees vs Chinese expatriates. The low concentration of Chinese nationals is consistent with the focus on diversity and inclusion which many entities have reported.

Chinese businesses are focused on improving their core capabilities, bringing innovative products and services, and developing local talent

Despite the current COVID-19 challenges and the uncertainties around Brexit negotiations, 83% of the entities surveyed consider growing their existing business as among their top three priorities for the next two years. 100% of the interviewees noted that improving their core competencies and competitive advantages are crucial in building trust and enhancing their corporate reputation in the UK market.

All respondents recognise the challenges around cultural differences and the importance of developing an integrated workforce through deploying an effective management mechanism and investing in local talent.

Entities surveyed in more regulated sectors, such as financial services, telecommunications, advanced manufacturing, energy and utilities, noted that the well established regulatory regimes and industry standards encourage Chinese companies to benchmark against international standards and improve their own capabilities.

Moving forward, appropriate and effective public sector interventions are considered by Chinese businesses as key to reviving the economy

Looking ahead into 2021 and beyond, it is crucial for the UK to swiftly rebuild its domestic economy, whilst also redefining its global role in international trade and investment flows. These are fundamental for building continued confidence among foreign investors, including CCCUK members.

The survey and interviews have identified four areas of focus where the Chinese companies would value appropriate and effective public sector intervention to ensure economic recovery takes place as quickly as possible. These included:

- strengthening the stability, transparency, and openness of investment and trade policies;
- further reducing trade barriers, including tariffs and import/export restrictions;
- providing more incentives and infrastructure support for investment projects; and
- introducing more flexible visa legislation to attract international talent.

64%

of Chinese businesses surveyed have been in the UK for over 5 years

91%

of respondents established and grew their UK businesses organically

79%

have seen stable or improving performance over the past two years despite Brexit uncertainties

74%

have reinvested all or the majority of the profits generated by their UK business in the UK

Introduction to the Survey

The 2020 annual survey conducted by CCCUK has been targeted at UK enterprises where part or all of their ownership resides with entities or individuals from the People's Republic of China ("Chinese enterprises in the UK"). The vast majority of the entities surveyed are CCCUK's member organisations.

The objective of the survey is to capture the current landscape of Chinese enterprises in the UK, and explore their views on the future prospects of their presence in the UK, particularly in the context of the UK's specific business environment and with regards to the impact of current affairs such as COVID-19 and Brexit.

The survey was carried out in October 2020. This is the first time a survey of this nature has been completed and it is envisaged that the survey will be refreshed annually thereafter to inform future editions of the CCCUK annual report.

The survey was conducted via two channels: an online questionnaire and through one-to-one interviews. All entities identified as being part of the target audience had been invited to respond to an online questionnaire. Companies within a selected subgroup were additionally invited to follow-up one-to-one interview sessions where in-depth information behind their questionnaire responses were explored.

Both the questionnaire and the interviews were designed to investigate a set of mutual themes in order to achieve the objective of the survey as set out above. Whereas the questionnaire provided a quantitative snapshot across a wide range of issues, the interviews complemented this snapshot by offering deeper insights into key areas of focus.

A copy of the full questionnaire and responses, can be found in the Appendix.

A total of 75 companies responded to the survey via questionnaire, representing a 59% response rate against our defined audience.

14 interviewees were drawn from five industries which represented the largest concentration of CCCUK members, namely financial services, technology, media and telecommunications (TMT), manufacturing, infrastructure, and energy and utilities.

All data has been anonymised unless otherwise agreed by the respondents.

CHAPTER 1

Landscape of Chinese Businesses in the UK

Growing trade and investment flows between the two countries have propelled Chinese investments into the UK over the past two decades

In 2019, data from the Office for National Statistics (ONS) showed that UK exports of goods and services and imports from China reached a historic high of £30.7bn and £49.0bn respectively. China is UK's second largest export market and source of imports outside the EU (after the USA), with the UK remaining the second largest recipient of Chinese FDI by volume.

According to public data from HM Revenue & Customs (HMRC) and ONS, in 2019, high value exports to China included non-monetary gold (27.3% of total exports of goods), petroleum (19.3%), road vehicles (12.9%), and medical & pharmaceutical products (6.5%). In terms of imports of goods, the single largest import from China was telecoms equipment (15.8% of all UK goods imports) in 2019, followed by miscellaneous manufactured articles (11.3%), office machinery (10.4%) and electrical machinery and equipment (9.1%).

Regionally, Scotland is the largest exporter to China representing 26.4% of the total, followed by West Midlands (13.1%), South East (10.9%), East (10.1%), North West (8.9%) and London (7.4%). As for imports from China, London topped the league table with just under a quarter of the total imports. Telecoms equipment made up just under half of London's goods imports from China.

In terms of trade in services, the latest breakdown of statistics published by HMRC and ONS was for 2018. The UK's single largest service export to China was in the 'other business services' category (21.7% of total) which include legal, accounting, advertising, research and development, architectural, engineering and other professional and technical services. This was followed closely by travel and transportation (20.6% and 19.8% respectively) representing the strengths of the tourism and hospitality service sector, including inbound Chinese tourism.

The largest service import from China was transportation services which include passenger and freight transport (27.6%), followed by travel (18.6%), telecom, computer and information services (5.8%).

The 10th UK-China Economic and Financial Dialogue in June 2019 also highlighted the strength of this ongoing bilateral collaboration. It announced trade deals worth more than £500 million and witnessed the establishment of a new £1bn private sector UK-China Cooperation Fund which is being delivered by HSBC, Charterhouse and China Investment Corporation. It also welcomed the first ever green loan facility from ICBC which complies with the Green Loan Principles, and launched the Shanghai-London Stock Connect, an innovative capital markets collaboration mechanism.

For the first eight months of 2020, ONS data showed that UK exports to China rose by 10.7% compared to the same period in 2019, despite global economic challenges. This data again demonstrates the strengths of the economic relationship between the two countries which has in turn driven significant investment activities across sectors and regions.

> **There are transformational benefits for ongoing and deepening ties of commerce and economy between China and the rest of the world and between China and the UK.**
>
> John Edwards, HM Trade Commissioner, speaking to China Britain Business Council Focus Magazine, 13 July 2020

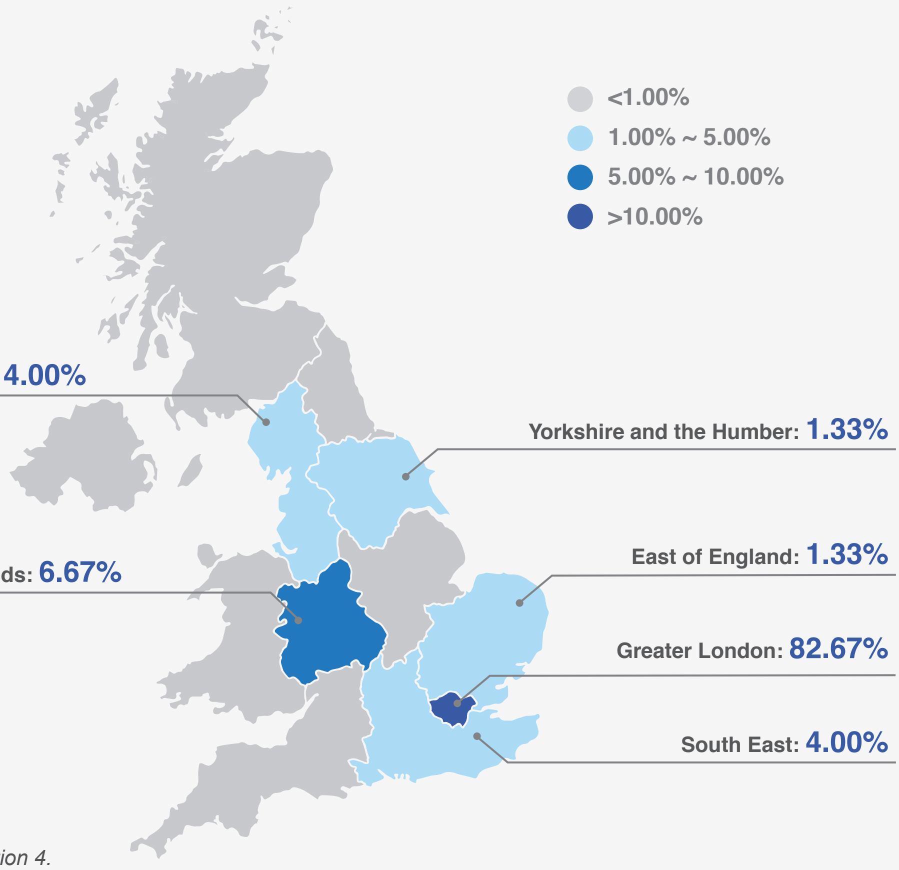
Overview of Chinese Businesses in the UK

Chinese companies in the UK have broad industry coverage and a wide geographic distribution

In 2019, it was estimated that the largest Chinese companies in the UK had a £91 billion combined turnover, over 71,000 employees and 17% revenue growth in 2018(3).

This growth trend and the breadth and depth of the Chinese company market participation was also reflected in our survey. Based on our 75 survey respondents, Chinese enterprises appear to have broad industry coverage across the UK market. We have adopted the Industry Classification Benchmark (ICB) industry classification taxonomy when conducting the survey, which shows that 7 out of the 11 ICB industries have seen some level of participation from Chinese entities.

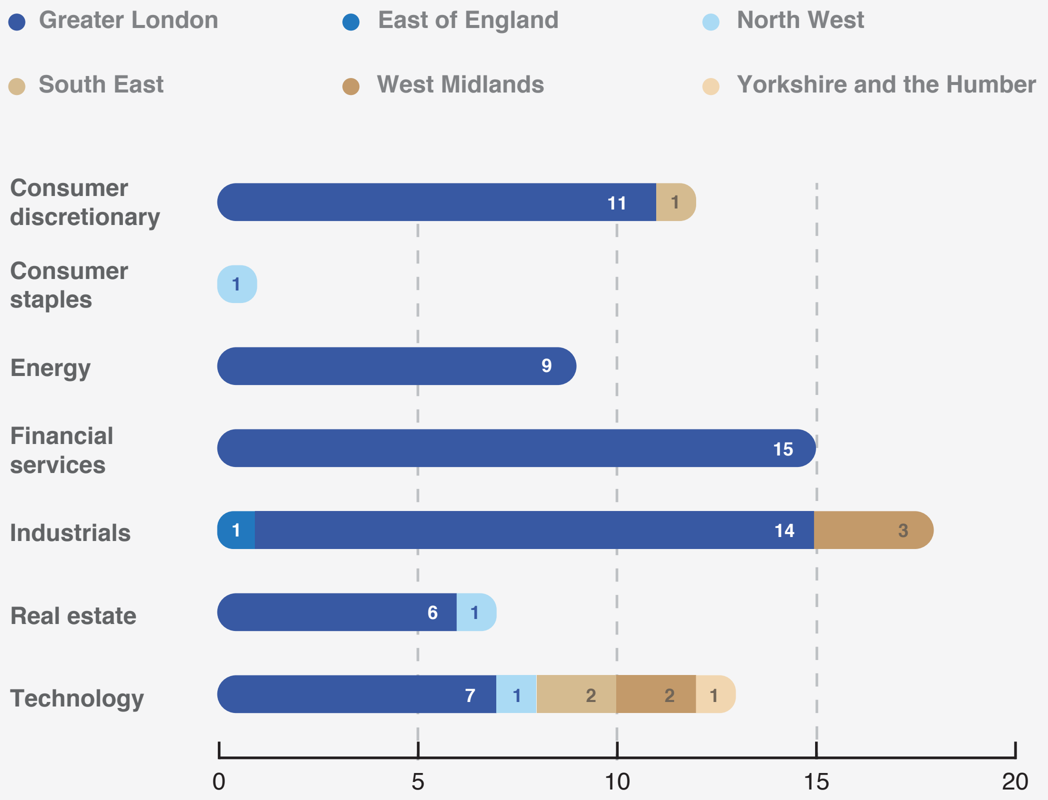
Location of Chinese Companies' UK Headquarters



Source: Survey question 4.

(3) Grant Thornton, 'Tou Ying Tracker', 2019

- **Geographical distribution of UK headquarters of Chinese enterprises by industry**



Source: Survey questions 3 and 4.

The top three industries with the highest Chinese participation are Industrials (24%), Financials (20%), and Technology (17%). Entities falling under the Industrials category are primarily manufacturing, logistics and professional services companies.

Geographically, Chinese enterprises in the UK have a presence in the regions beyond the Greater London area. Although 83% of the entities surveyed have established their headquarters in Greater London, many of them have regional presences across the UK.

Additionally, some entities have worked and/or are working closely with local authorities on regional development projects. For example, a real estate company interviewed has undertaken a number of urban development projects in the North West of England.

Organic growth appears to be the preferred route for Chinese enterprises entering the UK market

91% of the entities surveyed established their UK presence by setting up either a UK branch of their existing Chinese company or a standalone UK company. Only 9% entered the UK market via acquisition activities.

This preference has been echoed in the interviews and appears to be associated with the perceived risks of making acquisitions in overseas markets where there is no prior presence and/or knowledge. However, once a presence has been established, many businesses indicated that they have subsequently looked at acquisition opportunities as a means of expansion or to gain access to market sectors with high entry barriers.

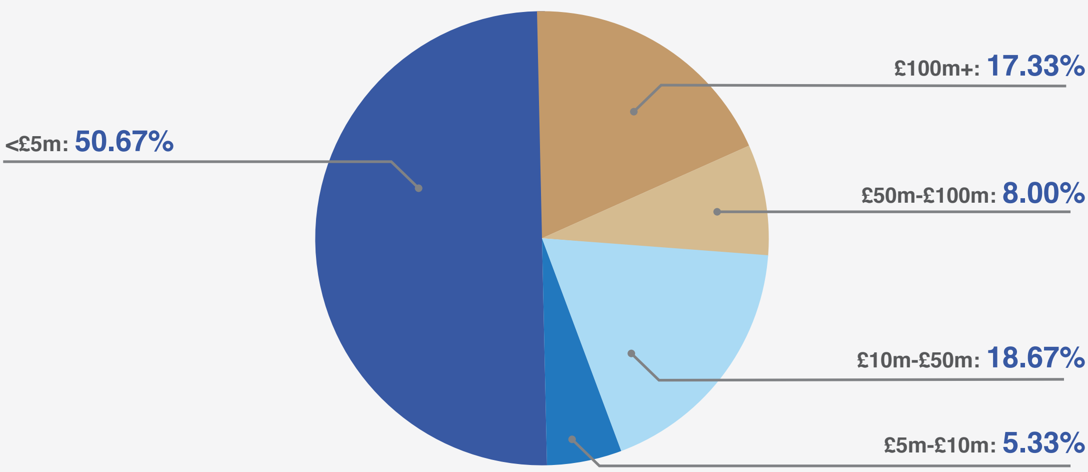
Chinese investments have a long-term commitment to the UK market

There appears to be a steady stream of Chinese enterprises entering the UK over the past decades. 64% of the entities surveyed have operated in the UK for over 5 years (27% between 5 and 10 years and 37% over 10 years). Bank of China has the longest history in the UK, having established its presence in London in 1929.

There is also a level of diversity in the size of the entities surveyed. While the majority of the entities surveyed appear to be of small to medium size (measured by revenue), larger enterprises also take up a considerable proportion.

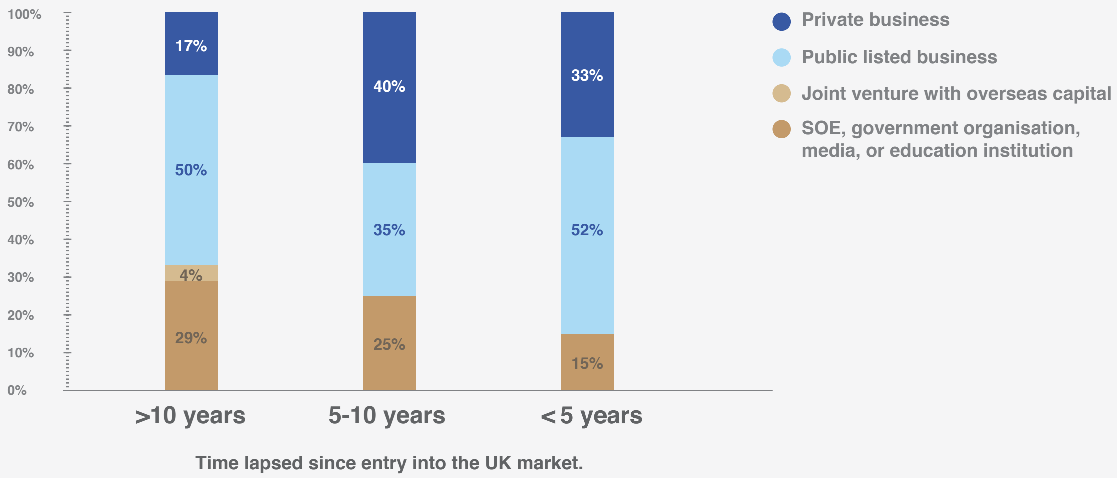
More specifically, 51% of the entities reported annual revenues of below £5m. At the other end of the spectrum, 17% reported annual revenues of over £100m.

Size of entities surveyed as measured by 2019 revenue



Source: Survey question 16.

Types of Chinese enterprises entering the UK market over time



Source: Survey questions 6 and 8.

Listed Chinese companies have been leading the charge in entering the UK market

47% of the entities surveyed reported that their Chinese parent entities fall into the listed category. A further 30% reported that they are backed by private businesses; whilst 24% reported a link with government organisations, media, or education institutions.

When combining the ultimate ownership data with the entities' lengths of presence in the UK, there has been a clear shift in the mix of Chinese enterprises entering the UK market over time, with a reduction in government organisations, media or education institutions, and an increase in private businesses. This trend is also reflected in the Rhodium Group/Mercator 'Chinese FDI in Europe' 2019 report, which showed a decline in the share of total investment from Chinese state-owned enterprises (SOEs). These made up just 11% of investments in 2019 (compared with more than 70% of total investments between 2010 and 2015).

The majority of Chinese businesses have the autonomy to make strategic and operational decisions in the UK

Overall, Chinese enterprises in the UK are reporting positive financial results. Approximately 75% of the entities surveyed were profitable or broke even in 2019, and 79% saw stable or improving performances over the past two years.

Around 71% of the entities surveyed also claimed to have seen a stable or positive momentum in their market share over the past two years. This is consistent with a similar proportion (76%) of entities reporting an increasing or stable revenue generation over the same period.

This shows the resilience of these entities despite the challenging market conditions and global macroeconomic environment - a trait we continue to see demonstrated through some more recent challenges such as Brexit and COVID-19. We will explore this further in Chapter 3 of this report.

The resilience and positive track record of development to date has also been echoed in the interviews. The vast majority of the interviewees considered the development of their organisations to be in line with, if not outperforming, the strategic goals set at the onset of their UK presence. Many attributed this in part to the relatively open and well-regulated business environment in the UK, which we will discuss further in Chapter 2 of this report.

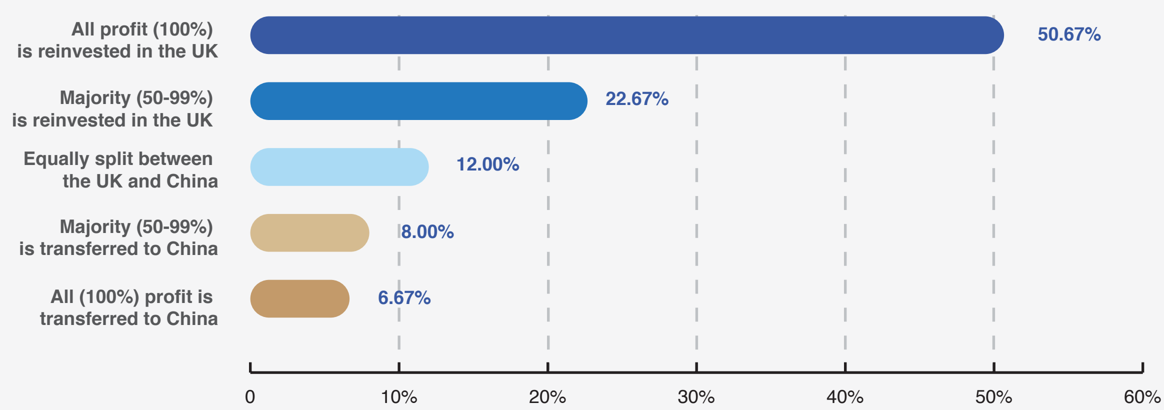
However, despite the relatively strong financial performance described above, when asked to compare their profitability in the UK with that in other global markets and territories, the picture is less positive. 44% of the entities surveyed reported lower profitability in the UK than in other overseas markets outside China, about a third reported little difference, and only 17% stated they made higher profit margins in the UK than in other territories.

This is mirrored in the interviews where representatives from a number of entities have commented on the relatively benign growth and higher cost base in the UK market when compared to other markets, for instance, in Southeast Asia, which drives down profitability.

Most UK-generated profits are invested back into the business

Over 51% of the entities surveyed reported that they reinvested all of the profits generated by their UK businesses in the UK. A further 23% reported local reinvestment of the majority of their profits, as opposed to remitted back to China. This demonstrates that Chinese enterprises in the UK have been making direct contributions to the UK economy rather than extracting value abroad.

How is the profit generated by your UK business used?



Source: Survey question 21.

Chinese businesses employ a diversified workforce. Cultural integration, high employment costs and difficulties in accessing talent are key challenges

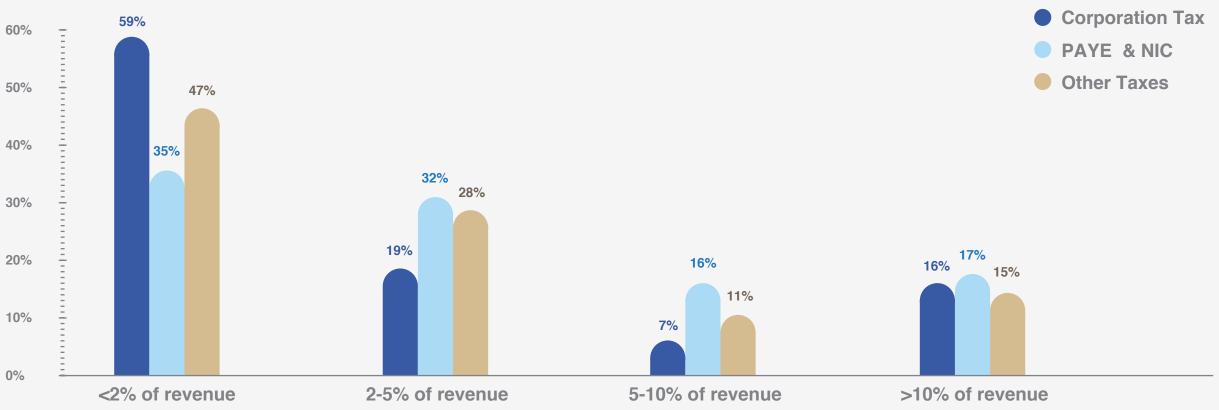
60% of the entities surveyed employed fewer Chinese employees than they do those of other nationalities. Of the Chinese employees, only a small proportion tended to be expatriates from China, with 53% of respondents saying that Chinese expatriate employees took up less than 10% of their total Chinese employee population. This composition appears to have remained stable over the past two years.

The composition of senior management, however, appears to be characterised by a higher percentage of Chinese representation. Approximately 53% of the entities surveyed had Chinese personnel making up more than half of their senior management teams. A large part of this, according to the interviews, is down to significant differences in the cultural, business, and regulatory practices between the two countries, which requires Chinese personnel at a senior level to act as a bridge between the UK business and its Chinese parent.

Around half of the entities surveyed had fewer than 20 employees, and 84% reported employee numbers of below 100. However, many entities are planning to increase their headcount in the UK over the next two years as they forecast further business expansion.

The focus on local recruitment as a primary source of talent has meant that the Chinese enterprises in the UK are able to contribute to the UK's employment and job market.
The low concentration of Chinese nationals is also consistent with the focus on diversity and inclusion which many entities have reported.

Proportion of entities reporting various levels of tax charges as a percentage of their revenue in 2019



Source: Survey questions 27, 28 and 29.

The majority of the interviewees also confirmed it is one of their strategic priorities to localise their workforce, from frontline staff to senior management teams. However, one of the most significant challenges in implementing this strategy is their ability to integrate cultural and business practices successfully.

High employment costs, especially when compared to their experience of operating in other countries, are indicated as another challenge by the respondents. A larger proportion of entities surveyed reported to have paid more in taxes on employment (including income tax and social security payments) than in corporation or other taxes.

This is a clear message which has been echoed repeatedly during the interview process. Many interviewees, when asked about key challenges for operating in the UK market, have cited high employment tax rates as a hindrance to their ability to achieve higher profits and attract top talent.

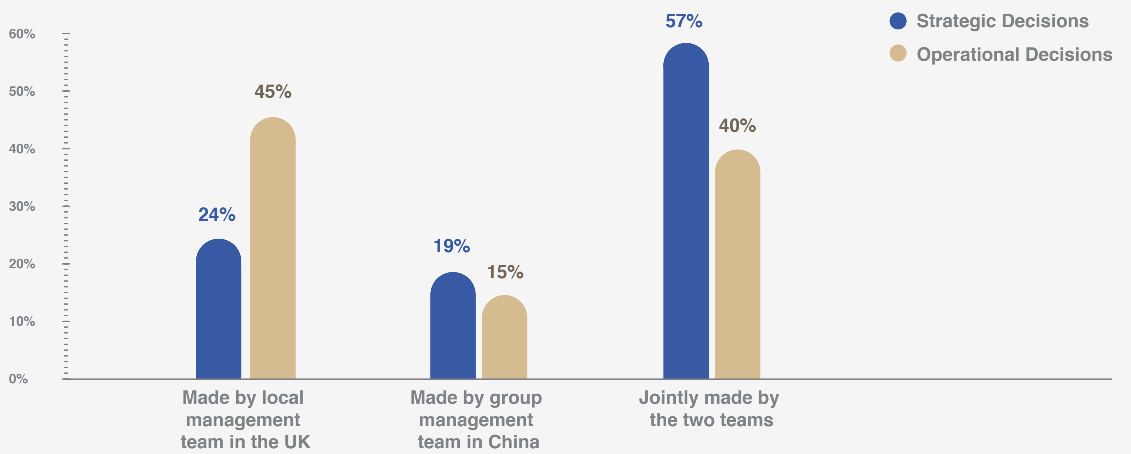
The complexity of the immigration rules and the post-Brexit uncertainties around employing foreign workers are also a cause for concern, especially for certain industries such as financial services where they may face losing skilled EU employees or have difficulties in accessing them post-Brexit.

The majority of Chinese businesses have the autonomy to make strategic and operational decisions in the UK

There is a strong emphasis on local autonomy in the decision-making models adopted by the entities surveyed. Approximately 81% and 85% respectively of the entities surveyed said that their key strategic and operational decisions are either made solely by the local management team in the UK or jointly by the teams across the two countries.

A similar trend was echoed during the interview process. Senior management teams in the UK subsidiaries enjoy a high degree of autonomy in formulating UK level (and sometimes European level) market and operating strategies. When it comes to key investment decisions, they are also the ones who would put forward recommendations for making a joint decision with group management back in China.

Proportion of entities reporting various strategic and operational decision making models



Source: Survey questions 25 and 26.

Chinese businesses play an important role in the local community

Chinese investments generate both direct and indirect economic benefits to the general UK economy as well as to the local communities in which they operate. Greenfield investments are creating new jobs and increasing spending on properties, equipment, offices, production facilities, etc. In the case of M&A transactions, investments have been injected to save jobs, restructure and refinance struggling businesses.

Over the past two years, Chinese businesses have increasingly been involved in the Levelling Up agenda in UK regions, such as Beijing Construction and Engineering Group investing in and building Manchester City Airport, Jingye Group rescuing British Steel saving over 3,000 jobs in Scunthorpe, or NVC Lighting and Geely (through LEVC) being long-term employers in the Midlands.

Chinese financial services companies, clustered around the City of London, have also proactively participated in the Lord Mayor's Appeal City Giving Day which supports local charities.

CCCUK also established a joint charity initiative with the Lord Mayor's Appeal in 2018, and has raised funds for both UK based charities and education and healthcare projects in China. In 2020, in the wake of COVID-19, CCCUK donated over 4.35 million medical supply items to the UK through The Lord Mayor's Appeal, which were widely distributed throughout the NHS, to care homes and beyond.

In the real estate and infrastructure sector, a number of Chinese real estate companies, such as Greenland Group, have worked closely with their UK partners and contractors to leverage the latest green technologies in designing and building their property development projects in the UK, helping the nation to move towards its 2050 Net Zero target.

> **On behalf of the City of London and the many beneficiaries of these generous donations, I would like to thank our friends in China for their support and kindness. This type of international collaboration is a glimpse of light in an otherwise dark time.**
>
> Alderman William Russell, Rt. Hon Lord Mayor of the City of London, commenting on CCCUK's donation of medical supplies to the UK in an effort to fight against the COVID-19 pandemic, April 2020

CHAPTER 2

Views on the UK Investment Environment

The UK as a Popular FDI Destination

Despite the challenges of Brexit, the UK remains an attractive market for foreign investment

Based on the 'Welcome to the UK Investment Prospectus' published by the Department of International Trade in April 2020, the UK is the No.1 destination for FDI in Europe. With a population of around 66 million, the largest air transport system and the second largest ports industry in Europe, it provides not only a major domestic market within the UK, but also a gateway to other major markets around the world.

Being the 6th largest economy[(4)] in the world, the UK has a diverse industrial base, a stable legal and regulatory environment, transparent and flexible corporate law and governance, a competitive tax environment with the lowest headline corporation tax (19%) in the G20, a proactive approach to reducing regulatory burdens, and well established diplomatic influence around the world, based on the UK's cultural and political strengths.

Foreign investors have access to a diverse and expansive international talent pool in the UK. From 20 February 2020, the rebranded Global Talent route (reforming the existing Tier 1 Exceptional Talent route) has a particular focus on science, research and innovation, and has no cap on the number of people able to come to the UK. This has directly contributed to the vibrancy of the UK's R&D capabilities and innovation.

Another particular strength is the UK's position as a world leading financial centre. The UK is the number 1 location for cross border bank lending with 15% of the global market share[(5)]. It is the largest venture capital market in Europe and the third largest globally[(6)]. 37% of global foreign exchange takes place in the UK[(7)]. It has also now become the largest offshore Renminbi (RMB) hub outside China, accounting for 44.5% of offshore forex RMB transactions[(8)]. In the nine months ending September 2020, the value of cross border RMB business transactions between China and the UK was approximately RMB1.12 trillion, an increase of 144% year on year. During this period, cross border RMB payment settlement of goods traded was approximately RMB56.2 billion, accounting for 12.4% of the trade volume between China and the UK in the same period [(9)].

"

The UK is a popular location for multinationals… due to its liquid and deep capital markets, unparalleled forex flow volumes, leading insurance sector, advantageous time zone, the popularity of the English language and common law, and the abundance of skilled financial professionals.

'London as a Centre for Management of Financial Risks', City of London Corporation/PwC, November 2019

(4) World Bank, World Development Indicators database, July 2020
(5) Tech Nation, 'UK Tech Sector beats both US and China to lead global growth', January 2020
(6) Reuters, 'London remains the top destination for European tech funding', 2019
(7) The City UK, 'Key facts about the UK as an International Financial Centre', 2018
(8) PwC/City of London, 'London as a Centre for Management of Financial Risks', November 2019
(9) London Offshore RMB Market Monitoring Group, 'London Offshore RMB Market Report 48', October 2020

Survey respondents appear to have a broadly positive view of the UK's business environment

We asked the entities to rate the UK's business environment on the following five aspects:

- Technological environment (e.g. competency of R&D institutions, research commercia-lisation, collaboration with Chinese research institutions, etc);
- Infrastructural environment (e.g. transport, telecommunication network, etc);
- Economic and industrial environment (e.g. level of economic development, stability of economy, completeness of supply chain, contact with Chinese economy, etc);
- Political environment (e.g. consistency of policies, stability of political environment, government efficiency, legal and regulatory considerations, etc);
- People environment (e.g. employment, cost of labour, diversity and inclusion, etc).

With an overall average score of 7.4, the entities' view of the UK's business environment appears to be broadly positive.

The scores across the five areas are largely similar, with a difference of less than 1 point between the highest and lowest rated areas, which were the technological and political environments respectively.

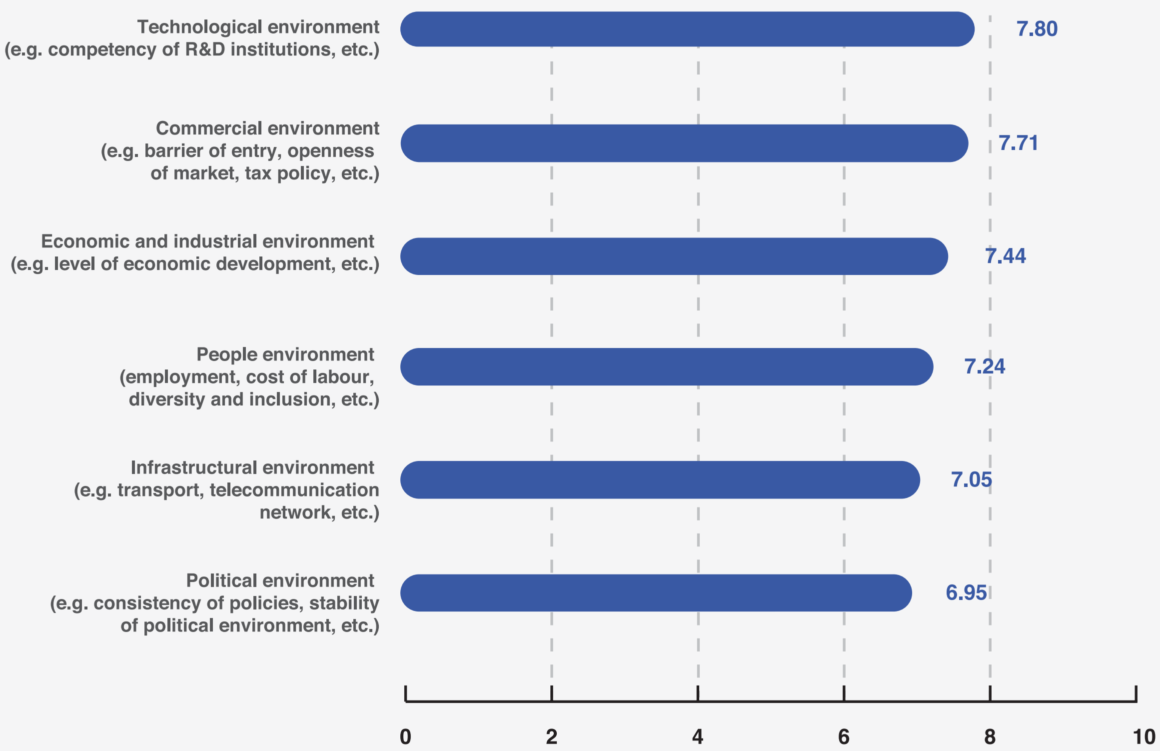
The relatively low rating given to the political aspect of the business environment have largely been driven by concerns over recent changes in UK-China relations, partially offset by positive views on the stability and transparency of the legal and regulatory practice.

93% of respondents expect little or no change in the UK's investment environment, despite current challenges facing the economy

Overall, the entities surveyed appear to have a neutral outlook on the UK's business environment over the next two years, as 93% of them stated that they would expect there to be little or no change. However, more entities think that the UK's business environment has got worse (44%) rather than better (23%) in the past two years.

Across the questionnaire and interview responses, there was a high level of alignment in describing the key strengths of the UK's business environment and the key challenges faced by Chinese investors.

- **How would you rate the business environment in the UK? (1 being very dissatisfied, 10 being very satisfied)**



Source: Survey question 43.

UK's Key Strengths for Chinese Investors

There are a broad range of factors which have attracted Chinese investors to the UK market, and ones which they continue to value when conducting business in the UK.

Amongst others, the following five factors have emerged as the highlights of the UK's business environment for Chinese enterprises, based on a comprehensive review of the online survey and the interview responses.

Stability and transparency of the political, legal and regulatory environment

This is the most endorsed factor by a margin in the online survey, and one that was mentioned by virtually all interviewees.

It is particularly valued in industries which require heavier investments with longer payback cycles, such as energy generation and infrastructure. Investors in these sectors are inherently exposed to greater risks of policy change and political instability due to their long investment cycles. Respondents from the relevant sectors have cited this as a main consideration when making their investment decisions in the UK, which they deem to be more stable and transparent than alternative investment destinations.

Openness and fairness of the market

Having access to an open and fair market is another key factor valued by the respondents.

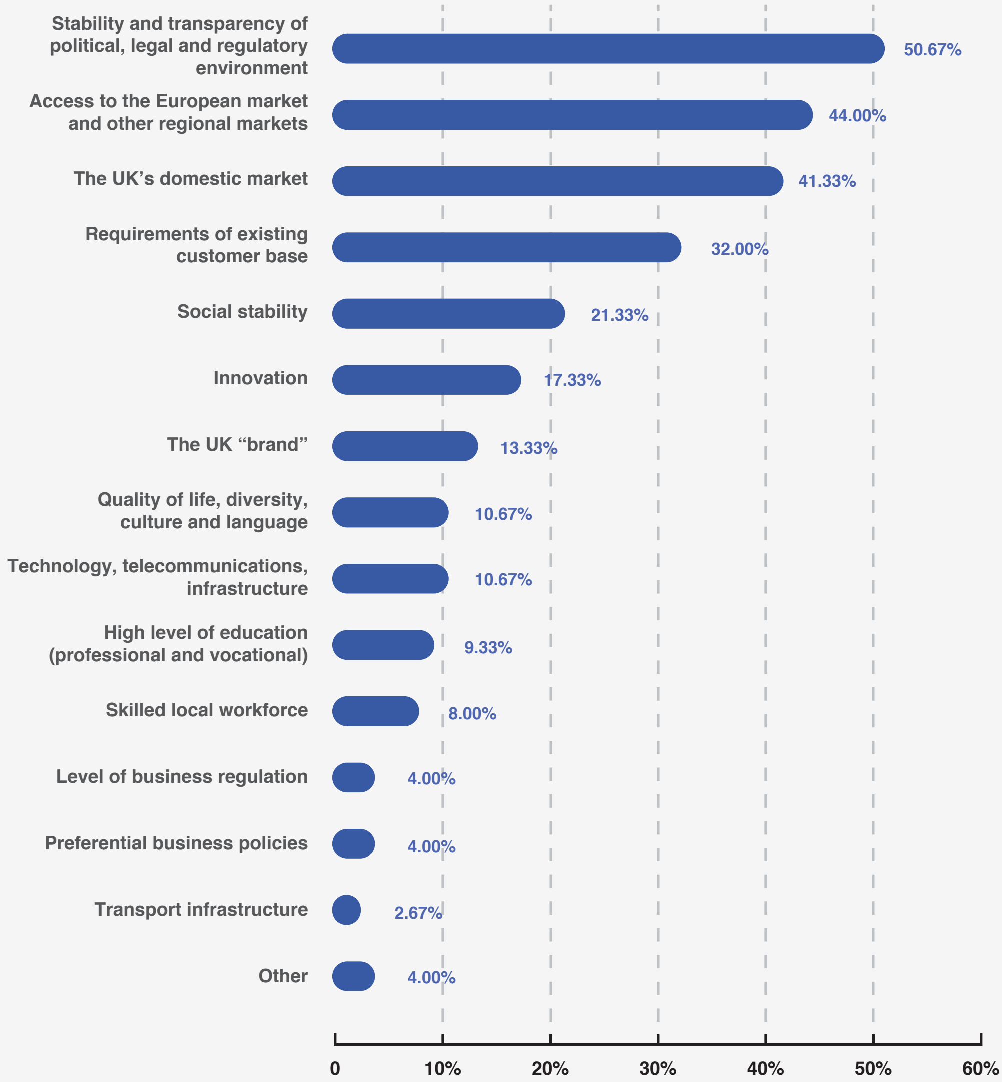
The majority of respondents mentioned that the UK has enjoyed a long tradition of welcoming foreign investments into the country. As a result, the general market mechanisms in most industries encourage fair play and fair competition.

Access to regulatory and compliance information is readily available. The professional services sector is mature and sophisticated which provides assurances that legislation and regulations are being applied fairly across the board. This is underpinned by the UK's rule of law, one of the longest established common law fundamental principles of governance.

Most interviewees and entities surveyed said they have not experienced discrimination due to their Chinese origin while doing business in the UK. Admittedly, certain companies, particularly those operating in certain sensitive sectors, have had some negative recent experiences against the backdrop of increasingly complex geopolitical challenges. However, the overarching view is that the UK has been able to offer a relatively level playing field for all market participants.

> **The UK enjoys general stability in its society and economy with predictable levels of demand. This is a prerequisite for our decision to invest in the UK.**
>
> Xenia Sit, President, China Unicom Europe

● What attracted you to invest in the UK? (Respondents may choose up to 3 choices)



Source: Survey question 41.

Market size, leading expertise and know-how

The UK's domestic market possesses a combination of attractive factors for Chinese investors.

To begin with, the size of the UK market has been cited by respondents from a number of sectors as being attractive for their respective products and services. In some sectors, the market of UK customers is itself very attractive. In other sectors, such as banking and telecommunications, the initial motivation for expansion into the UK is to serve the community of existing Chinese business, who by entering the UK market have generated demand for supporting products and services. In many cases, the companies providing the support services have outgrown this initial objective and developed a broader and deeper integration with the UK domestic market, serving the local community and creating local jobs.

It should be noted that our respondents emphasised that the size of the UK market is not purely defined by the size of its population, but is shaped by a wide range of social and economic factors. For instance, in the energy sector the UK currently generates 20% of its electricity from nuclear and about half of its existing capacity is due to be decommissioned by 2025[10]. This represents a significant long-term investment plan that could be met by collaborating with investors from countries that also have extensive experience in nuclear technology, such as China and France.

The cutting edge expertise and know-how of the UK industries also contribute to the attractiveness of the UK market. An insurance company interviewed recounted that many of their senior team in China, and indeed many of the senior personnel in the wider Chinese insurance industry, have previously worked in the UK, and that they continue to learn from the UK on an ongoing basis.

Access to innovation and a diversified international talent pool

Much of the UK’s market attractiveness is supported by its talent. With a high concentration of top educational institutes and a long tradition of welcoming an international workforce, the UK is considered a leader in producing top talent across a broad range of technical fields.

This is especially important when it comes to industries that require a highly skilled or specialised workforce, such as banking, insurance, professional services, digital economy and advanced manufacturing. Our survey respondents also particularly valued the innovation that comes with talent. A number of our interviewees have made significant investments in setting up R&D centres in the UK, leveraging the local expertise in automotive, new energy and telecommuni-cations industries.

UK as a gateway to the European and other international markets

Many companies also value the UK as a hub for connecting with the wider European and international markets and communities.

A number of manufacturing businesses mentioned the benefits of accessing the wider European market from the UK on a tariff-free basis, albeit recognising that this may no longer be the case after the Brexit transition period. They also highlighted that the UK industry standards and licensing are widely recognised in the European and Commonwealth markets (and beyond). 80% of the entities surveyed consider the UK industry standards to be higher than those in China. Having an established presence in the UK has thus helped to improve standards and open doors to further territories.

For financial institutions, the UK represents a unique market as the world's 6th largest economy, supported by London as one of the world’s financial hubs and the largest centre for foreign exchange markets and offshore RMB trading outside greater China.

(10) World Nuclear Association, 'Nuclear Power in the United Kingdom', September 2020

Key Challenges Faced by Chinese Investors

Despite the overall positive view of the UK's business environment, the entities surveyed have pointed out a few common challenges for Chinese enterprises in the UK.

Complex geopolitical landscape impacting UK-China relations

This is by far the biggest concern of all survey and interview respondents, perhaps unsurprisingly given the number of events occupying news headlines over the past year which have sent out signals about UK-China relations that some businesses find unsettling.

It underpins most of the Chinese companies' view about doing business in the UK, not least because the vast majority (97%) of them deem UK-China relations important or extremely important to their UK operations.

One positive observation to note is that, despite the varying levels of concern or criticism seen in media and political spaces towards Chinese investments, all of our respondents said that they have seen little or no impact from a business perspective. They felt that, notwithstanding the political headwinds, the UK business community has continued to be open and welcoming to its Chinese counterparts largely without discrimination.

Therefore, most of the respondents reported being cautiously optimistic about the future of China-UK relations. This is echoed in the online survey where 95% of the entities surveyed expressed a neutral to optimistic view.

> **BCEGI has built a very close and supportive working relationship with local authorities in the North West of England. Local government has made it very clear that they continue to welcome Chinese investments due to the clear benefits we've brought to the region through our projects so far. Our contributions include supporting local supply chains, creating job opportunities for local people, and helping to transform towns and cities with quality products, thereby creating an environment that people in the area truly deserve.**
>
> Dongwen Yu, Lead Director, BCEGI Construction (UK) Ltd

Which do you see as the greatest challenges in conducting business in the UK? (Respondents may choose up to 3 choices)

Source: Survey question 42.

Integrating cultural and business practices

Cultural differences are a challenge that all companies we interviewed have to face on a daily basis. These manifest themselves not only in terms of language and communication, but also in establishing common ground to appreciate different ways of thinking and carrying out business in the UK and Chinese contexts.

There is an overwhelming consensus on the approach to deal with cultural and business differences among our respondents, and it is one emphasising integration and equitability.

For many of the respondents, integration means localisation, both in terms of business model, value chain, and people and management style. They found that an effective governance structure and management model encouraging participation and buy-in from both sides, particularly local management, can help reduce frictions caused by differences in behavioural dispositions. Senior bilingual personnel can also play a key role in bridging cultural differences and instilling a corporate culture which transcends borders.

They communicated a strong commitment to equitable treatment of all employees regardless of their cultural backgrounds, which has been effective in facilitating mutual understanding and collaboration.

There is also an urge not to overlook the similarities in the underlying business principles and the shared business objectives, which can help cut through the cultural differences.

Difficulty in recruiting and retaining bilingual talent

Another aspect of addressing the cultural integration issues is to have qualified bilingual staff in key management positions. Many such potential employees, be they hired locally or transferred from China, would require work visas.

A number of companies found the current visa scheme somewhat restrictive, however they have welcomed the new points-based immigration system which could attract more highly-skilled migrants from around the world. The 2-year post study work visa has also been hailed as a positive policy move that will enable Chinese companies to recruit bilingual students in order to develop and retain the talent that is essential to the running of their businesses.

As previously mentioned, the other restrictive factor noted by a number of interviewed entities is the complex and high employment taxes in the UK. This is seen as hindering their ability to offer better remuneration packages to attract top talent, especially when compared to their experience in other markets and territories.

> **Following local practice and integrating with local society is key to the survival and development of Chinese companies overseas.**
>
> Henry Sun, Director, NVC Lighting Limited

A complex compliance regime eading to risks of lower efficiency and vibrancy in the market

The majority of the businesses interviewed have noted that the compliance and regulatory frameworks in the UK are more principles-based. This contrasts with the rules-based system in China and in a number of other overseas economies they operate in, such as the US. Whilst providing flexibility, the regime is also subject to more interpretation, thus making compliance somewhat complicated.

Respondents also noted that the accounting requirements, regulatory reporting and the highly complex tax system do not cater for small and medium sized businesses and consequently have increased the difficulty and cost of running businesses in the UK.

The other side-effect of a complex regulatory framework is that it tends to take longer to get things done in the UK when compared to some of the other international markets. Whilst our respondents recognise that the lack of efficiency is sometimes due to the system being well established and well regulated, a quality which they celebrate, it does appear that the mature regulatory environment could be a double-edged sword when it comes to facilitating business activities, as it could stifle market vibrancy and adaptability.

For example, a real estate company recounted that, while waiting for certain administrative procedures to be completed on a project with the local authorities, they struggled to reallocate their resource pool to potential new project opportunities due to the unclear completion timeline of those procedures. This has somewhat hindered their ability to unlock the full growth potential of their businesses. A number of interviewees cited countries like Singapore and the Netherlands as examples of striking a better balance between regulation and efficiency.

A mature and highly competitive environment calling for a very different market approach

94% of the entities surveyed appreciated the UK business environment as one encouraging open and fair competition. 96% considered the competition as fierce or very fierce.

Although a high level of competition could be conducive to a better economic outcome for society as a whole, it could also increase the barriers to entry, thus posing more challenges to international investors new to the market.

A company operating in the aviation sector highlighted the unique entry barriers underpinned by the commercial practice specific to UK and European airports, which they had not encountered elsewhere in the world. They had to make strategic acquisitions in order to overcome these barriers.

A few manufacturing companies commented on the challenges they had around building trust in a market with many established stakeholders. They managed to overcome this by continued improvement of their products and services, to build their reputation through word of mouth.

Indeed, reputation, quality of product and services, and customer services have emerged as the top three competitive advantages among the entities surveyed. The real estate companies we interviewed highlighted their competitiveness over environmentally friendly product development; whilst an industrial manufacturer cited their 24/7 after-sales customer support as a key differentiator compared to their competitors.

CHAPTER 3

Response to Current Affairs

COVID-19 has had a significant economic impact across all sectors

Whilst ONS statistics show that the UK saw growth of 6.6% in July and 2.1% in August; it remains 9.2% below the levels seen in February 2020 - before the full impact of the pandemic was felt. The overall effect of the virus on the UK economy was projected to erase around a quarter (25.6%) of GDP in 2020 Q2; with PwC's September 2020 UK economic update predicting a contraction of between 11% and 12% in 2020, followed by growth of between 4% and 10% in 2021 (depending on whether we see a "contained spread" or "further outbreak" scenario). However, there is variation in the rate of recovery across sectors; with growth across construction, manufacturing, and services (significantly driven by the government's Eat Out to Help Out scheme) in August 2020 driving this gradual recovery[11].

With a further lockdown across England announced for at least the month of November, and similar measures across Northern Ireland, Wales and Scotland already in place, it remains too early to predict the long-term economic impact of this pandemic.

Whilst the immediate economic impact of COVID-19 has over-shadowed Britain's exit from the EU, Brexit is likely to have equally wide - if not wider - implication across sectors and industries

As of early November 2020 - with the transition period scheduled to end on 31 December 2020 - the UK has not yet come to an agreement with the EU. This means that, at the time of publication, the chances of a comprehensive trade deal are unclear.

The Institute for Fiscal Studies have projected 2021 growth to be 2.1% lower than if the UK were to remain in the EU Single Market and Customs Union. The UK economy will therefore need to be flexible as it responds to both changing consumer demand due to COVID-19 and new trading relationships due to Brexit [12].

> **Both COVID and Brexit are likely to result in medium-term economic reconfiguration, as well as near-term disruption… the 'double whammy' of COVID and Brexit will make adjusting to the new normal a huge challenge.**
>
> The Institute for Fiscal Studies, 'The cost of adjustment: emerging challenges for the UK economy', October 2020

(11) ONS, 'Coronavirus and the impact on the UK economy', August 2020
(12) The Institute for Fiscal Studies, 'The cost of adjustment: emerging challenges for the UK economy', October 2020

Most of the entities surveyed have been negatively impacted by COVID-19, although their ability to learn from their Chinese parent companies may have helped with their ability to respond to the pandemic

We asked the entities surveyed about their own response to the pandemic, and their view of other parties' handling of the crisis.

Over 61% of the entities surveyed are not confident in the UK government's response to COVID-19. This seems to be largely driven by concerns around the slow adoption of face coverings and other social distancing restrictions.

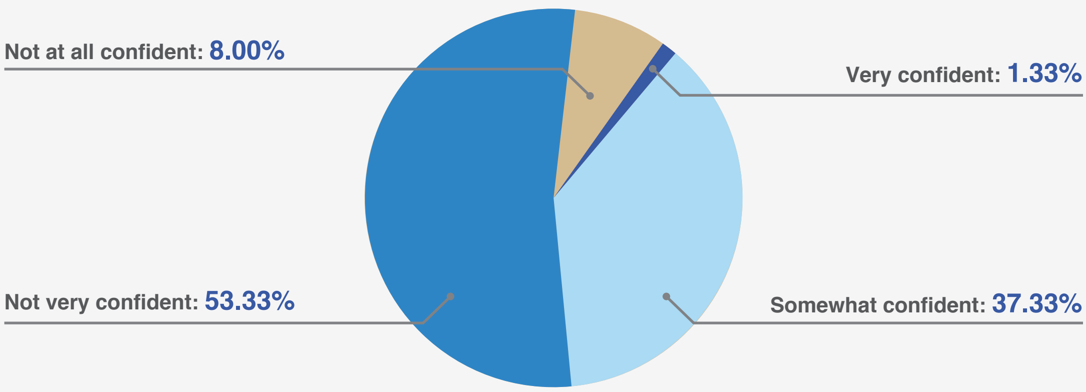
Around 89% of the entities surveyed stated they had been negatively impacted by the pandemic, although a positive impact was reported by 7% of the entities surveyed, which operate in the technology, logistics, medical and household goods sectors.

Many of the entities surveyed felt that they were able to respond well to the challenges posed by COVID-19. This could be because of the ability to benefit from the early experience of their Chinese headquarters and business partners in dealing with the pandemic.

Around 81% of the entities surveyed stated that they had been prepared well or extremely well for a potential second lockdown or further restrictions, albeit over half of the companies also said that a further national lockdown would extend the amount of time required for their business to recover.

Looking ahead, the majority (75%) of the entities believe that the COVID-19 impact will not last beyond the end of 2021. However, for certain sectors (e.g. aviation), as our interviewees have highlighted, the impact could be felt for much longer.

How confident are you in the UK government's response to COVID-19? (For example: in macro-economic and social terms, and support towards businesses)



Source: Survey question 54.

Most entities remain cautiously optimistic about the UK's economic outlook post Brexit, albeit there are mixed feelings about its near term impact

Just over half (52%) of the entities surveyed said they are either somewhat or very confident about the UK government's handling of Brexit.

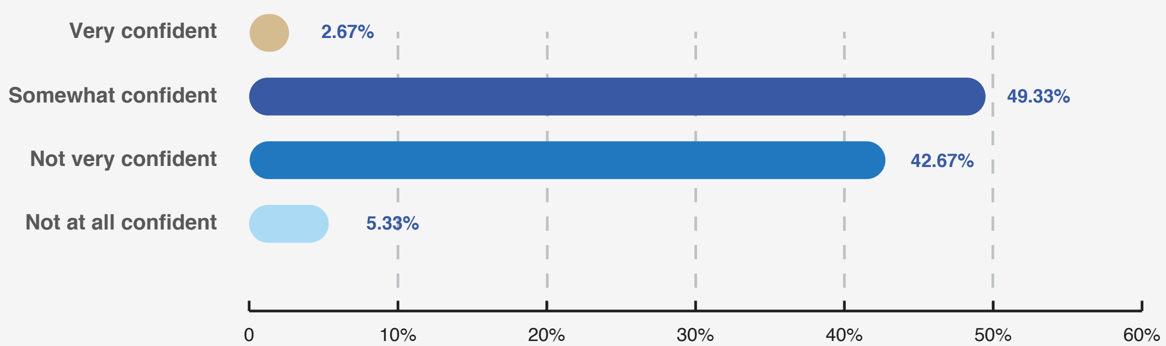
64% of the entities expected to be negatively impacted by a no-deal Brexit, albeit no entity has decided to divest from the UK as a result. Indeed, while 19% of the entities predict a slowdown in their investment and 37% are unsure about how their investment plans would change due to Brexit, another 44% are confident that Brexit has had no impact on their investment decisions.

This confidence appears to have little to do with the amount of preparation the companies have carried out, but rather is underpinned by their confidence in the prospects of the UK's economy as a whole. After all, two thirds of the entities surveyed think they are as prepared as other players in the market, and over 85% of the companies are either unsure or have not taken any mitigating actions in relation to Brexit.

Among our interviewees, those whose businesses involve importing and exporting highlighted foreign exchange risks over the shorter term. Conversely, this could also provide business opportunities for certain financial institutions, as our interviewees in the financial sector pointed out.

Overall, most interviewees remain cautiously optimistic as they consider the risks and uncertainties to be mostly short-term, and that in the longer term the UK will continue to be one of their most important global markets worldwide.

How confident are you in the UK government's handling of Brexit?



Source: Survey question 60.

The impact of these recent events has been felt differently by companies from different industries

Notably, companies from the financials industry appear to have been among the hardest hit, and those in the technology industry, on the contrary, seem to have been less impacted.

More entities think they are negatively impacted by COVID-19 and Brexit in the financials industry than in others, but the industry remains optimistic in its outlook

86.6% of entities surveyed in the financials sector stated that they were "not very confident" in the government's response to COVID-19, which is higher than the 61.3% seen across all companies surveyed. 100% of entities in the financial sector stated that the impact of COVID-19 on their UK business was “significantly” or “somewhat” negative, however this response can be seen across almost 90% of all respondents, and is likely to reflect a wider trend across the UK due to the significant cross-sector economic impact.

73.3% of entities across financial services stated that they would be “somewhat” or “very” negatively impacted by a no deal Brexit (compared with 64% across all members surveyed), which reflects the particular impact that this would have on this sector: according to some estimates, a quarter of the financial services sector’s annual revenue comes from business related to the EU[13].

Despite these challenges, companies in this sector remain committed to investing in the UK market, with 73.3% of those surveyed across this sector stated that Brexit had no impact on their investment decisions; which was significantly higher than the 44% across all industries who stated that it had not had an impact.

The technology industry is among the few industries which have reported some positive impact by the recent events

The only responses which stated that COVID-19 had had a “significantly positive” impact on their UK business were from the technology sector. This was echoed by interviewees from several technology and telecommunications companies, who observed the surge in demand for enhanced network capacity driven by increased remote working and shifts in consumer behaviours. Although 77% of the entities in this sector are still negatively impacted, this percentage is materially lower than the overall average of 89% across all industries.

It is also among the three industries where some companies have reported Brexit as having a positive impact, the other two being industrials and real estate.

(13) Institute for Government, ‘Brexit and financial services’, February 2020

CHAPTER 4

Business Outlook and Growth Prospects

UK-China Economic Ties in 2020 and Beyond

UK-China economic ties remain strong despite recent challenges, providing some optimism for the ongoing economic and wider bilateral relations in a post-COVID and post-Brexit world

Amid the global economic slowdown in the wake of the COVID-19 pandemic, UK exports to China surged by 10.7% (or £837m in value terms) in the first eight months of 2020, compared with the same period in 2019, according to a Special Policy Report issued by China-Britain Business Council ("CBBC") on 29 October 2020.

The CBBC report observes that China has emerged as the biggest growth engine for UK exports in 2020, as British goods exports to other major markets fell sharply over the same period. Globally, the UK's goods exports have declined in 2020 by 25%, including an 18% drop in exports to the US and 19% drop in exports to the EU.

China is among the few major economies which have returned to growth so far, with an increasing number of sectors showing signs of returning to health in recent months. More collaboration between the UK and Chinese business communities could help generate mutual benefits in our collective endeavour on the route to global economic recovery.

> **As major economies and leading members of the global community, the UK and China must continue to work together to develop our partnership.**
>
> Caroline Wilson CMG, HM Ambassador to the People's Republic of China, Foreign & Commonwealth Office press release, 15 June 2020

> **China is becoming an ever more important market for UK businesses. It's vital for British jobs that we continue to develop our economic ties with the world's fastest-growing major economy.**
>
> Matthew Rous, Chief Executive of the China-Britain Business Council, Special Policy Report, 29 October 2020

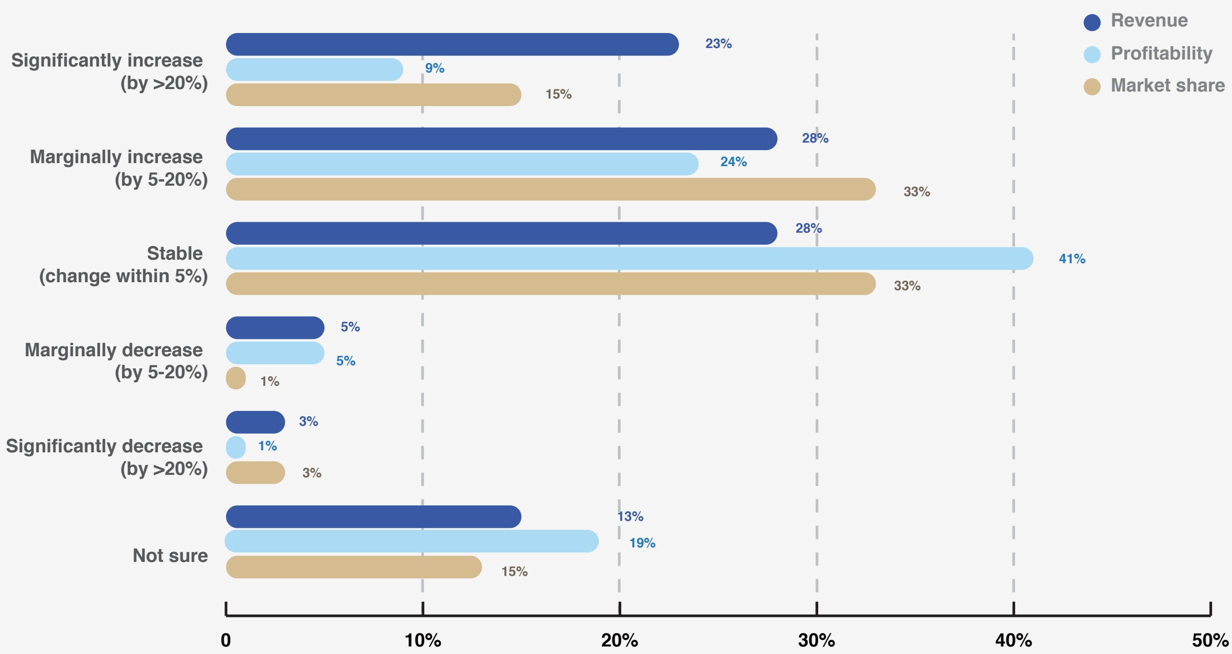
Forecast Performance of Chinese Businesses in the UK

Despite uncertainties brought about by Brexit and COVID-19, most Chinese businesses in the UK are forecasting a stable to improved performance in the next two years

Chinese businesses report a stable to positive outlook across profit, revenue and market share overall, albeit the uncertainties in the current environment appear to have led to a number of entities being unable to express a view.

Approximately 79%, 75% and 81% of entities surveyed responded that they would expect their revenue, profit, and market share respectively to be consistent or higher than the current levels over the next two years. This optimism is reported consistently across industries. The percentages of companies forecasting a stable to positive outlook are at least 50% across all industries surveyed, with consumer staples and energy sectors hitting 100% stable to positive outlook on some or all of the metrics.

Percentage of entities reporting various views on the forecast performance of their business in the next 2 years

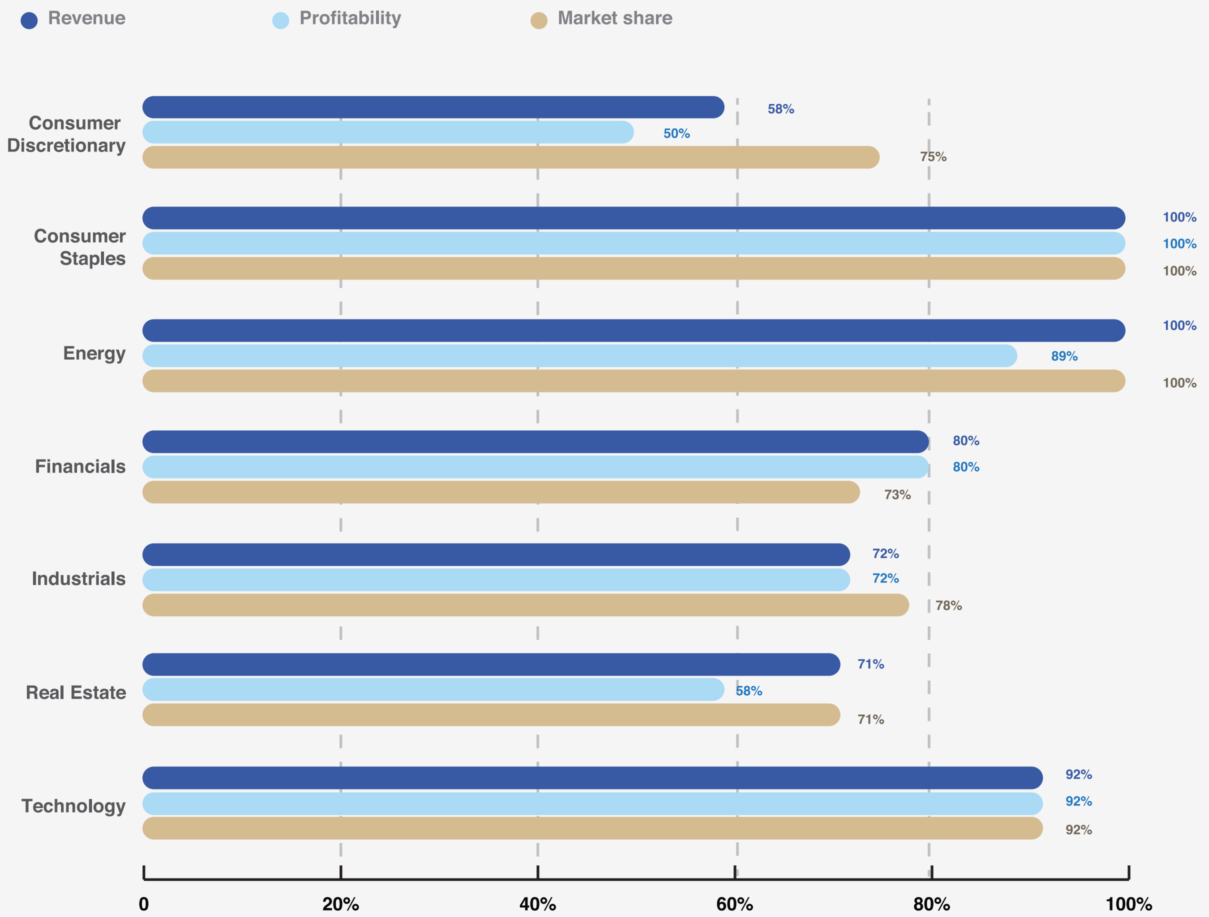


Source: Survey questions 35, 36, and 37.

The overall optimism - albeit with a more cautious undertone - is also seen in consumer discretionary and real estate industries which have been more impacted by the recent uncertainties in the wake of COVID-19 and Brexit. Whilst overall between 13% and 19% of the entities found it difficult to express a view on their forecast revenue, profitability and market share in the next two years, these percentages are up to 33% and 43% respectively in the consumer discretionary and real estate sectors.

This broadly cautiously optimistic tone was also echoed in the interviews carried out.

Percentage of companies forecasting stable to positive outlook on revenue, profitability and market share in the next two years by industry



Source: Survey questions 3, 35, 36, and 37.

Entities surveyed have reported a broad range of key objectives for their presence in the UK over the next two years, but they also appear to agree on a few key areas of focus. The top three common growth priorities are set out on the following pages

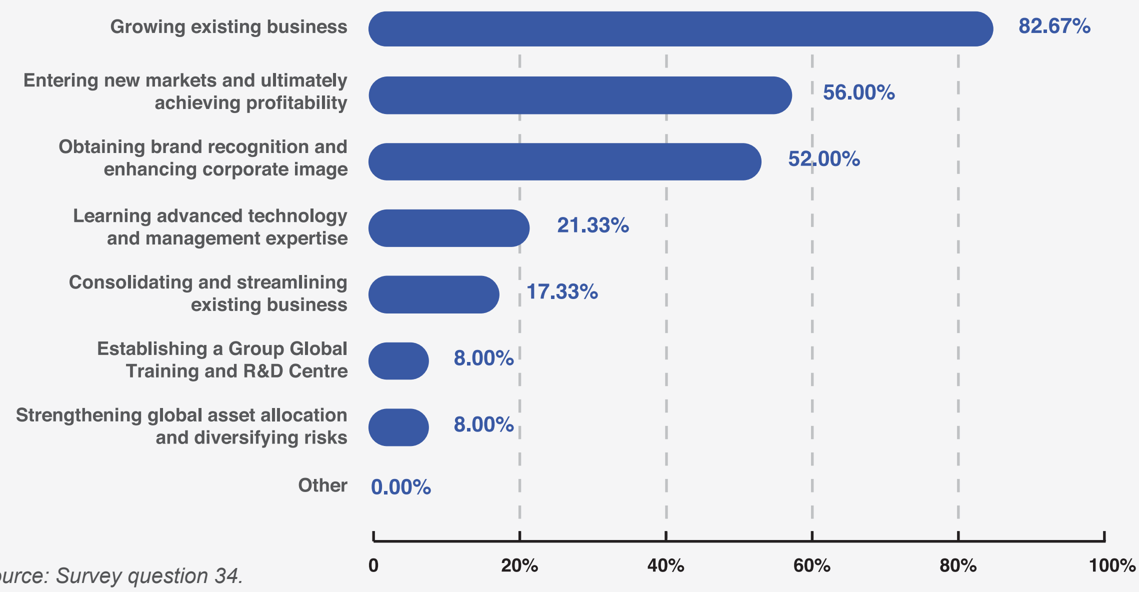
■ Growing existing business

Overall, 83% of the entities said this is among their top three growth priorities, and the percentages of entities surveyed subscribing to this view are over two thirds across all industries. This is also echoed in the interviews.

Given that the majority of the entities surveyed had achieved their strategic goals with the existing business to date, it is expected that they now wish to build on this and pursue further growth in areas where they have a successful track record.

Additionally, we note from the interviews that, due to the impact of COVID-19, some companies have had to reduce their scope of their offerings and focus on their core business over the past months. This could have a lasting impact on these companies' abilities to branch out into new areas beyond their existing business.

What are your company's key objectives / development focus in the UK over the next two years? (Respondents may choose up to 3 choices)



Source: Survey question 34.

Entering new markets and ultimately achieving profitability

Overall, 56% of the entities said this is among their top three growth priorities, albeit energy and financials companies appear to be less focused on this area as fewer entities in these industries (44% and 47% respectively) selected this as a priority in response to our survey.

The ambition of venturing into new areas has also been voiced by companies in interviews, particularly around leveraging technical know-how and R&D capacities in China to bring new products to the UK market. The innovation and quality of products has been cited by a number of companies as an aspect of their key competitive advantage, as discussed in Chapter 2 of this report.

Obtaining brand recognition and enhancing corporate image

52% of the entities surveyed said this is among their top three growth priorities. In the interviews, a number of companies shared their experience of building trust with other stakeholders and quoted it as a key challenge when they were new to the market without previously established brand recognition. As more Chinese enterprises are entering the UK market, many of them are likely to go through a similar journey.

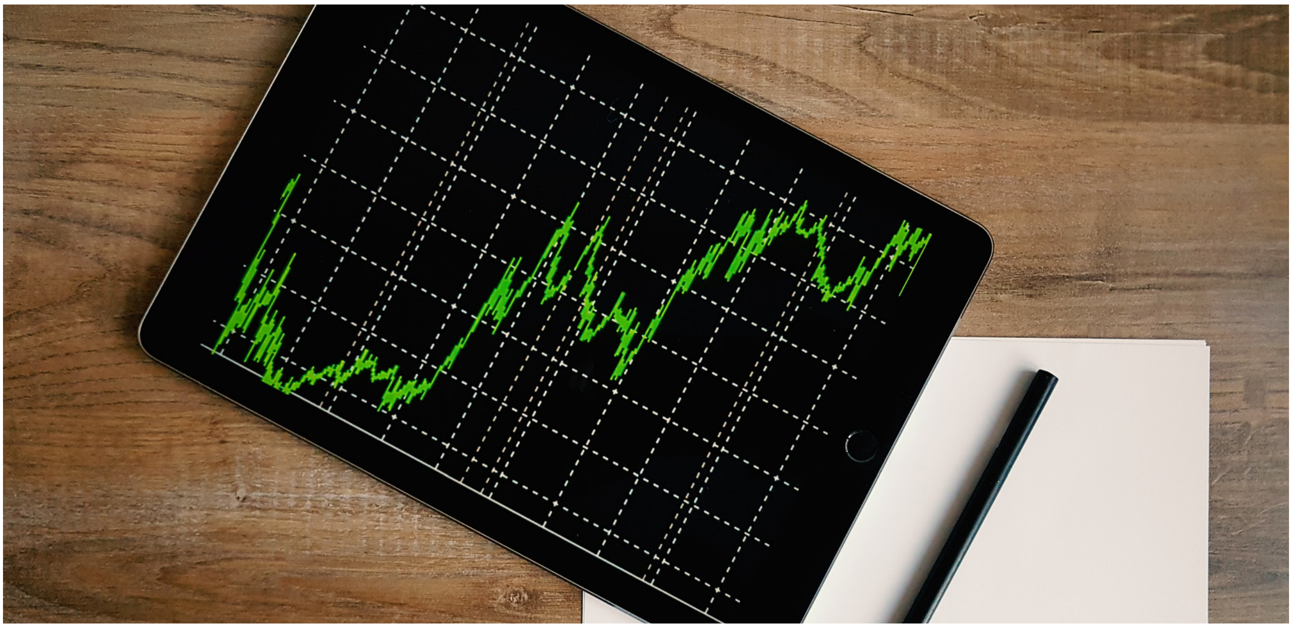
Most of the entities said they would continue to invest in the UK, noting that it remains an important market for them despite recent challenges and uncertainties. Organic growth continues to be preferred over merger and acquisition

Two thirds of the entities surveyed reported that the level of ongoing investments made in their existing UK presence (measured by capital expenditure) has been stable over the past two years.

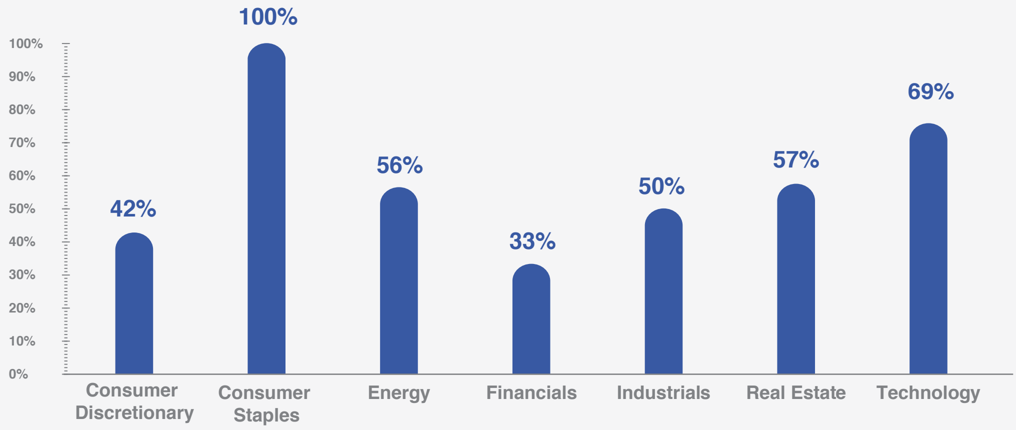
Over the next two years, 51% of the entities have plans to make further investments in their existing UK presence, although 41% said they were unsure, likely due to the uncertainties in the current environment. Despite that, no entity said they plan to divest from the UK in the next two years, and an overwhelming 80% expressed their willingness to continue to operate in the UK market. The sentiment does not differ materially across industries.

Overall, it appears that Chinese enterprises continue to demonstrate a keen interest in the UK market, despite the uncertainties in the nearer term. This interest is backed by approximately 95% of the entities who reported that they consider the UK market to be important to their global presence.

The preference of organic growth over merger and acquisition is again demonstrated in the respondents investment plans. When asked if they plan to make acquisitions in the UK in the next two years, only 7% said yes.

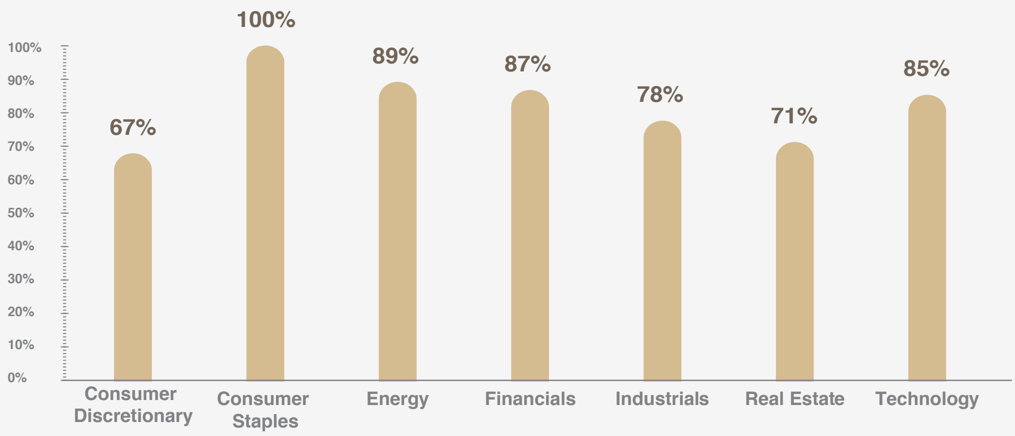


Percentage of entities planning to invest further in their existing UK business by industry



Source: Survey questions 3 and 30.

Percentage of entities having no plan to divest from the UK within the next two years by industry



Source: Survey questions 3 and 32.

Employment Matters and People Strategy

Many Chinese businesses have plans to hire more staff in the UK over the next two years, potentially creating more employment opportunities. In line with the emphasis on integration and localisation, there is a strong preference of hiring locally as opposed to transferring staff from China

Over 44% of the entities said they plan to increase their total headcount in the UK over the next two years. This is in line with their forecast growth in business.

Just as the uncertainties in the current environment have caused a number of entities to be unable to provide a view on their forecast performance, so too has this impacted their view on people matters. Around 21% of the entities said they are not sure about how they will adjust their total headcount over the next two years.

When hiring new staff, the entities surveyed showed a clear preference for hiring locally over transferring employees from China. This has also been echoed repeatedly in the interviews. There is a strong consensus among the interviewees that the most effective way to deal with local matters is by using local staff.

Despite the desire to adapt to local practice through localising the workforce, language skills remain an important factor for many Chinese enterprises in the UK as they need at least some staff members to be able to liaise across borders both internally and with customers and suppliers.

In terms of people strategy, the majority of the entities have reported a combined approach. It appears that, compared to reward and progression, more companies are focussed on training and development, diversity and inclusion, and promoting corporate values.

Looking ahead, companies are most eager to see continued improvements in the following areas

Strengthen the stability, transparency, and openness of investment and trade policies

The stable and well regulated market, as well as its openness and fairness, has been a key beneficial factor valued by all companies we spoke to. However, many have also expressed concerns that this could be undermined by the recent and ongoing geopolitical tensions.

A fundamental ask they have is therefore for the UK market to maintain its existing stability, transparency and openness. They would welcome the continuation of the current balance of measures from the government.

Reduce trade barriers, including tariffs and import/export restrictions

Faced with the challenges of complex tax regimes, many companies we spoke to, particularly those involved in the trade of goods, have expressed a hope for simplified tax systems and reduced trade barriers.

A number of companies have said that the Freeports, which the UK government is considering in order to drive investment and create jobs after the end of the Brexit transition period, would provide them with exciting opportunities.

Freeports

Freeports, if set up, would be areas within the UK's land border where different customs rules would apply. Among other incentives, companies could import goods into a Freeport without paying tariffs.

In previous years, we greatly benefited from free trade zones in North America. In the longer term, we now see great potential in the UK and Europe as playing a key role in our drive to integrate our global trade networks. Freeports can potentially play a very positive role in this.

Executive Director, aviation fuel industry

We currently have to operate a bonded warehouse in order to manage the timing of tax payments. This adds to our cost of doing business in the UK. We don't have to do this in the Netherlands where the tax system is more friendly to importing activities. If the UK adopts Freeports, that will help solve the problem.

Spokesperson, a Chinese industrial equipment manufacturing company in the UK

Provide more incentives and infrastructure support for investment projects

A number of companies have compared the policy incentives for international investors in the UK to that in other countries, and highlighted that they felt that there is a lack of industry specific incentives in the UK.

Many companies have praised the Department for International Trade for their efforts in engaging with international investors, but have also wished for more to be done in facilitating the communication and mutual understanding between the Chinese business community and their counterparts in the UK as well as UK policy makers.

One policy area which has been welcomed, particularly by financial and real estate companies, is the policy for the environment and sustainability. They believe this aligns with their missions as businesses, and that this is an area which the UK and China can collaborate on, in turn creating exciting opportunities for businesses in both countries.

Provide more flexible visa policies for international talent

Entities surveyed would also like to see a change in the current visa policies, such that it is easier and less costly for companies to retain the talent they need and that there is more flexibility to bring in employees from China for short-term rotation or training purposes.

Green Policies

The UK is committed to achieving net zero carbon emissions by 2050. On 22 September 2020, when addressing the UN general assembly, President Xi Jinping also pledged that China would aim to become carbon neutral by 2060. Companies are looking forward to increasing opportunities for the two countries to work together towards these common goals.

In the financial sector, Chinese banks have issued 5 green bonds in London since October 2015, more than anywhere else outside China. These green bonds had a total value of 4.38bn USD, representing 26.2% of all Chinese green bonds issued overseas.

“

The UK government’s policy measures to encourage investment in renewable energy storage would have a positive impact on our green finance initiative.

Ruixiang Han, General Manager, ICBC London Branch

“

We are a leading player in the green building and carbon neutral building space in China, with extensive project experience and technical expertise to share. We are excited about leveraging our cutting edge offerings in this area to serve our customers in the UK.

Taotao Song, CEO, Greenland (UK) Investment Limited

A Focus on Building Core Capabilities

While voicing their opinions on potential areas of improvement for the UK's business environment, the overwhelming consensus among all our survey interviewees was the focus on strengthening their own core capabilities. They believe it is more important to focus on internal improvement than to wish for a more favourable external environment

One driver for this consensus is that many of the areas for improvement identified by our survey interviewees could be mitigated, at least to an extent, by efforts initiated at an entity level.

For example, to address the challenges stemming from differences in language, culture, business and other practices, all companies we spoke to recognised the importance of communication, integration and localisation, and have put in measures to address this.

Companies who highlighted the challenges posed by the complex compliance regime have acted accordingly to improve their understanding of and ability to meet compliance requirements, often with the help of professional consultants. Those who are faced with fierce competition have adapted their market approach to improve their competitive position.

Another driver for this consensus is the confidence of the interviewees that the UK business community has the wisdom to take a pragmatic approach towards dealing with their Chinese counterparts, despite geopolitical challenges.

"Commercial pragmatism" is the most repeated phrase by all of our interviewees. They believe that, if they could focus on the quality of their products and services, enhance their corporate governance, strengthening their networks with the wider UK stakeholders, promote local innovations and develop local talent, then they will be able to continue creating business and economic value in the UK market.

APPENDIX:

Full Survey Questions and Responses

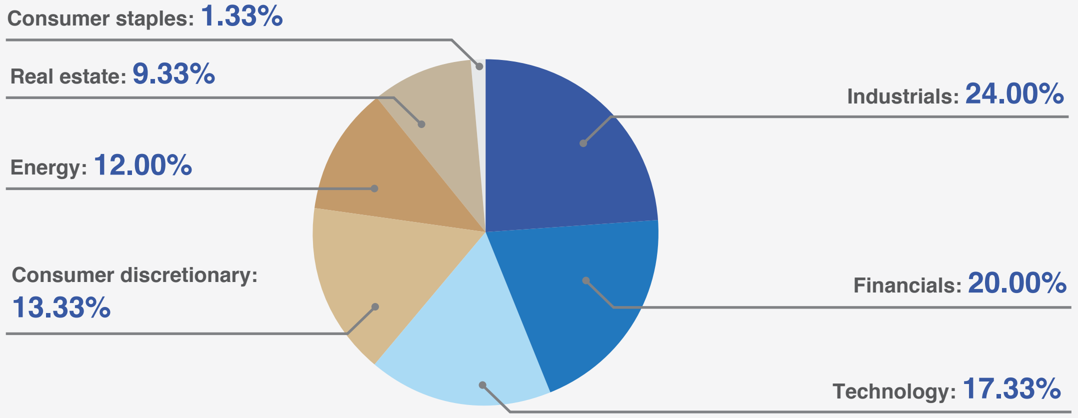
Note:

Survey data presented below shows the situation of entities surveyed, and is not intended to represent the overall situation of all Chinese enterprises in the UK.

Questions 1 and 2 contain confidential data from which survey respondents may be identifiable and are therefore not presented below.

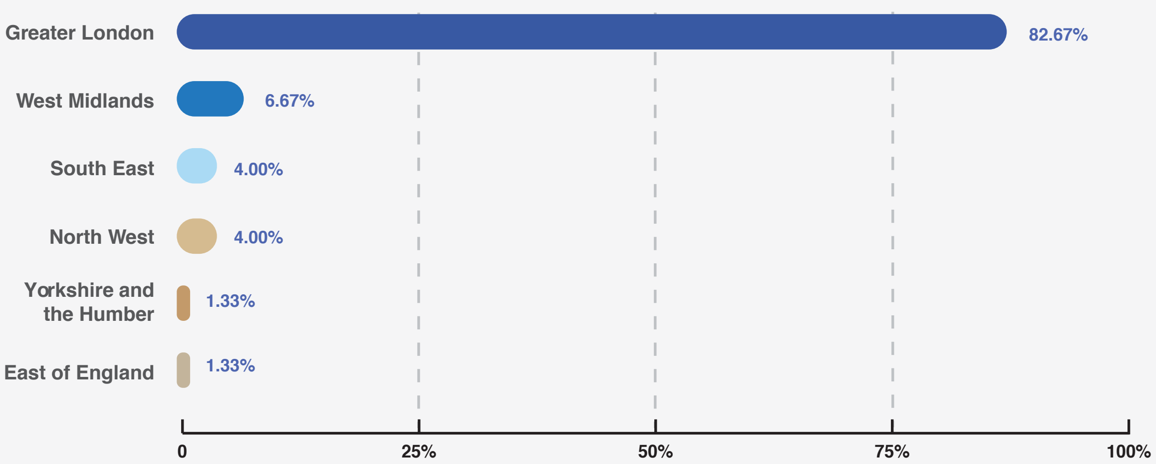
QUESTION 3

- **Which industry does your UK company mainly operate in?**



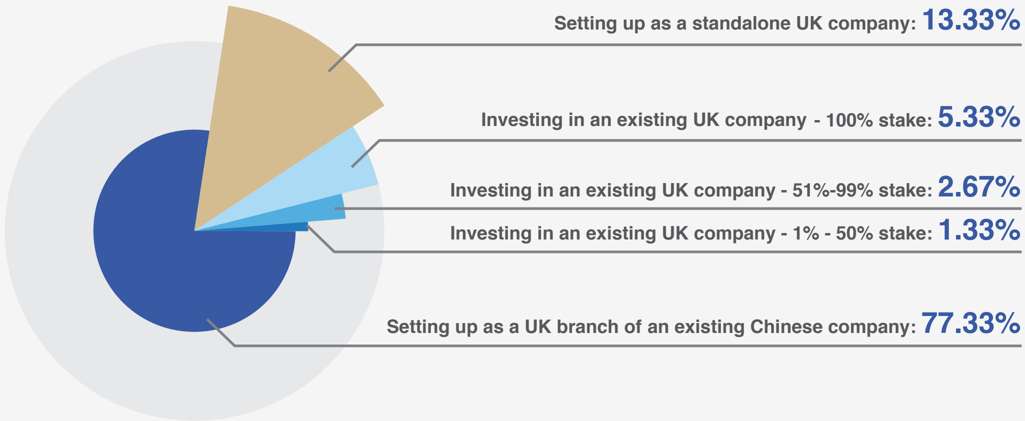
QUESTION 4

- **Where are your UK headquarters located?**



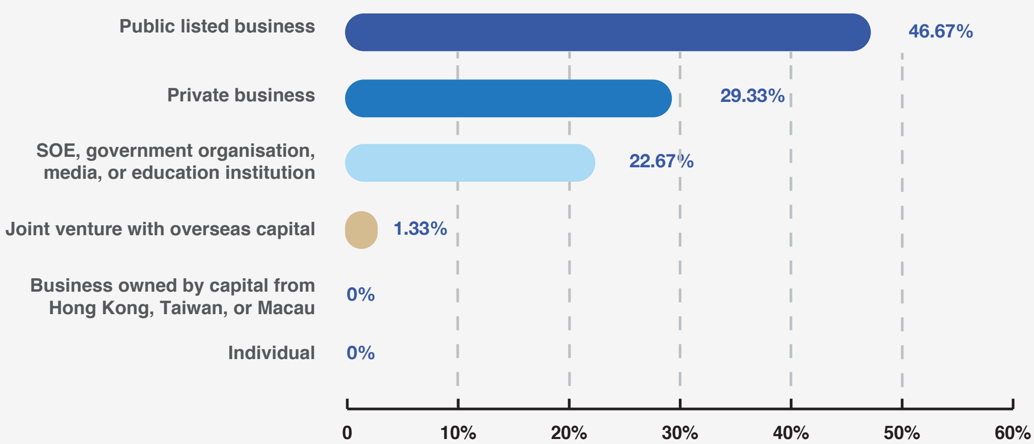
QUESTION 5

- Which of the following best describes how your UK presence was established?



QUESTION 6

- Which of the following best describes the nature of your Chinese parent entity?

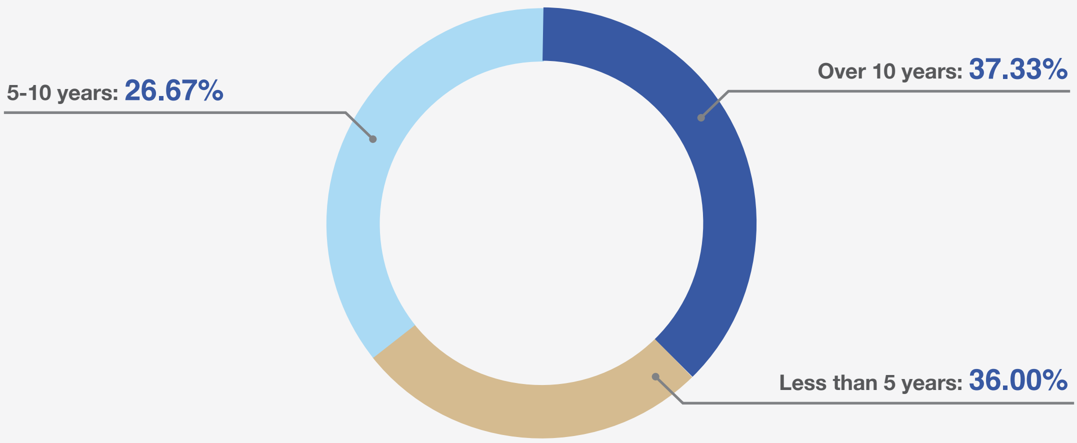


QUESTION 7

- Is your Chinese parent company/group an investment organisation?

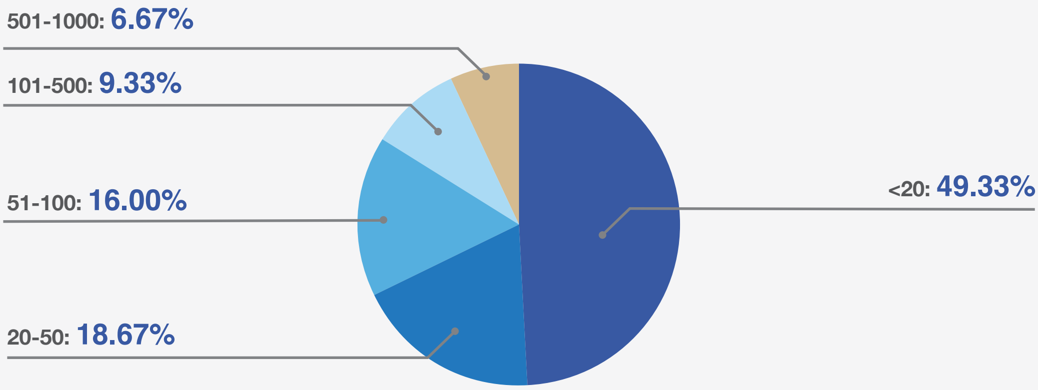
QUESTION 8

- How long have you been operating in the UK?



QUESTION 9

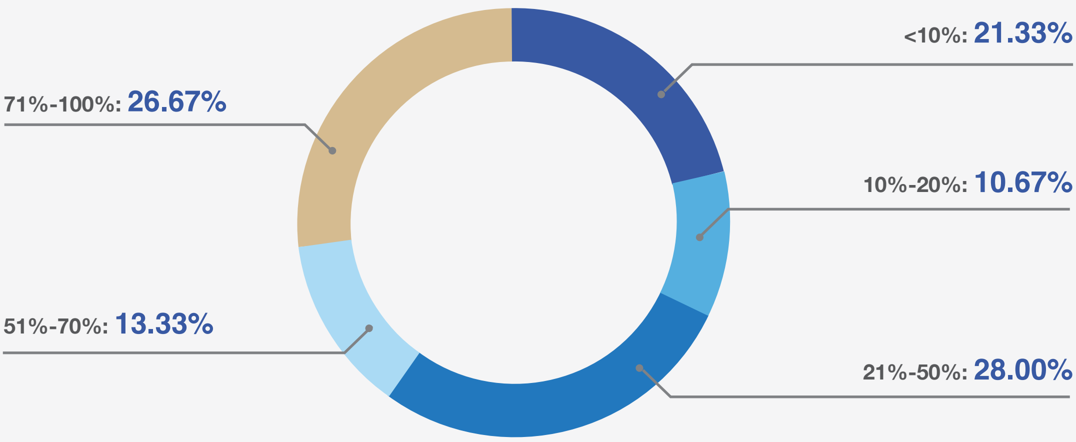
- **How many employees does your UK business have?**



Note: This chart shows that none of the entities surveyed had over 1000 employees, rather than that none of the Chinese companies in the UK have over 1000 employees.

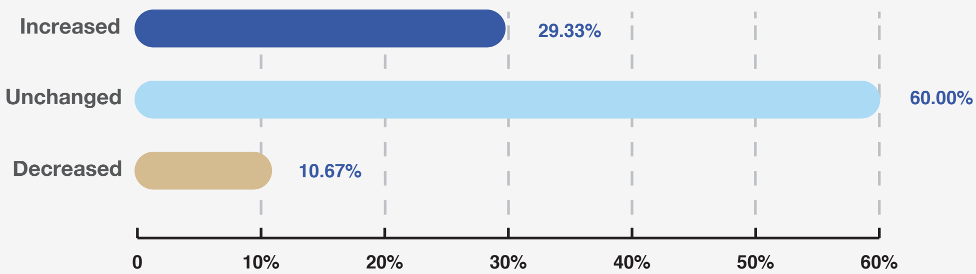
QUESTION 10

- **Approximately what percentage of your employees identify as Chinese (e.g. with Chinese nationality or ethnicity)?**



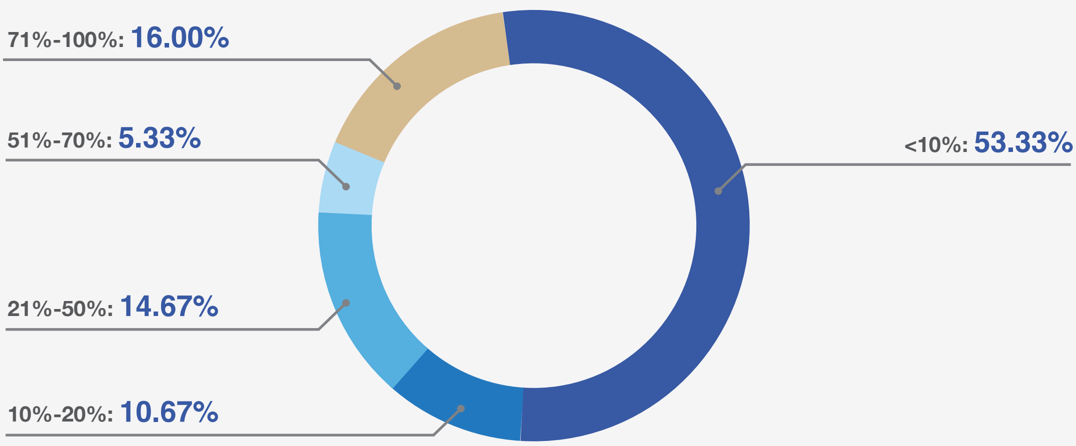
QUESTION 11

- How has this changed over the past two years?



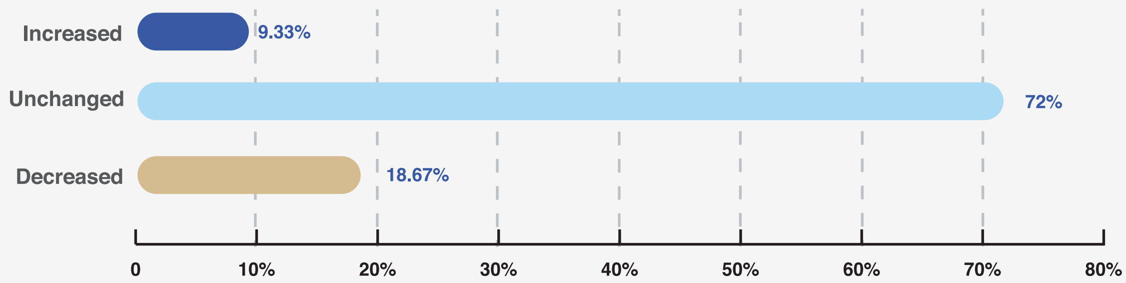
QUESTION 12

- Of your Chinese employees, approximately what percentage are expats from China?



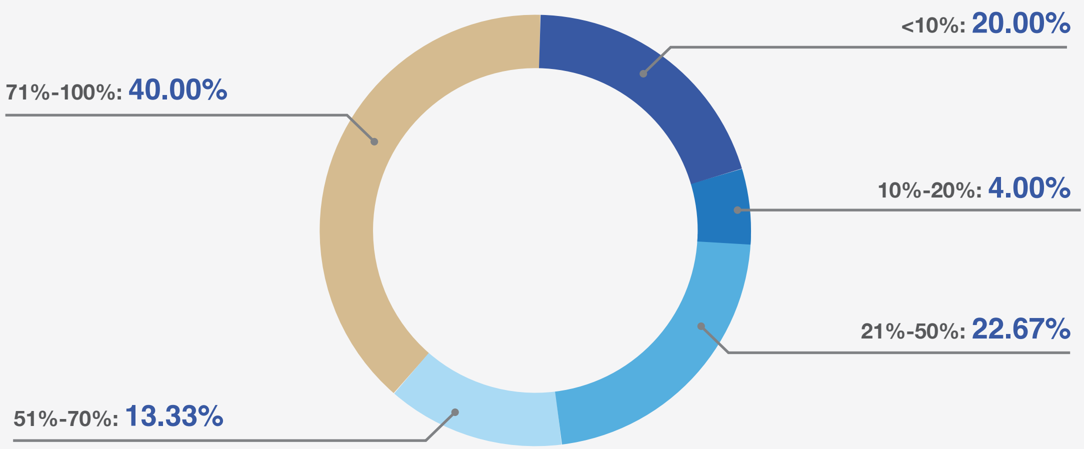
QUESTION 13

- How has this changed over the past two years?



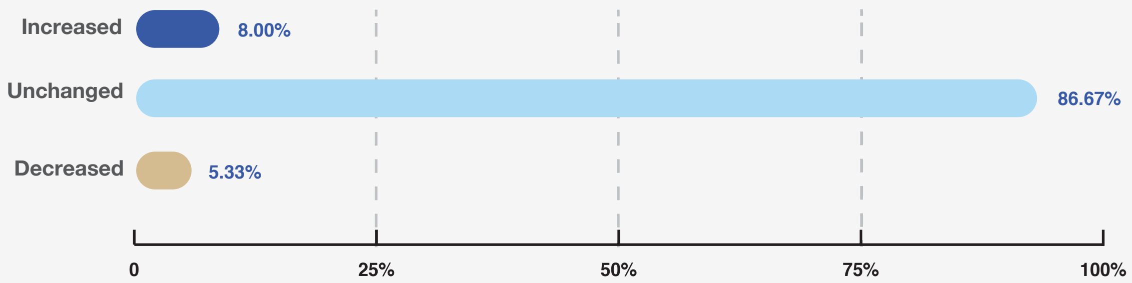
QUESTION 14

- Approximately what percentage of your senior management team identify themselves as Chinese (e.g. with Chinese nationality or ethnicity) ?



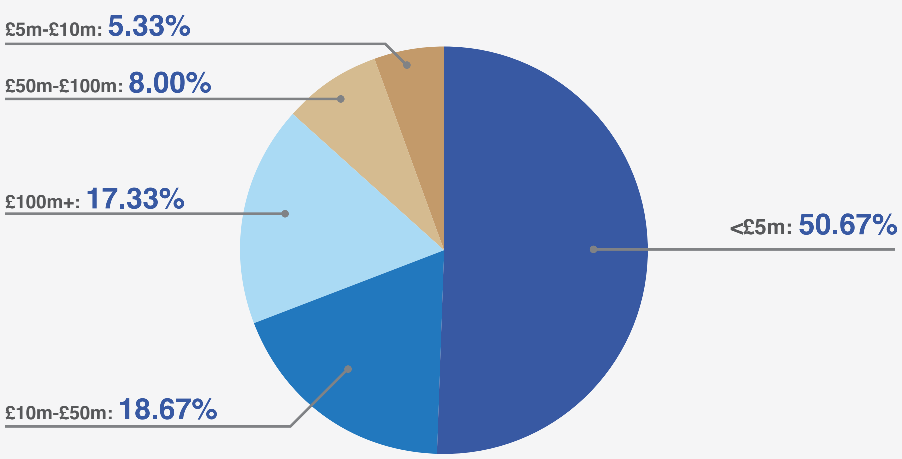
QUESTION 15

- How has this changed over the past two years?



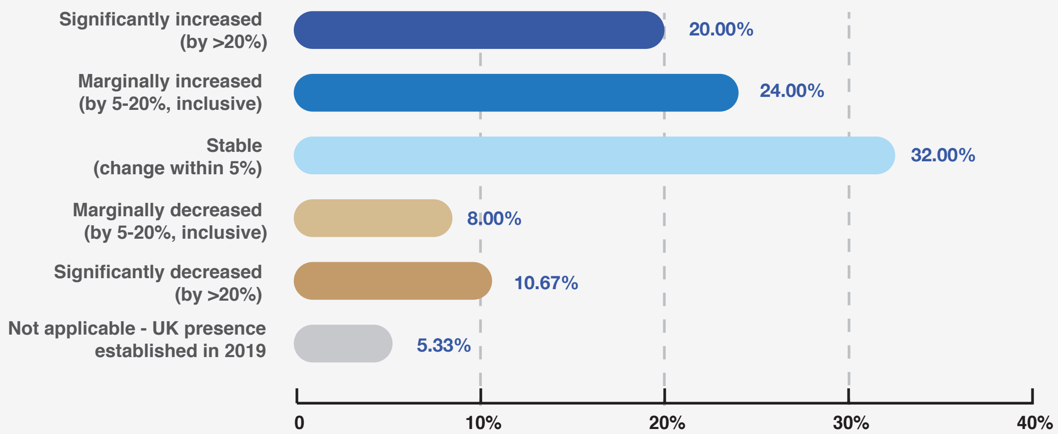
QUESTION 16

- What was your company's annual UK revenue in 2019?



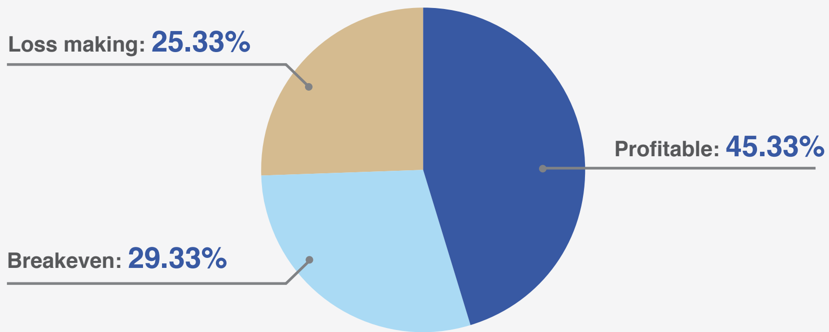
QUESTION 17

- How has your UK revenue changed compared to 2018?



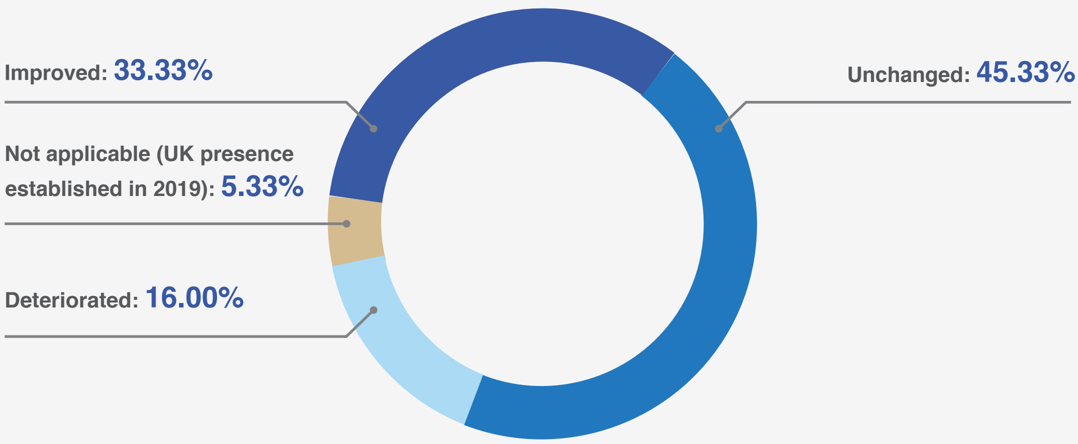
QUESTION 18

- Which of the following best describes your company's profitability in the UK in 2019?



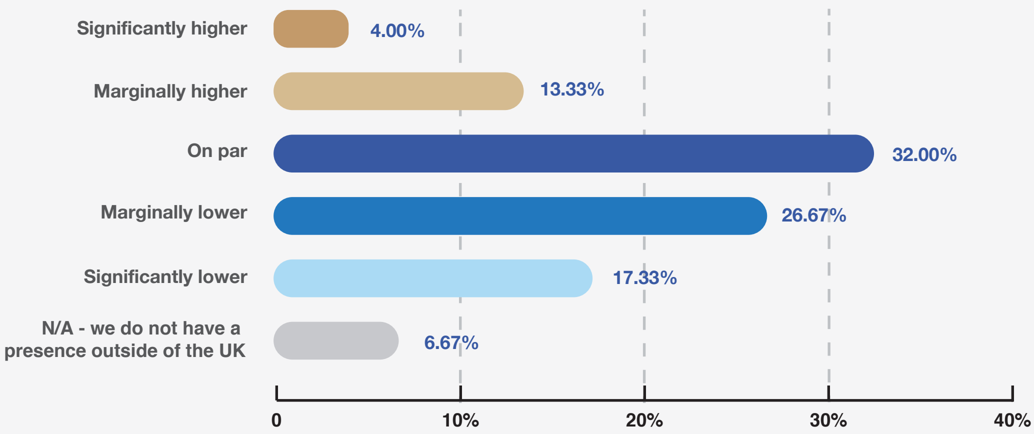
QUESTION 19

- **Which of the following best describes your company's profitability in the UK in 2019 compared to 2018?**



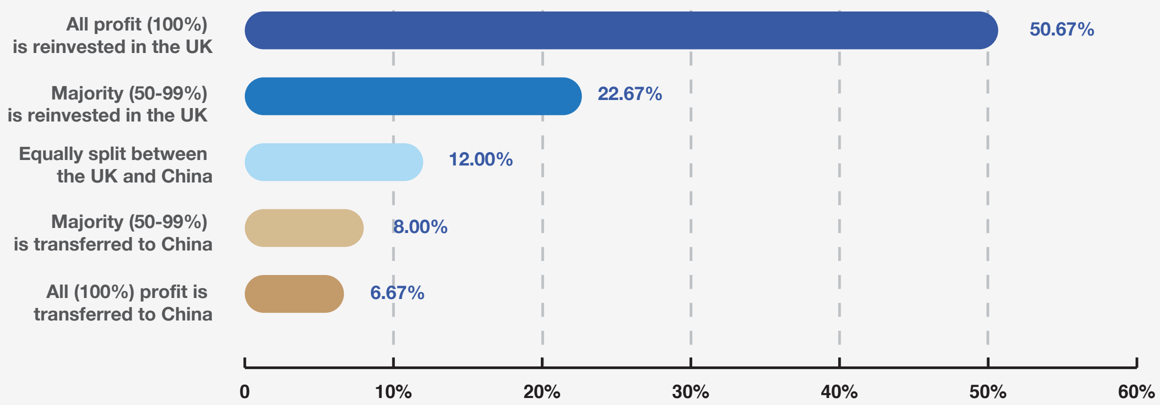
QUESTION 20

- **Which of the following best describes your company's profitability in the UK in 2019 compared to your global profitability in the same period?**



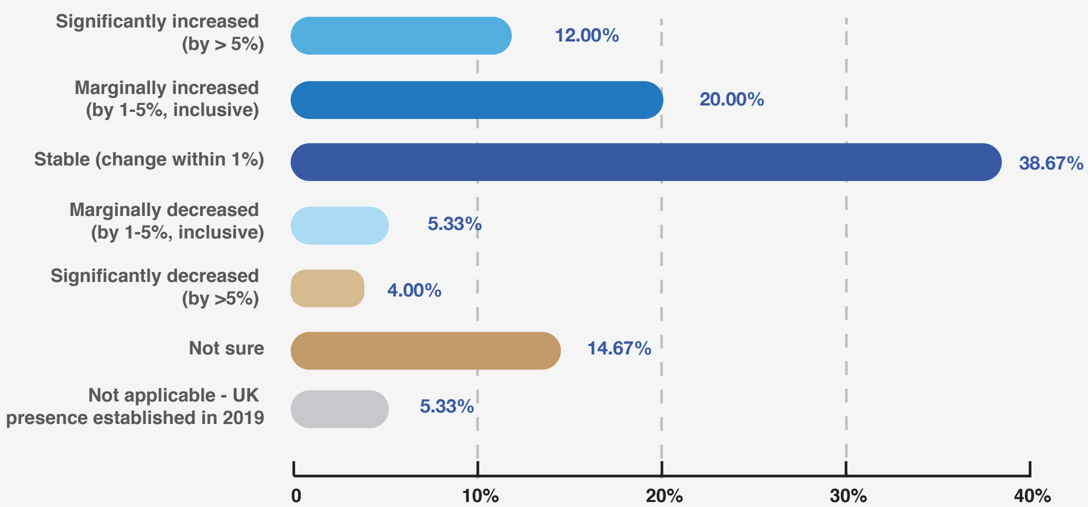
QUESTION 21

How is the profit generated by your UK business used?



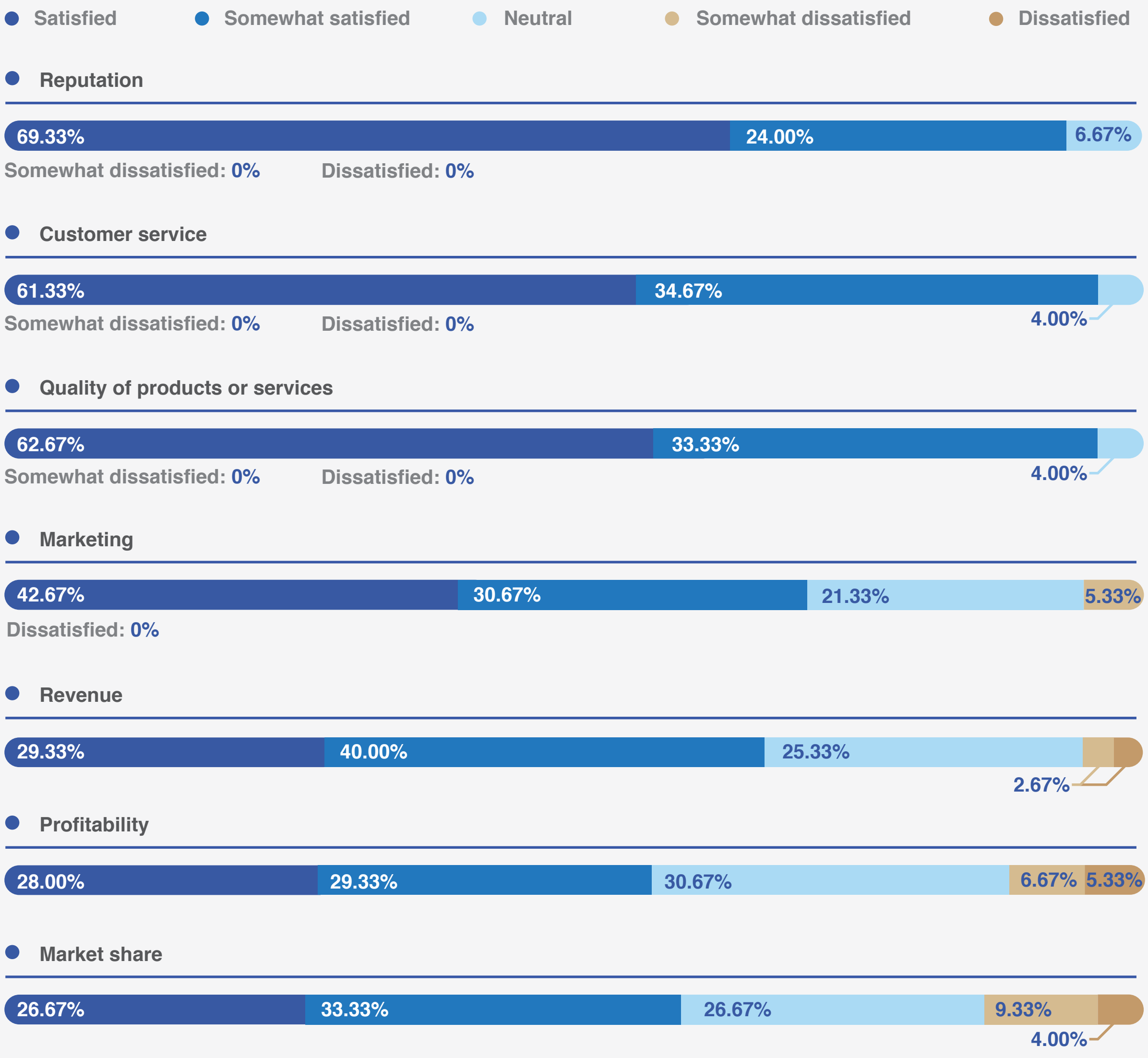
QUESTION 22

Which of the following best describes your company's market share in the UK in 2019 compared to 2018?



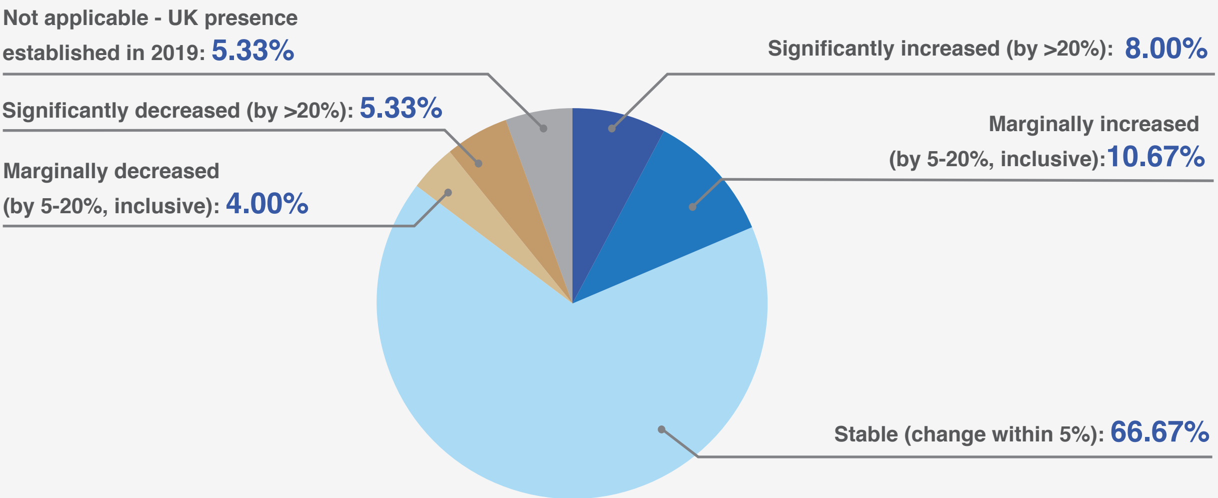
QUESTION 23

- **How satisfied are you with your company's performance in the following areas in 2019, compared to your competitors?**



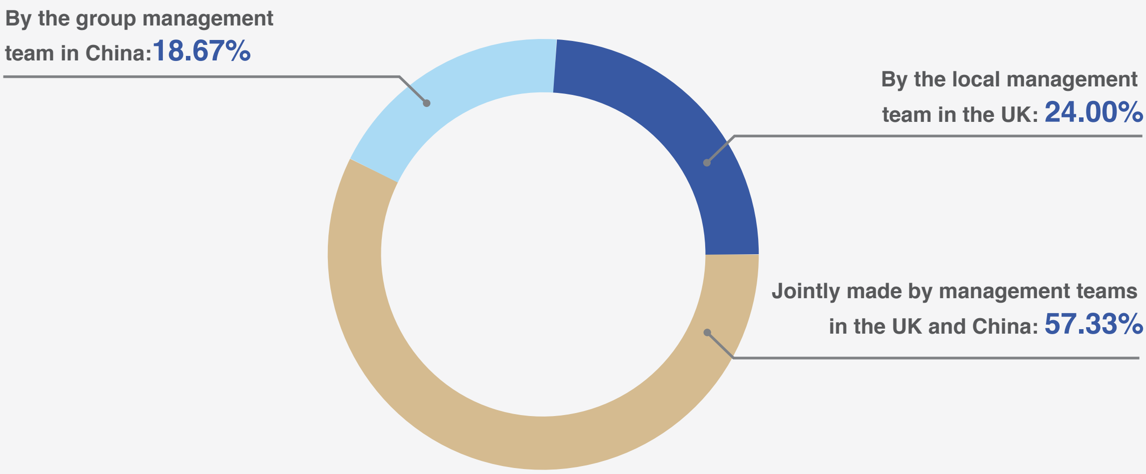
QUESTION 24

- **Which of the following best describes your company's capital expenditure / investment in the UK in 2019 compared to 2018?**



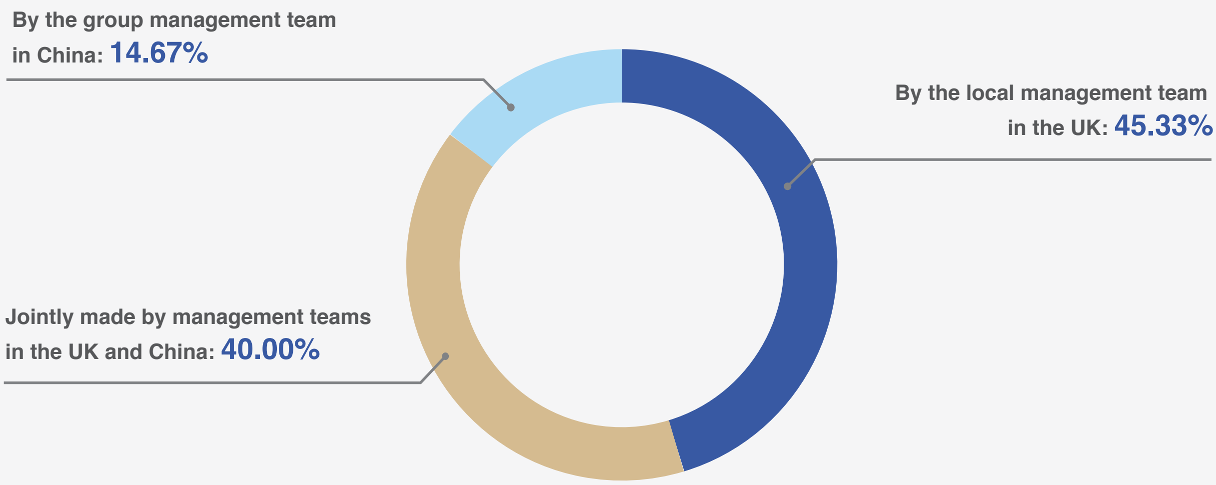
QUESTION 25

- **Regarding your UK business, who makes the key strategic decisions and where are they made?**



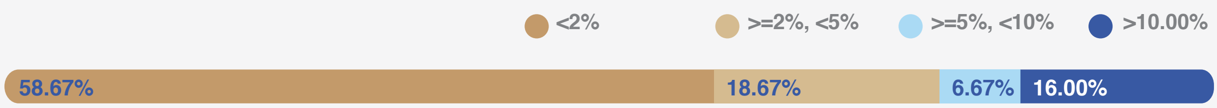
QUESTION 26

- **Regarding your UK business, who makes the key operational decisions and where are they made?**



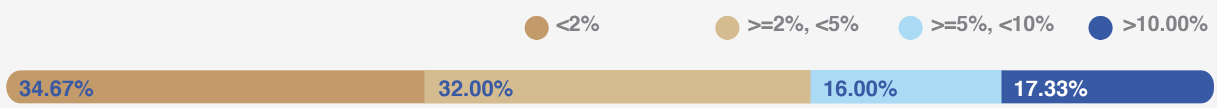
QUESTION 27

- **What was your Corporation Tax charge as a percentage of your Turnover in 2019?**



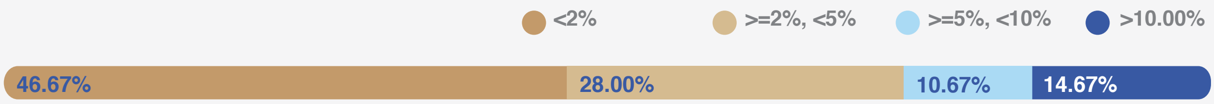
QUESTION 28

- **What was your PAYE National Insurance charge as a percentage of your Turnover in 2019?**



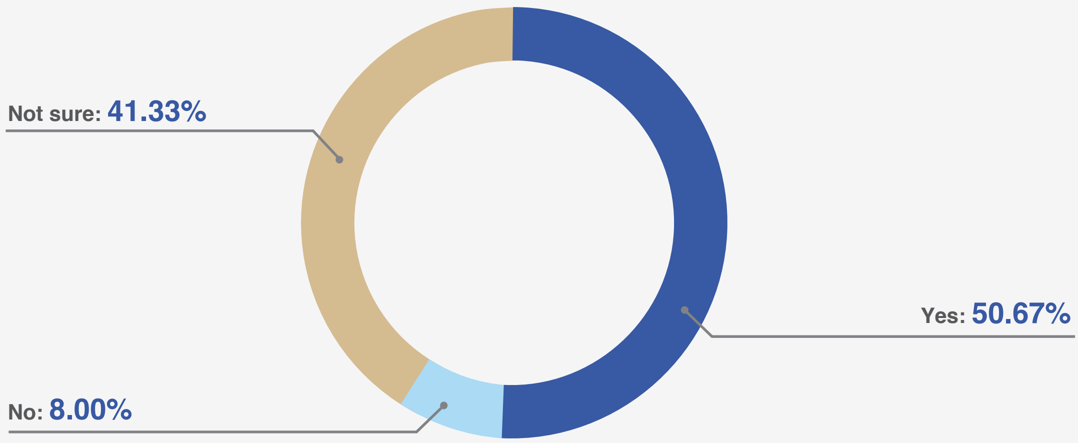
QUESTION 29

- What was your Other Taxes charge as a percentage of your Turnover in 2019?



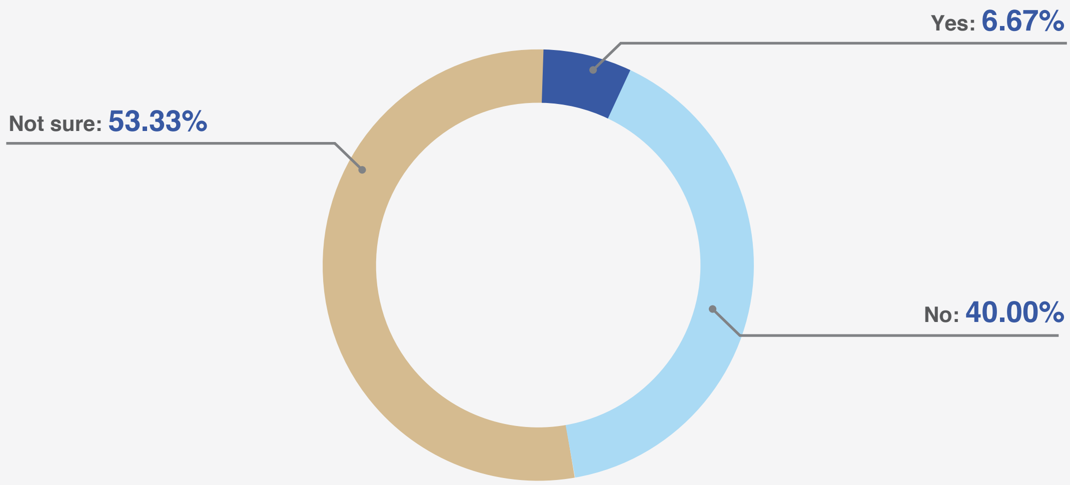
QUESTION 30

- Does your company plan to make further investment in your existing UK presence in the next two years?



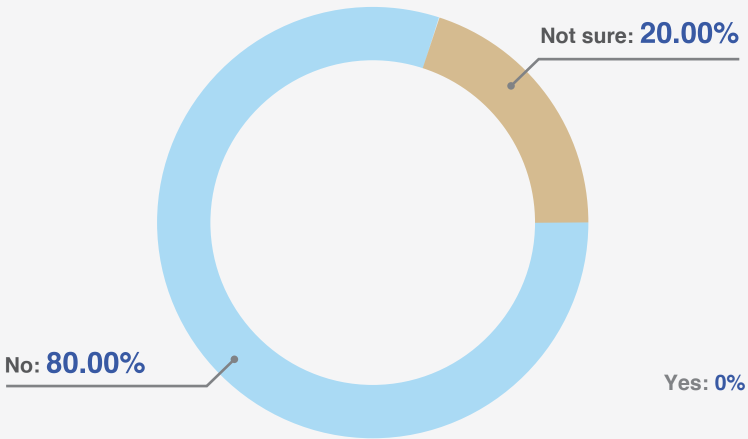
QUESTION 31

- Does your company plan to make acquisitions in the UK in the next two years?



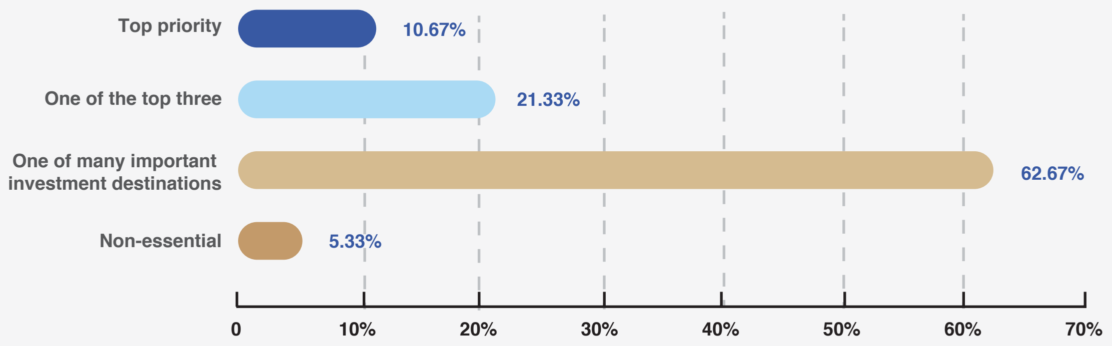
QUESTION 32

- Does your company plan to divest from the UK in the next two years?



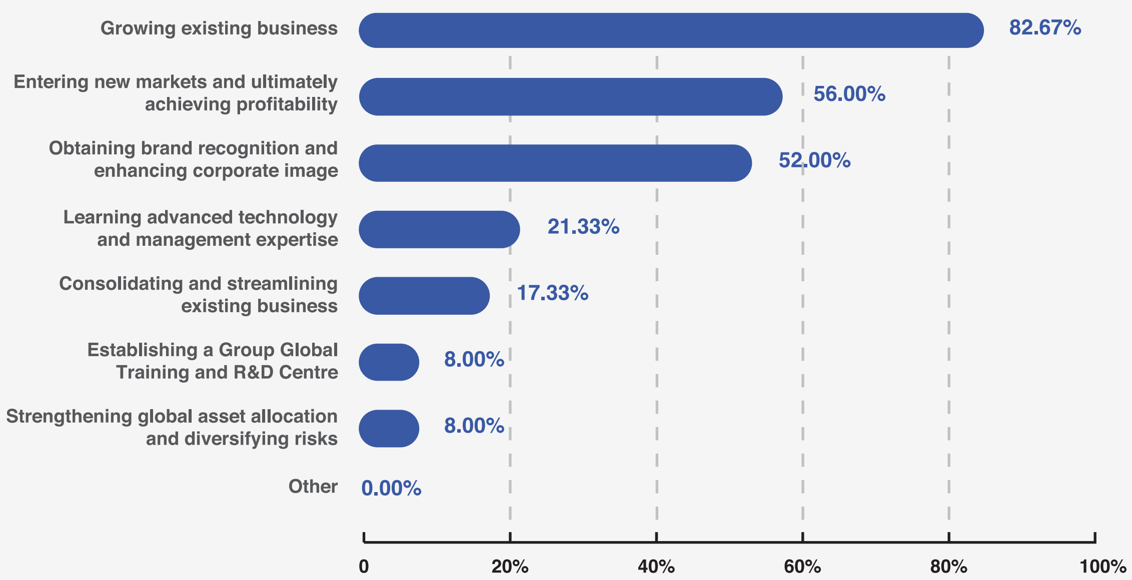
QUESTION 33

- How important is the UK market in your company's global landscape?

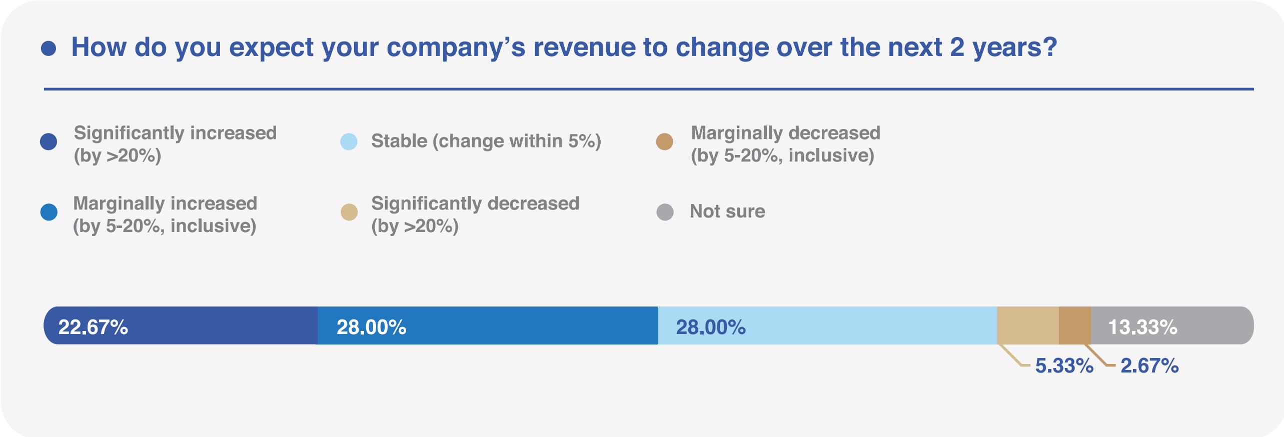


QUESTION 34

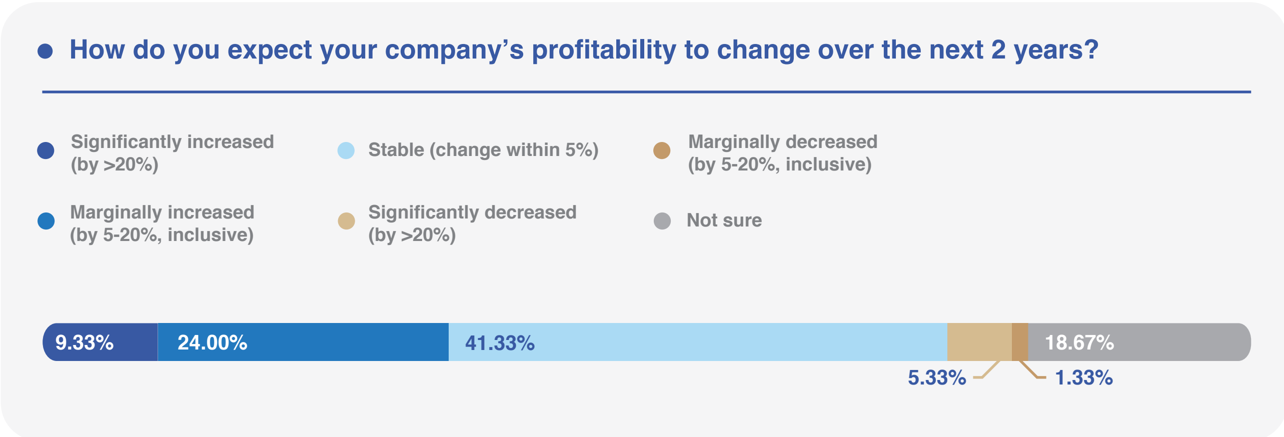
What are your company's key objectives / development focus in the UK over the next two years? (Respondents may choose up to 3 choices)



QUESTION 35

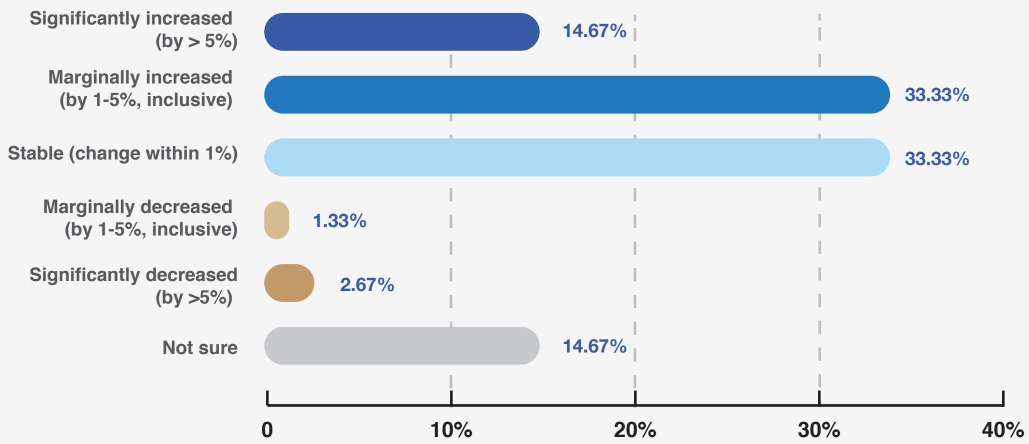


QUESTION 36



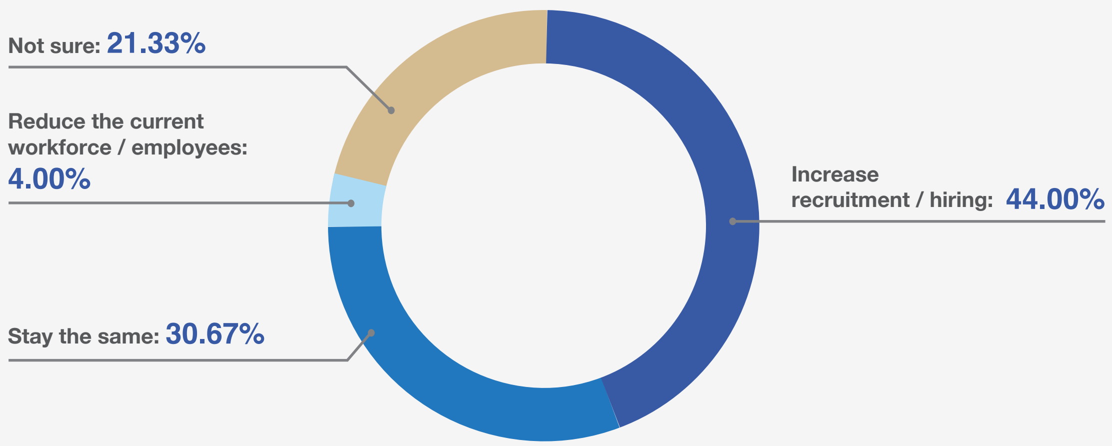
QUESTION 37

- **How do you expect your company's market share to change over the next 2 years?**



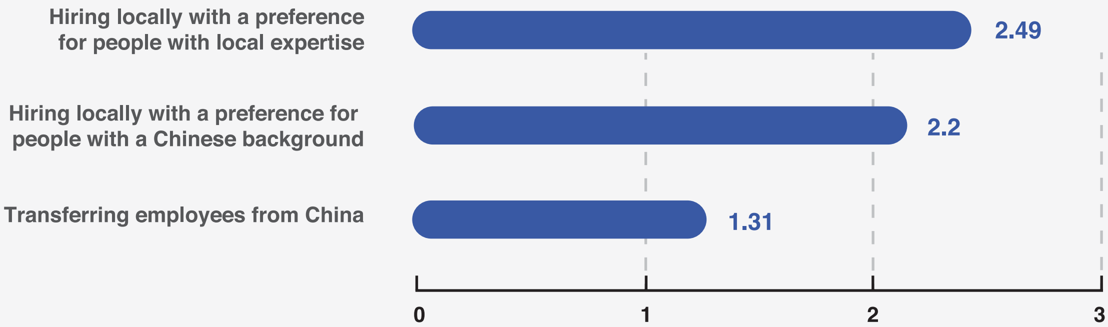
QUESTION 38

- **How will your company adjust its total headcount in the UK over the next two years?**



QUESTION 39

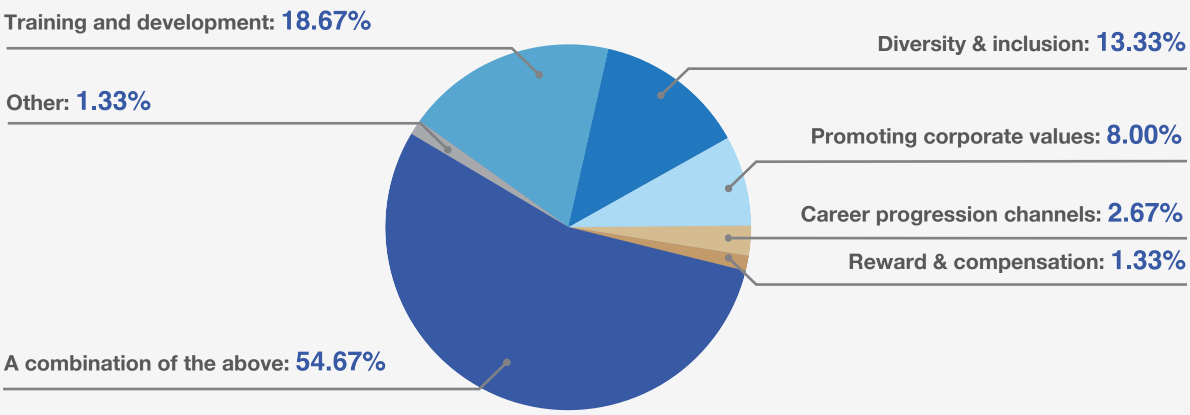
- What will be your preferred route of recruitment? (Please order the following options from most favourite to least favourite by ranking 1 to 3)



Note: Rankings are scored in reverse order, i.e. a 1st ranking scores 3 points, 2nd ranking 2 points, and 3rd ranking 1 point. The final score given to each option is calculated as the weighted average of all ranking-driven scores given by the survey respondents to that option.

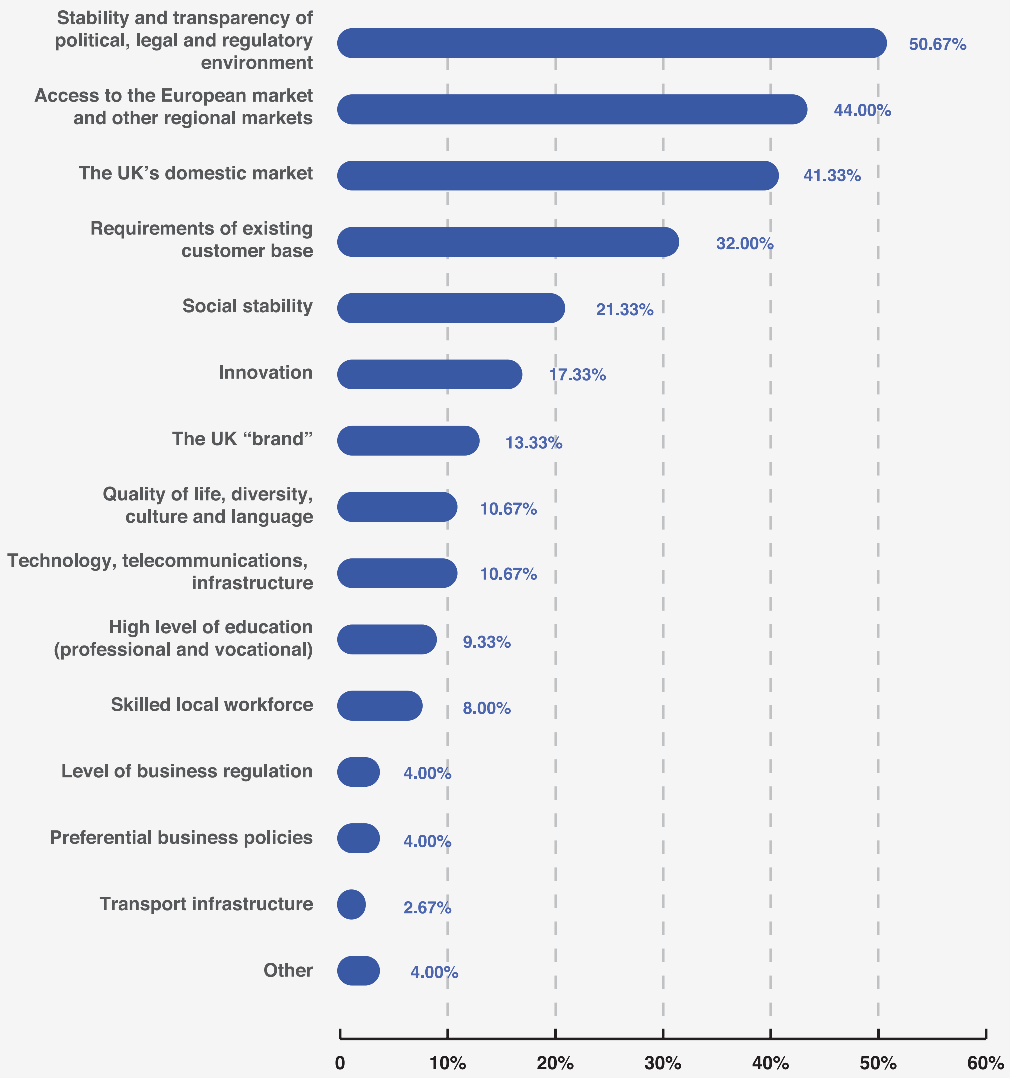
QUESTION 40

- What is the main focus of your people strategy over the next two years?



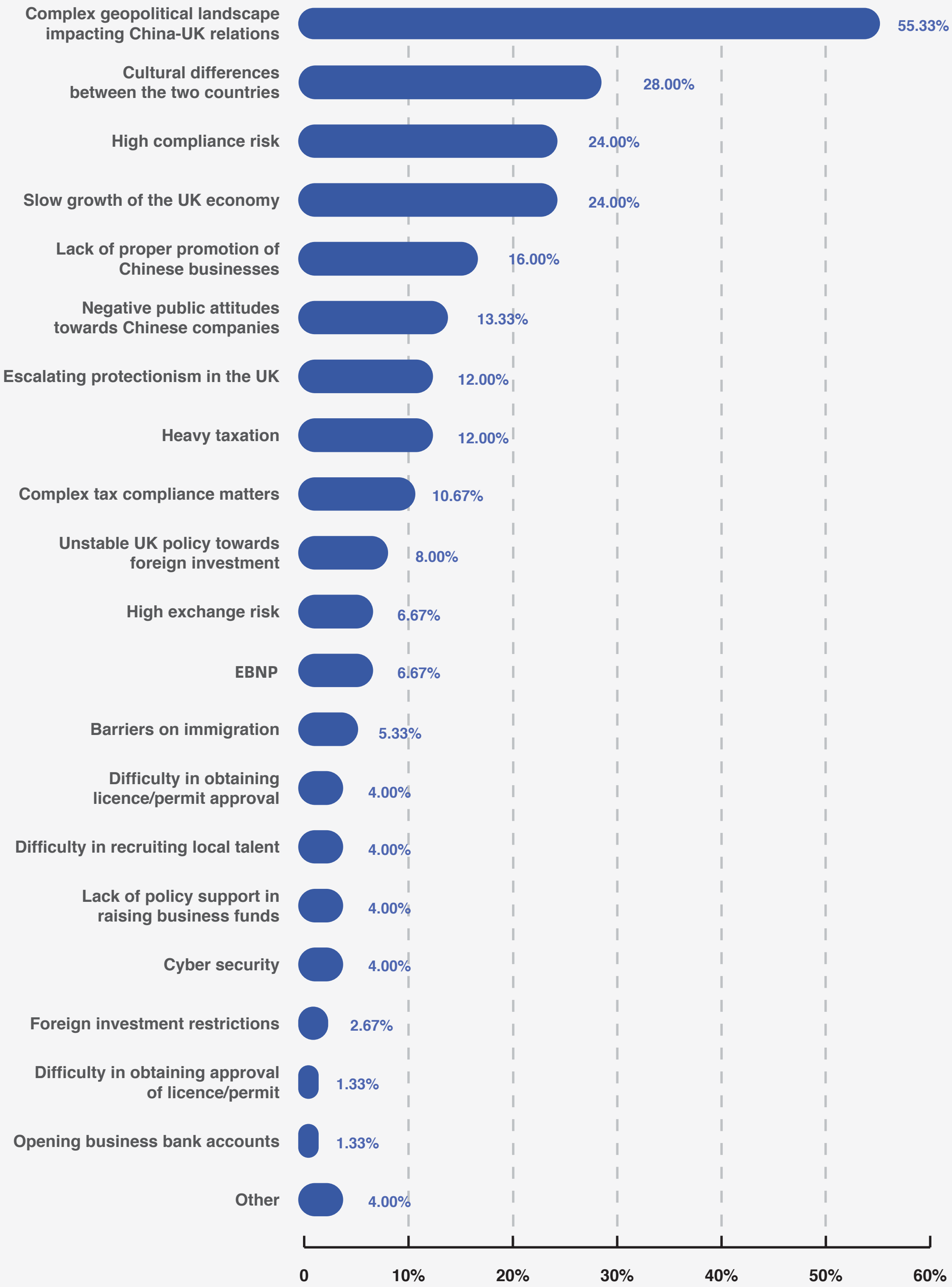
QUESTION 41

- What attracted you to invest in the UK? (Respondents may choose up to 3 choices)



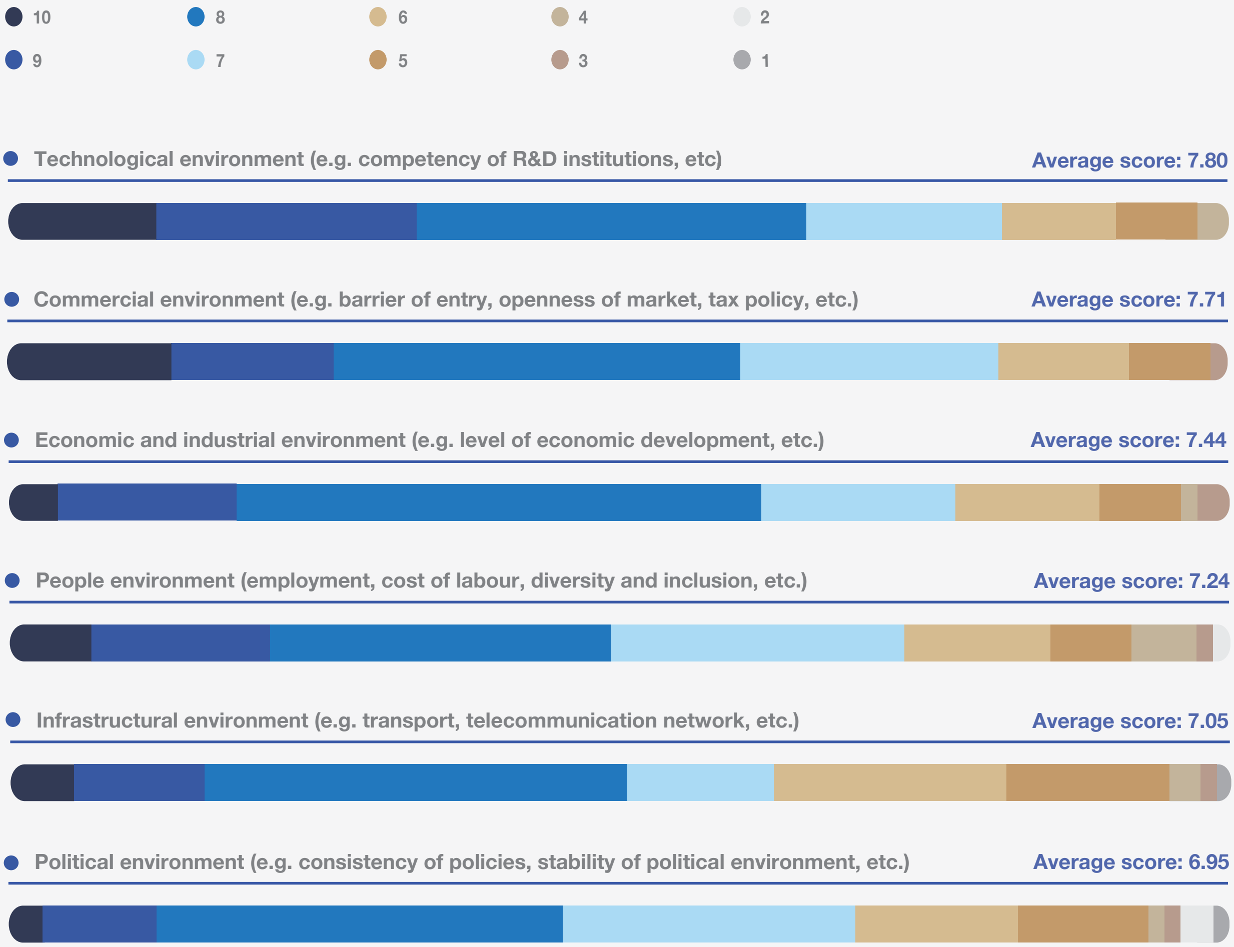
QUESTION 42

- **Which do you see as the greatest challenges in conducting business in the UK? (Respondents may choose up to 3 choices)**



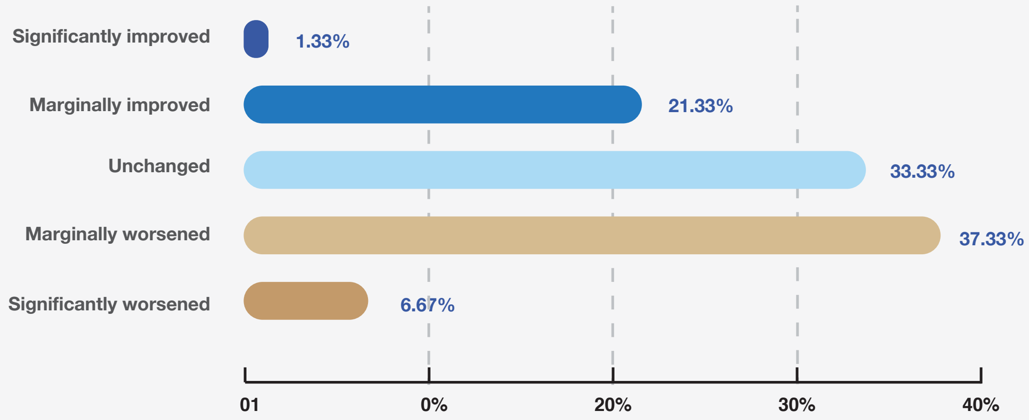
QUESTION 43

- How would you rate the business environment in the UK? (1 being dissatisfied, 10 being very satisfied)



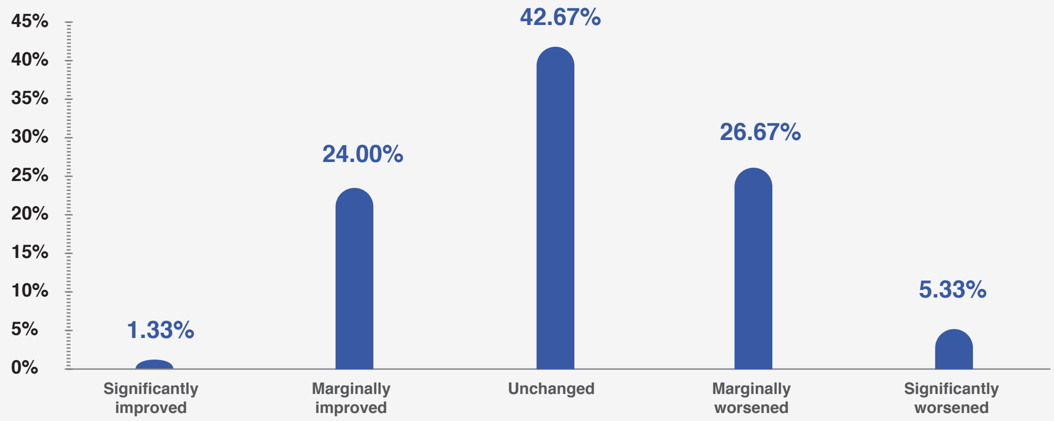
QUESTION 44

- What is your overall impression of how the UK business environment (as defined in question 43) has changed over the past 2 years?



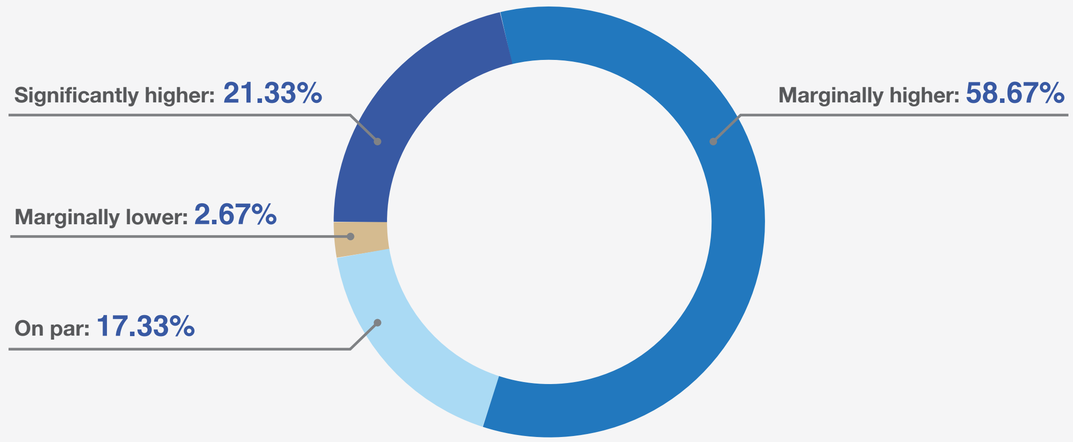
QUESTION 45

- What is your forecast for the UK business environment (as defined in question 43) over the next 2 years?



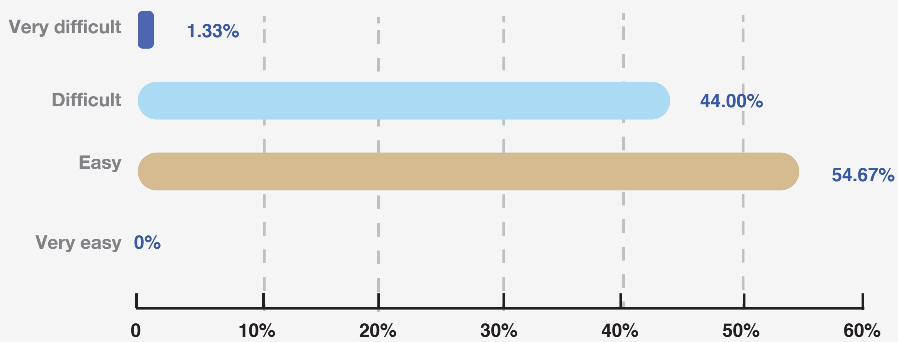
QUESTION 46

- **How do UK industry standards compare with those in China?**



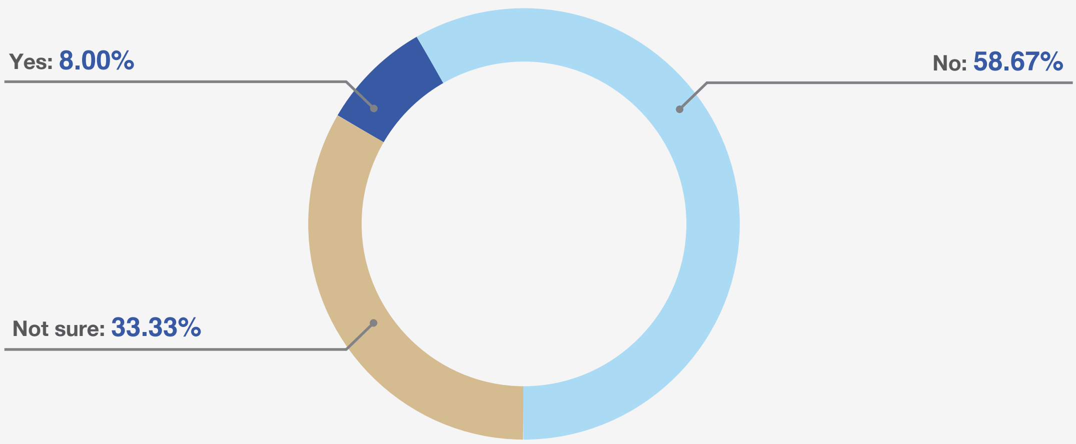
QUESTION 47

- **How easy is it to navigate through the UK system as a foreign investor?**



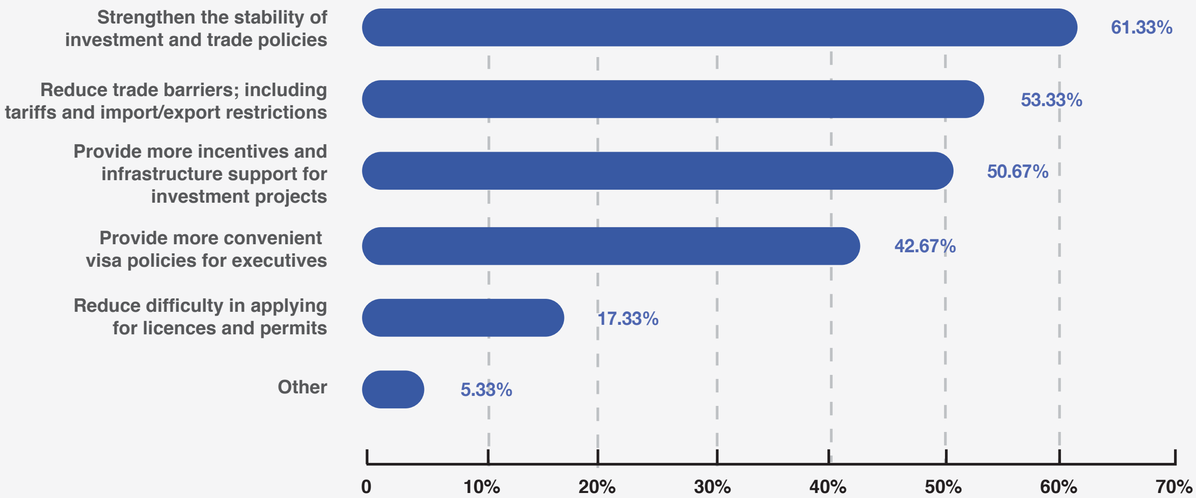
QUESTION 48

- **Have you encountered discriminatory treatment in your business activities in the UK? (For example: through boycotts, targeted policies, etc.)**



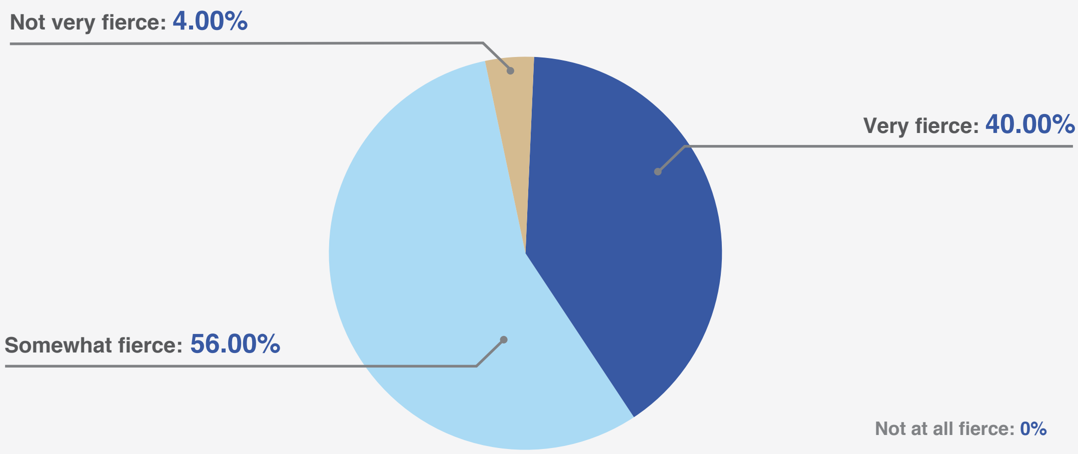
QUESTION 49

- **Which of the following actions could the UK government take to help improve the business environment in the next 2 years? (Respondents may choose up to 3 choices)**



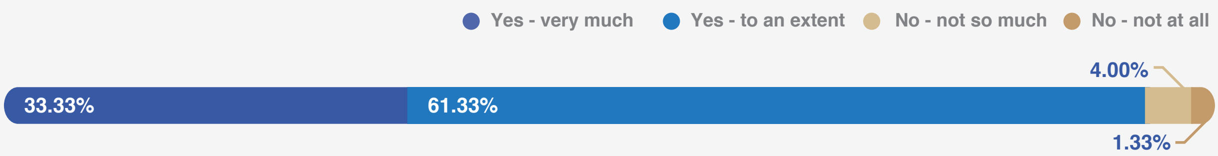
QUESTION 50

- **How fierce is the competition in your industry in the UK?**



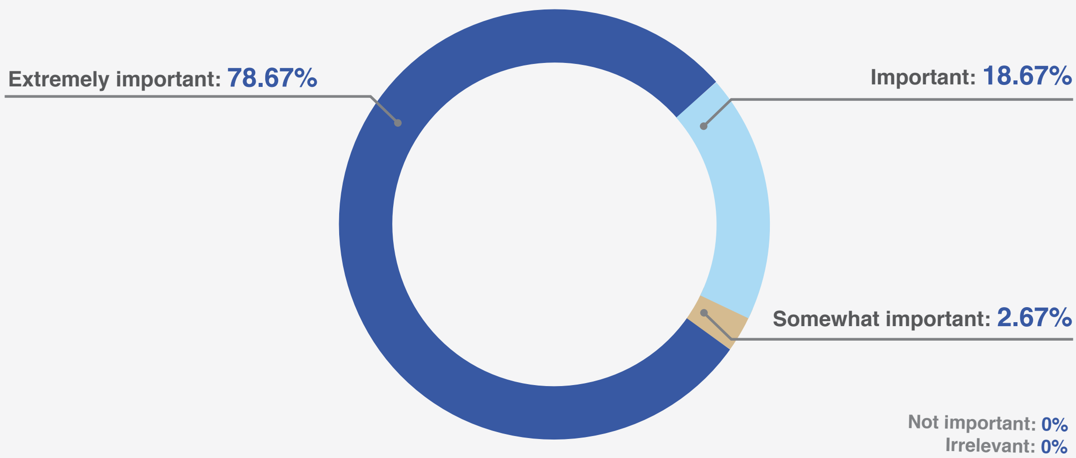
QUESTION 51

- **Does the UK business environment encourage competition?**



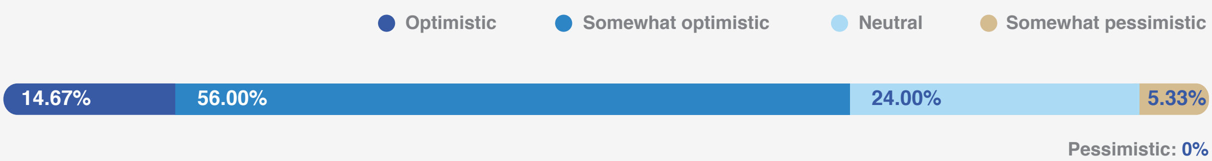
QUESTION 52

- **How important is a stable and healthy China-UK relationship to your company's business in the UK?**



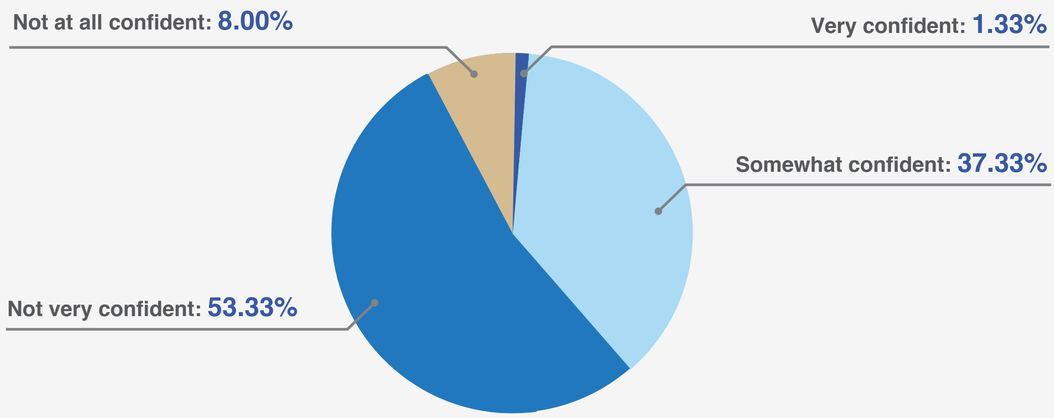
QUESTION 53

- **How do you feel about the future of China-UK relations?**



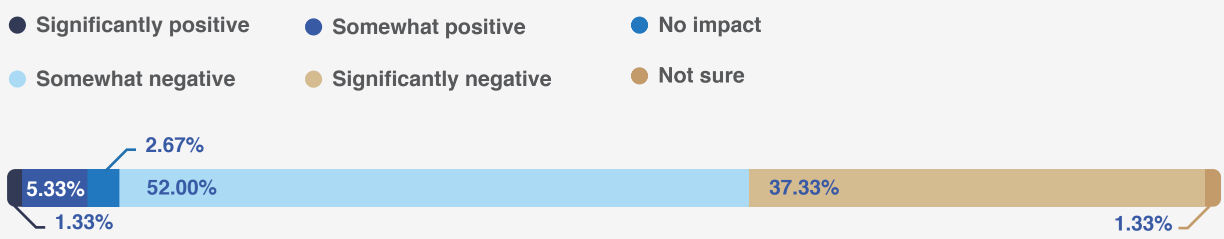
QUESTION 54

- How confident are you in the UK government's response to COVID-19? (For example: in macro-economic and social terms, and support towards businesses)



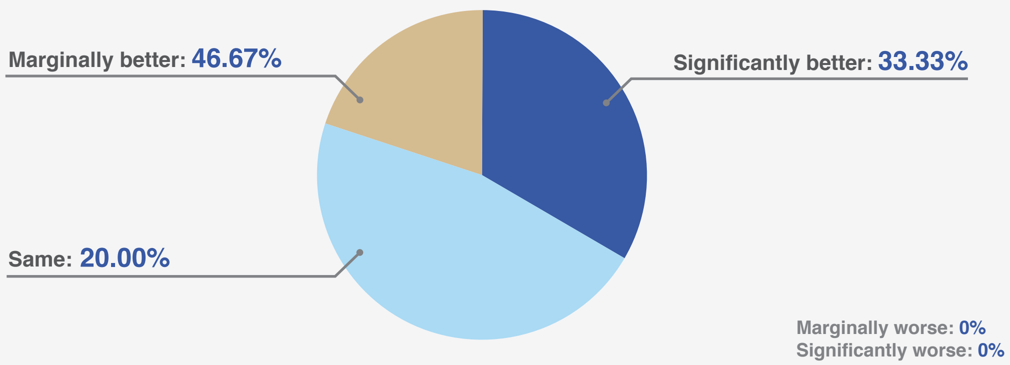
QUESTION 55

- How would you describe the impact of COVID-19 on your UK business?



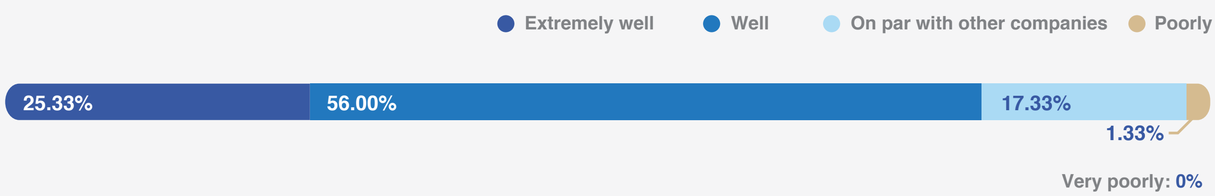
QUESTION 56

- How well has your company responded to COVID-19 compared to other UK companies?



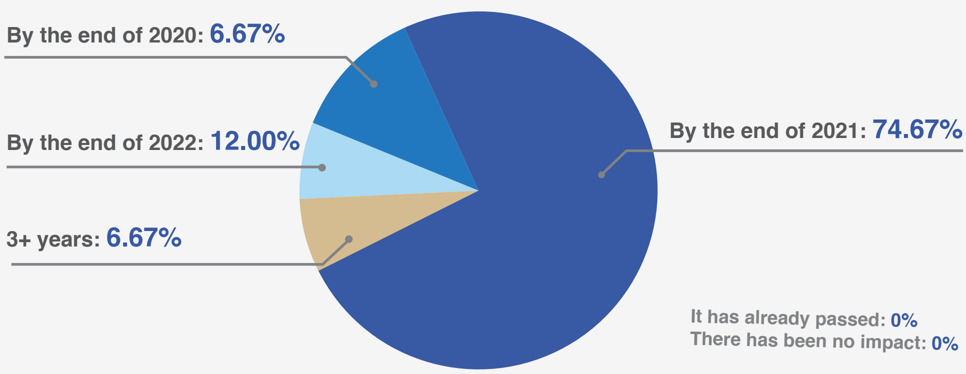
QUESTION 57

- How well has your company prepared for the prospect of a second locdown or further restrictions being imposed?



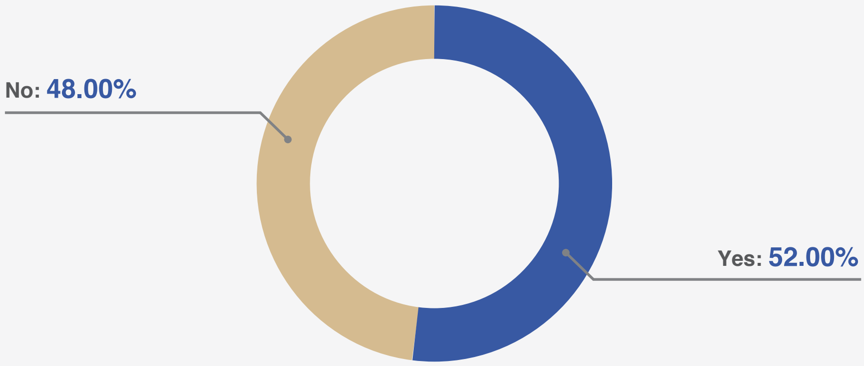
QUESTION 58

- How long do you think the COVID-19 impact will last?



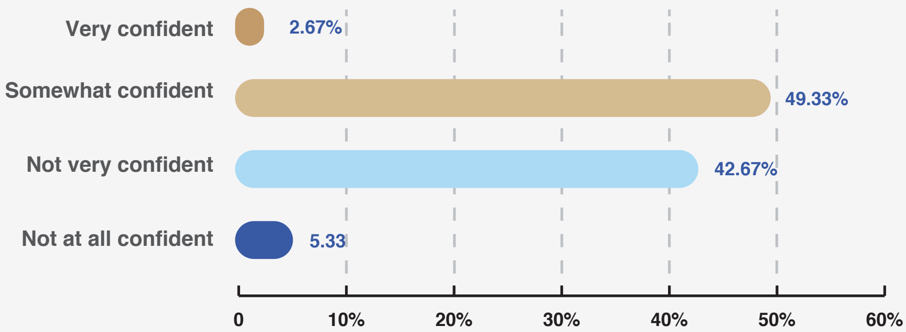
QUESTION 59

- In the case of a further national lockdown, would it further extend the amount of time your company will take to recover?



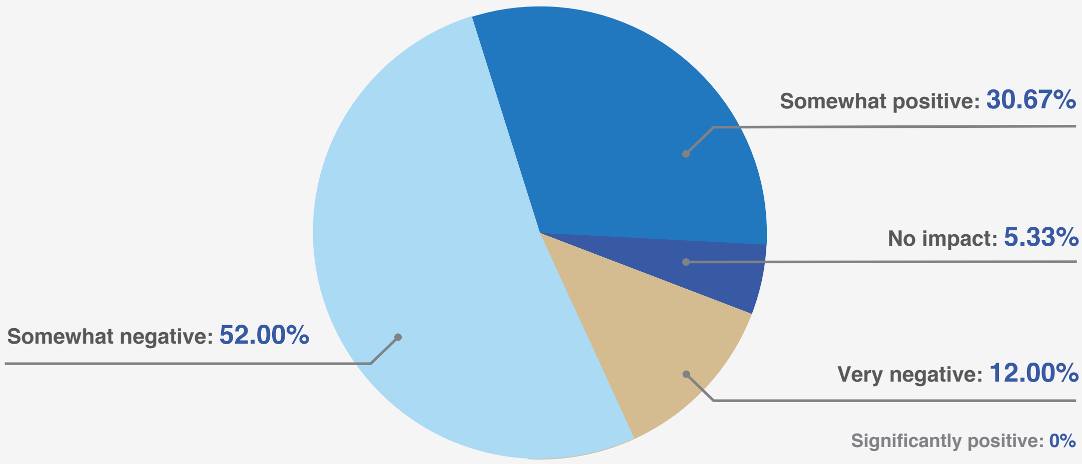
QUESTION 60

- How confident are you in the UK government's handling of Brexit? (For example, in terms of preparation for the Brexit outcome, access to information and advice, clarity etc.)



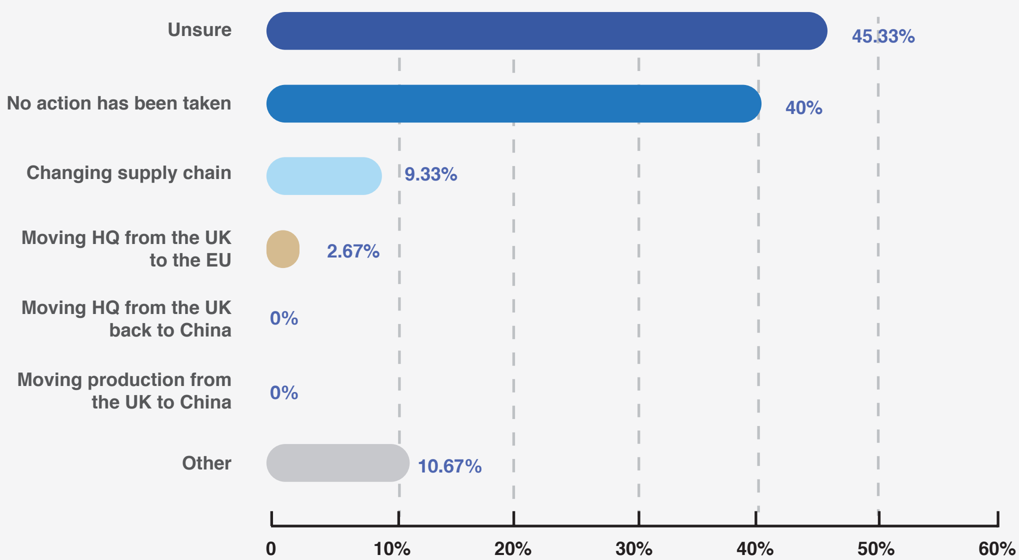
QUESTION 61

- **How would your company be impacted by a no-deal Brexit? (For example, in terms of production and service costs, investment policies, etc.)**



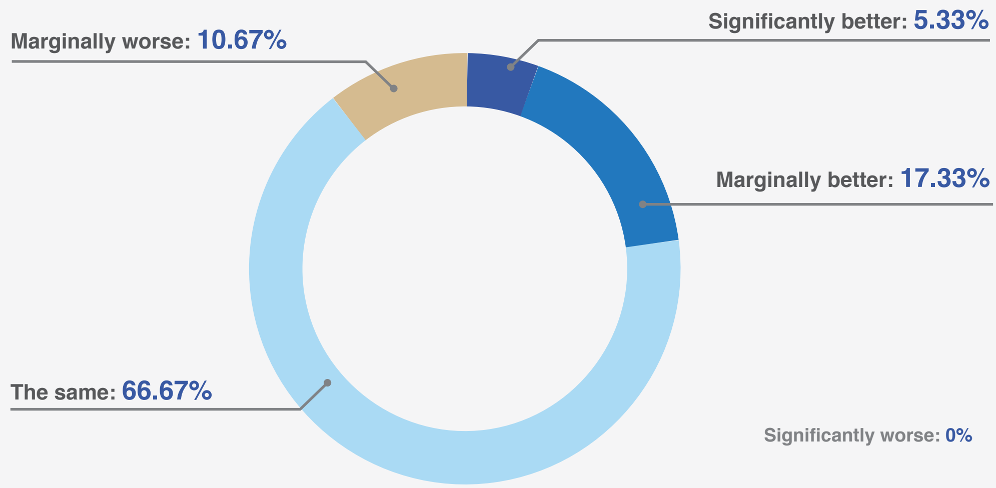
QUESTION 62

- **How has your company mitigated the impacts of the potential of entering into a no deal Brexit? (Please select all that apply)**



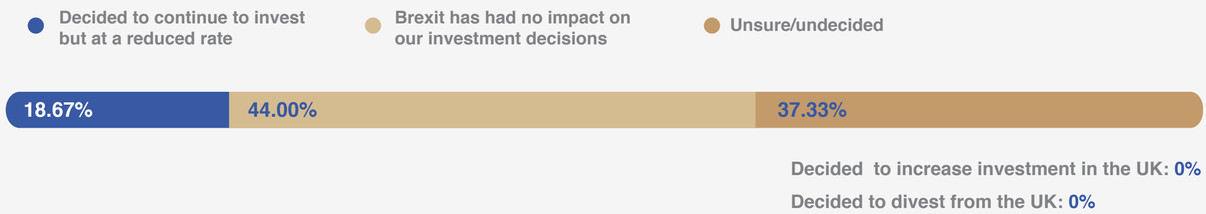
QUESTION 63

How well has your company prepared for Brexit compared to other UK companies?



QUESTION 64

How have you changed your UK investment plans as a result of Brexit?



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China Chamber of Commerce in the UK

2020 Report on the Development of Chinese Enterprises in the UK