

June 2018

British Business in China

The Business Environment
and Market Access (BEMA) Initiative

2017/2018

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Foreword



Nicholas Holt

Chairman
British Chamber of Commerce
in China

Last summer we set out a new vision for the British Chamber of Commerce in China, one that would see more collaboration between the British business organisations, with the views, concerns and issues of all members in China represented to the UK government and wider stakeholders.

Over the last 12 months, the Chamber has made huge strides in delivering on that vision, as it has led the Business Environment and Market Access (BEMA) initiative. Officially kicked-off in November 2017 by all the major British business organisations in China, surveys, roundtables and interviews across a number of sectors have been carried out in order to understand the major issues for UK business. Recommendations to address these issues have been provided to the UK government in terms of changes they should push for to improve the ability of UK firms to successfully conduct business in China.

This on-going work could not be more timely, with an official trade review between the Department of International Trade (DIT) and the Ministry of Commerce of the People's Republic of China (MOFCOM) being announced during the Prime Minister's visit, and increasing dialogue around collaboration along the Belt and Road Initiative. At the same time, according to the Office of National Statistics, exports of goods and services from the UK to China increased by 32.2% in 2017 showing the importance of the bilateral relationship for the UK.

With the prospect of the UK leaving the European Union in April 2019, and then being able to begin official trade negotiations with third country markets (depending on whether we stay in a customs union), the importance for all the British business organisations in China pulling together to ensure that every business, whether large or small has its voice heard is paramount.

This paper gives an overview of the first year of the BEMA initiative, showing the results of the survey, along with the key points from our completed sector reports. The survey results show that UK businesses are more optimistic, on average, than our European counterparts; that most businesses operating in China do not believe that Brexit will impact their China revenue; and that 71% will be increasing investment in China over the next 12 months.

However, the survey and roundtables also showed us that China remains a challenging market, with protection of intellectual property, compliance and business ethics concerns and restrictions or difficulties in obtaining licences ranked as the three most important issues for the survey respondents.

Our in-depth papers have allowed us to be a key conduit with the UK government, with the first four sector reports resulting in meetings with the DIT sector teams in Beijing, with the findings feeding into sector strategies and a number of issues and items now getting onto the agenda for the upcoming Joint Economic Trade Committee (JETCO) in August.

The British Chamber of Commerce in China along with the other business organisations continue to work to represent UK business in China. With a huge amount of effort, we are making significant progress and we look forward to your continued support over the year ahead.

A handwritten signature in blue ink, appearing to read 'Nicholas Holt', with a long horizontal line underneath it.

2. The BEMA Project Overview

The Business Environment and Market Access (BEMA) initiative was launched by British business organisations in November 2017, with the objective to understand the major issues faced by British business and provide recommendations to the UK government on what changes they could push for that would improve the ability of UK firms to successfully conduct business in China.

Led by the British Chamber of Commerce in China (BCCC), and together with the China-Britain Business Council (CBBC), the Confederation of British Industry (CBI), and the British Chambers of Shanghai, Chengdu and Guangdong, following consultation with the Department for International Trade (DIT), a number of aims and objectives for the initiative were set out an official launch at the Ambassador's Residence in Beijing.

The aims of the BEMA initiative were set out as follows:

- To provide a channel to represent the views and experiences of members into UK and Chinese policy-makers and regulators.
- To help identify and prioritise policy and regulatory issues or developments with the greatest potential to benefit UK business seeking to invest into, enter or grow their business in and with China, and vice-versa.
- To provide a mechanism to advise the DIT on impact and risks related to changes to the business landscape in China.
- To communicate and provide feedback to members.

In the first quarter of 2018, an online survey was sent out to all members of the British business organisations, and working groups were set up around the following sectors:

- Automotive
- Built Environment Services
- Education
- Finance
- Legal Services



These sectors collectively account for a significant proportion of trade in goods and services between the UK and China and represent a strong membership base within the membership organisations.

A sub-committee was set up for each of these sector groups, including representatives from the British Chamber of Commerce in China and for relevant sectors, representatives from the CBBC and the Shanghai, South West and Guangdong chambers. Following the secondary research phase to assess the state of the sector, roundtables were convened where key businesses discussed the issues in a structured open forum.

In depth reports were then produced, with a review of the markets in mainland China, analysis of the size of UK business in the sector, an assessment of the major issues related to market access and the business environment, followed by recommendations around these issues as well as the opportunities going forward.

Our shared values

- We believe in the market economy as the basis for ensuring efficient use of capital and resources.
- We advocate free, fair and open competition between business in well-regulated markets that ensure equal access and equal treatment for all companies.
- We support all governments in their efforts to foster innovation and reduce barriers to free, fair and open competition.



3. The BEMA Survey 2018

3.1 Survey Respondents

The survey was carried out during the first quarter of 2018, and received over 100 respondents from the following sectors:

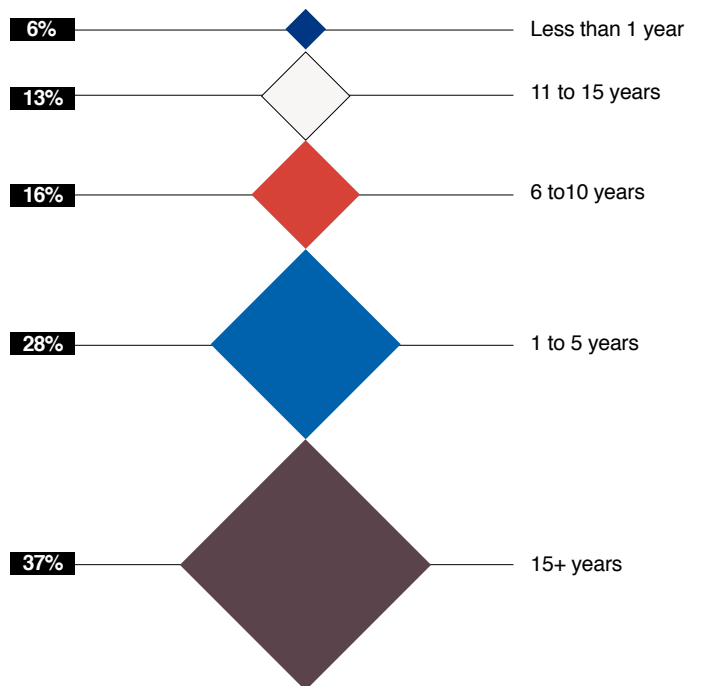
What sector(s) is your company involved in?

A	Advanced Manufacturing and Transportation	21%
B	Professional Services	21%
C	Education	10%
D	Built Environment Services	10%
E	Retail	9%
F	F&B Agriculture	8%
G	Hospitality, travel and tourism	5%
H	Healthcare and pharmaceuticals	4%
I	Energy	4%
J	Financial Services	3%
K	Creative Industries and Sport	3%
L	IT and telecommunications	2%

Source: BEMA Survey

How long has your company been engaged in business in China?

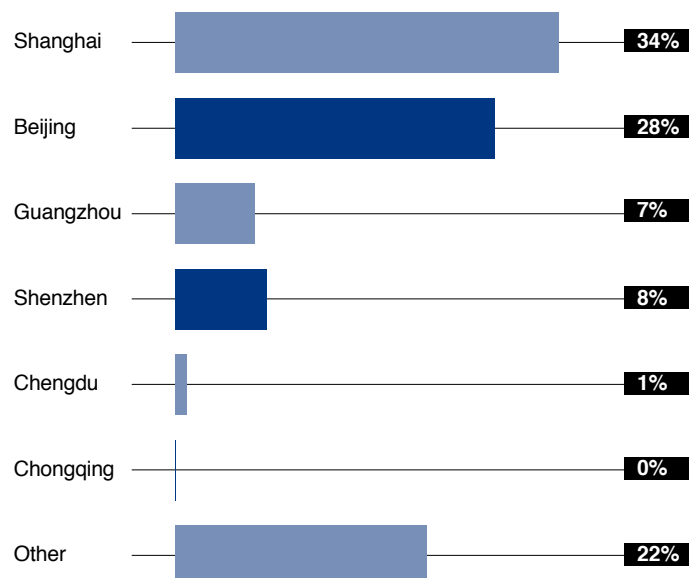
In terms of how long the respondents had been doing business in China, the majority had been engaged in the market for over 10 years, while 6% had been doing business in China for less than one year.



Source: BEMA Survey

61% of companies were headquartered in Shanghai or Beijing, with 15% headquartered in Guangzhou or Shenzhen in Guangdong.

Where is your company headquartered in China?



Source: BEMA Survey



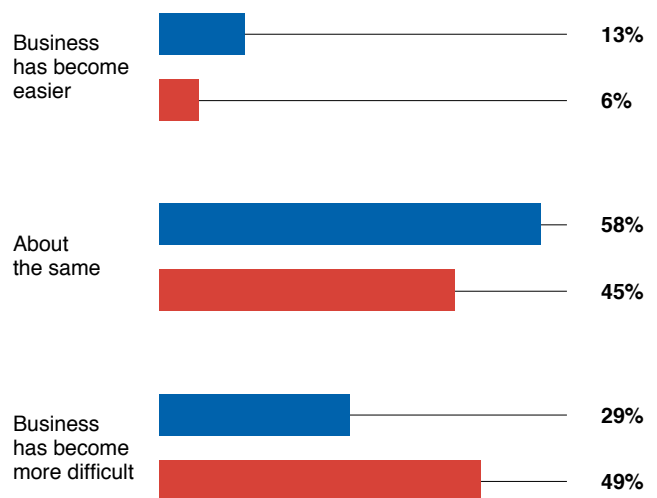
3.2 Business Sentiment

While business conditions have got more challenging for 29% of UK businesses surveyed, the majority viewed the last year as being the same in terms of doing business in China.

Interestingly, when compared to the most recent European Chamber Business Confidence survey, British company's responses were less negative, with 49% of European business respondents saying business had become more difficult, significantly higher than the BEMA respondents.

Similarly, UK businesses were more optimistic for their sector outlooks (in terms of growth) over the next two years, with 67% positive and only 6% negative. This compares favourably to the 2017 EUCC Business Confidence survey which showed 55% optimistic and a higher 11% pessimistic.

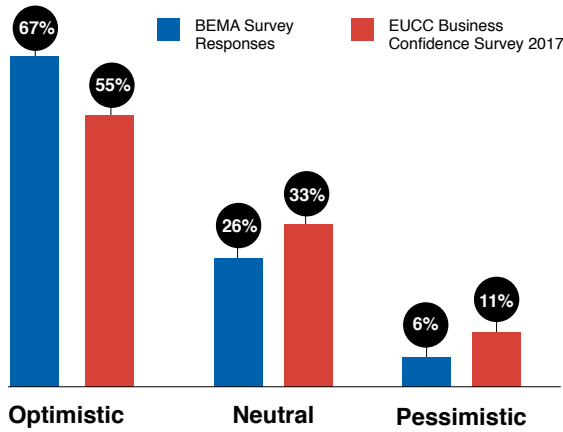
How has doing business in China for your company developed in the last year?



■ BEMA Survey Responses ■ EUCC Business Confidence Survey 2017

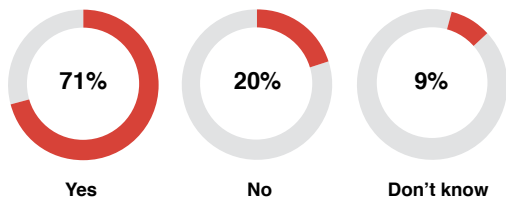
Source: BEMA Survey

How would you describe the business outlook for your sector in China over the next two years?



Source: BEMA Survey

Is your company considering increasing investments in its China operations over the next 12 months?

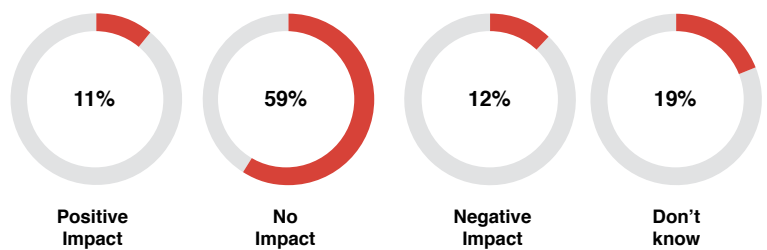


Source: BEMA Survey

3.3 Brexit

One key question that was raised during the roundtables, interviews and was included in the survey was the possible impact of Brexit on revenue in China for UK business. While a slightly higher percentage saw Brexit as having a negative impact than a positive one, the vast majority (59%) considered that it would have no impact.

What impact do you think Brexit will have on your business's revenue in China?

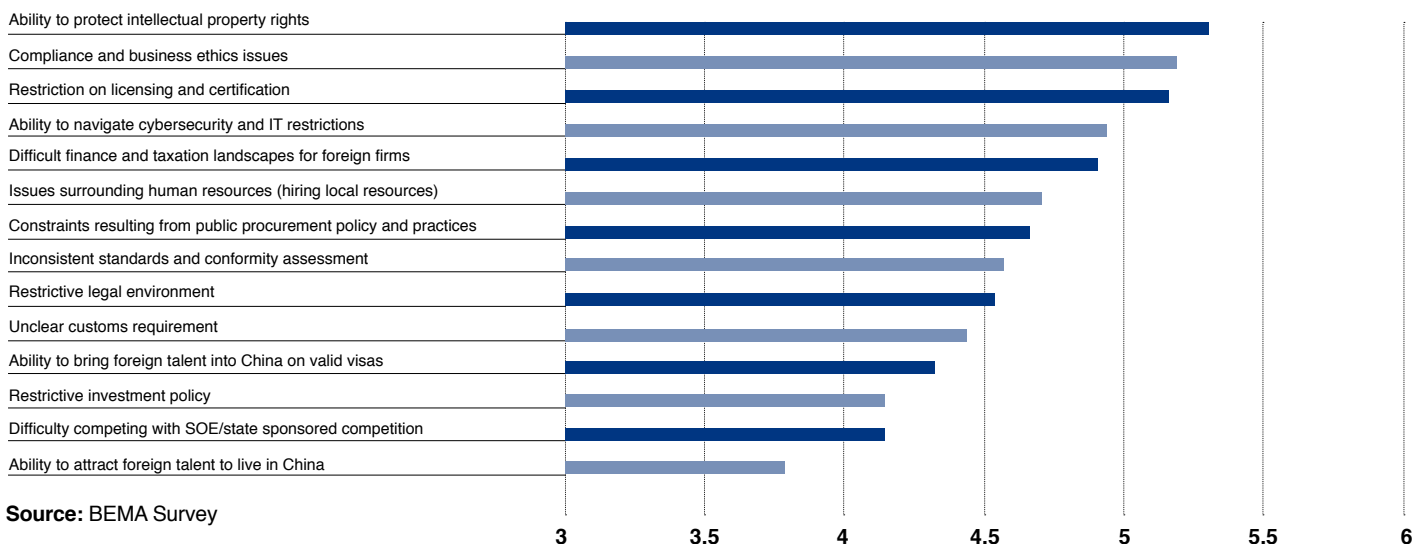


Source: BEMA Survey

3.4 Business environment and market access issues

When asked to access a number of key issues limiting UK companies' ability to do business in China, the ability to protect intellectual property rights was ranked as the most important, followed by issues with compliance and business ethics and restrictions or difficulties in obtaining licences.

Please assess the following issues in terms of how they limit your ability to do business in China (where 10= leads to an inability to do business and 1 = no impact)



Source: BEMA Survey

4. Summary of Sector Specific Findings

In addition to the BEMA Survey, extensive papers have now been completed and submitted to the DIT for the following five key sectors representing a significant number of members of the British business organisations:



4.1 Automotive



4.2 Built Environment Services



4.3 Education



4.4 Finance



4.5 Legal

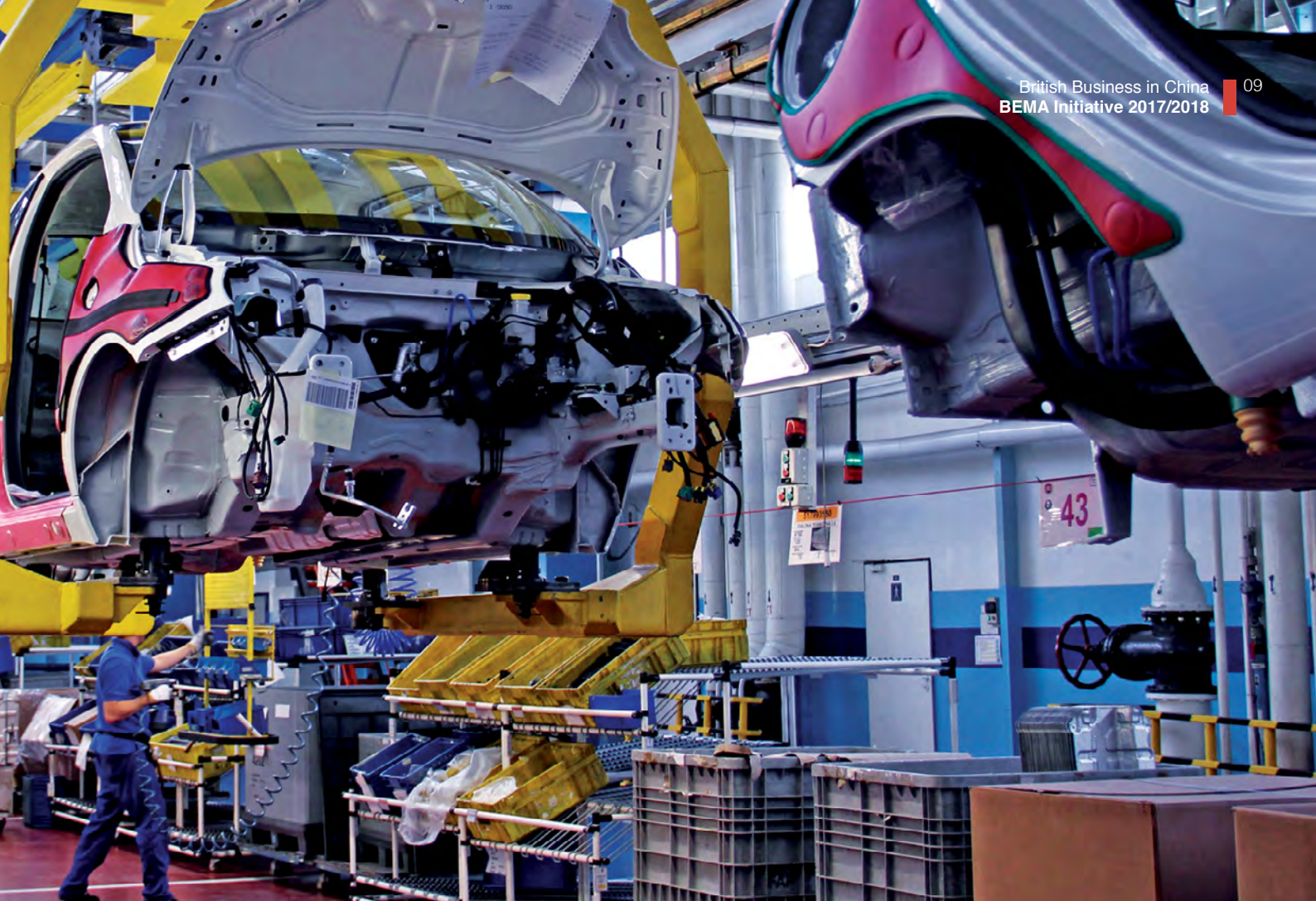
The reports provide market studies, key issues for UK business, the results of the BEMA Survey, the major challenges and recommendations to the DIT around these issues, and the opportunities going forward. The following is a brief summary of the sectors and a selection (non-exhaustive) of the key issues and recommendations:

Please note: the following represent only a selection of the key issues in each sector.



4.1 Automotive

The UK has a proud history of car manufacturing and is a major force in vehicle design and manufacture today. The UK automotive sector is diverse. This includes: volume car production, niche and luxury vehicles, construction equipment, motorsport, commercial vehicles, and motorcycles. Supply Chain: UK based vehicle makers operate a sophisticated, globally integrated supply chain, to support their “just in time” production models. The automotive industry is a vital part of the UK economy accounting for more than £77.5 billion turnover and £18.9 billion value added. With some 169,000-people employed directly in manufacturing and in excess of 814,000 across the wider automotive industry, it accounts for 12.0% of total UK export of goods and invests £4 billion each year in automotive R&D.



The following market access issue was raised by high volume producers:

Limitations on foreign investment

Currently, a foreign investor's maximum share in an automotive enterprise is limited to 50%, and is only allowed to establish two such Sino-foreign joint ventures (JVs) for passenger vehicle production and two for commercial vehicle production ('2+2' regulation). In addition, the JV's production has to be sold under a new brand name instead of foreign companies' existing brand. China announced in April 2018 that it will eliminate ownership limits on automotive enterprises by 2023. The British business organisations acknowledge the new commitments by China to eliminate ownership limits. This is consistent with recommendations from our members which call for market-based principles, equal access and the freedom to invest, partner and compete on commercial terms.

Recommendations: Allow free foreign investment in the automotive industry without limitations.

The following market access issue was raised by low and medium volume producers:

Changes to environmental legislation with limited consultation

The Chinese Government has adopted a number of measures to curb vehicle discharge, which is a major source of air pollution. Standards which in the past were aligned with European documentation, are now being augmented with China specific requirements tailored to domestic considerations. For example, the government published GB1589, based largely on European standards, but augmented these with the GB7258-2017 which was introduced in September 2017. This was adopted on 1st January 2018 but full documentation and training was not available until July 2018. A key issue has been that vehicles already imported to China, but not cleared, were subject to the new regulations. In other words, cars purchased and shipped prior to January 1st were not able to enter China under the same rules as they were ordered. The options have been for manufacturers to modify or re-export units.

Recommendations: Allow more flexibility and adjustment lead time for low volume manufacturers when complying with new environmental regulations.

4.2 Built Environment Services

According to the Office of National Statistics (ONS), the construction and real estate industry contributed around 336 billion gross value added (GVA) to the UK economy in 2015, approximately 20% of total GVA. This is underlined by the ONS 2016 employment statistics showing that the construction industry alone employed around 2.2 million people which is equivalent to about 6% of total UK employment. The strength of the sector is also reflected in China, where British engineers, designers, surveyors, architects, agents and consultants with some of the oldest and most well-known professional brands from the UK and are now present in the China market, accounting for a substantial membership of the various chambers of commerce in China.

While the breakneck development of the built environment over the last two decades in China has provided notable opportunities, a significant number of the UK firms in the sector have found it challenging to establish as strong and deep a presence in China as other country markets.



The following are a selection of the major issues and recommendations from the BEMA Built Environment Services paper:

Challenges in obtaining local licences

The engineering, architecture, construction consultants and agents have difficulties in obtaining industry licences, which has kept large parts of the market closed for UK firms, while at the same time the market remains skewed towards favouring state sponsored or domestic competition.

Recommendation: Continue to push for transparent and equitable approval processes for licences across all sub-sectors.



Difficulty for licenced PRC practitioners to park registrations

Currently PRC qualified Built Environment practitioners are unable to park their licences with UK firms that do not have a company level licence. This is a real challenge for established UK businesses in terms of hiring local talent.

Recommendation: Encourage China-registered architects, urban planners and engineers to park their registrations with potential non-licenced British companies to ensure they can practice in their relevant sector.

Lack of recognition of qualifications and global capability

A major market access issue was the lack of professional qualification recognition in addition to recognition of global track record. This especially impacts architects and engineers. For example, currently, the Institute of Structural Engineers recognises Chinese educational qualifications with a conversion exam. It is not the same for UK qualifications, which are not recognised in China, therefore a lack of reciprocity.

Recommendation: Push for more equal and transparent mutual recognition of engineering, architecture and urban planning qualifications.



4.3 Education

By 2015, the total market value of Chinese education reached RMB1.6 trillion. This number is expected to nearly double to RMB3 trillion by 2020. Huge investment and a favourable policy landscape have allowed both Chinese and UK education companies to thrive. Enrolment rates in British higher education, vocational training programmes and early years education have all soared while Chinese organisations working with UK partners are driving education research, technology and innovation.

The UK's reputation for educational excellence has made it an ideal partner for China, ensuring British education exports to China continue to flourish. At the time of writing this report, British curriculums are the most popular in Chinese international schools and the UK is China's biggest partner in Transnational Education (TNE) partnerships in higher education. The UK has developed a reputation internationally for providing high-quality, progressive teaching methods and British training programmes continue to set key standards for the whole sector.

The following are a selection (non exhaustive) of the major issues and recommendations from the BEMA Education paper:

Compliance

This was by far the most common issue among member organisations and is complicated by the mesh of local bureaus, district officials, provincial edicts and national policies. Policy can change suddenly, and new regulations sometimes lack clarity and transparency. The resulting confusion often leads businesses unwillingly into grey areas and in many cases, compliance has affected every aspect of organisational operations.

Recommendation: If the UK were able to filter and distribute new Chinese government policy to British organisations, through the British Chamber of Commerce, this would provide a mechanism for responding and giving feedback that could then be discussed at a government level rather than on an institution versus government basis.

Nature of partnerships

British education companies must usually enter the Chinese market in partnership with Chinese companies, and differing goals and values of the two partners can affect the quality of education delivered and jeopardise the long-term sustainability of some partnerships.

Recommendation: More guidance from DIT in identifying and vetting partners.

Ability to bring foreign talent into China on valid visas

Restrictions on vocational qualifications, complex visa laws, and their often rather heterogeneous application in different cities and districts create issues in hiring, meaning many companies must spend a significant amount of time and money trying to bring in qualified and capable staff.

Recommendation: Encourage a simplification of the Visa system, on the ground it seems as if many visas still have to be dealt with on a case-by-case basis.

4.4 Finance

China's rapid internationalization and unprecedented development in the past three decades has provided lucrative new opportunities for both Chinese and British financial institutions. The British finance industry has had a long history in forging relationships that help shape industrial landscapes. Its bankers and industry professionals form a varied and highly skilled base of individuals drawn from across the world. In 2016, financial and insurance services contributed £124.2 billion in gross value added (GVA) to the UK economy (7.2% of the UK's total GVA), highlighting the importance of the sector to the UK economy .

The Chinese financial services industry is going through a period of unprecedented change. Plans have been announced to merge the two regulators responsible for its banking and insurance sectors, creating a new body with enhanced oversight of the two sectors that have a combined US\$43 trillion of financial assets. This move is the biggest overhaul in the regulation of the Chinese financial industry since the creation of the China Banking Regulatory Commission (CBRC) in 2003. The newly created CBIRC will cede some authority to China's central bank, the People's Bank of China (PBOC), which will assume responsibility for drafting key regulations and prudential oversight in banking and insurance. The financial services industry will be crucial to China's economic success. The UK is a global leader in this sector and can be of great benefit to the Chinese economy through knowledge transfer and best practice.

The following are a (limited) selection of some of the issues and recommendations from the BEMA Finance paper impacting banks and insurance companies and asset managers:

Issues regarding Information Technology

British Banks continue to encounter a host of problems in China with regard to their IT systems, including requirements on data localisation and restrictions on cross-border data transfer, among others. Some issues associated with the June 2017 introduction of the Cybersecurity Law are of concern to the banks.

Recommendation: Limit the requirements for banks to move IT onshore and prevent the implementation of regulations referring to IT Security and controllability requiring banks to purchase Chinese domestic technology.

Limits on Credit and Political Risk Placements

Currently Sinosure has a monopoly on the issuance of large-scale credit (including trade and structured credit) insurances and political risk insurance. No other commercial insurers are allowed to issue domestic policies in these sectors and brokers are banned from being involved in these transactions. This places severe limits on innovation in this market and international financiers who would prefer that foreign insurers were issuing policies.

Recommendation: Use UKEF position to pressure regulator to allow free market competition to Sinosure beginning with "Belt and Road" risks.

Note: this is only a small selection of a significant number of key issues in the finance sector





4.5 Legal

The UK's legal services sector is highly developed and competitive, with some of the world's most respected and established law firms originating in Britain. 30 of the UK's top 50 firms (as ranked by legal directory Chambers and Partners) currently run 'representative offices' in China. Nevertheless, the severe restrictions on legal services seriously limit the operations of these offices. UK legal services providers do not expect to have complete and open access to the Chinese market, but they have recommended a strategy on priority long- and short-term goals which they feel are realistic and in-line with Chinese government objectives for the sector.

The following are a selection of the major issues and recommendations from the BEMA Legal Services paper:

Hiring of PRC-qualified lawyers

Currently, PRC-qualified lawyers need to surrender their lawyer licences as long as they are employed by foreign law firms. UK firms therefore cannot practice Chinese law in a formal sense limiting the number of services they can provide to clients, for example formally issuing legal advice, making representations in court or liaising with government agencies.

Recommendation: Promote and highlight the mutual benefits in allowing PRC-qualified lawyers to practice Chinese law within UK law firms.

Appearance before government agencies

Appearance and participation by foreign lawyers in many types of meetings involving their clients and mainland Chinese departments is often prohibited, restricted, or permitted under certain conditions, without transparency and on a case-by-case basis. This includes departments such as SAIC, MOFCOM and NDRC, which firms need to meet to represent their clients in areas such as project licencing, approval, registration and others.

Recommendation: Encourage UK legal firms to be allowed appearance before government agencies.

Burdensome representative office registration & staff management restrictions

Foreign law firms face burdensome regulatory approval procedures not applicable to Chinese law firms. A foreign law firm must demonstrate a "need" to establish a representative office and must wait three years before opening an additional office, thus limiting opportunities for growth.

There is also currently an unnecessarily difficult process to change the chief representative of a firm and for foreign lawyers to transfer between firms, while there are limits on the duration of work visas for foreign lawyers (especially chief representatives). Furthermore, unlike foreign companies in other sectors in China, law firms cannot employ foreign administrative staff (for example a marketing manager).

Recommendation: Encourage a reduction in the length of time required to change foreign law firms' chief representatives; and lower requirements for foreign law firms hiring Representatives, who are currently required to have over two years overseas practice experience.



5.0 Next Steps

The first year of BEMA, within a new look Chamber has taken tremendous amounts of work from many of the members along with the policy team. We are, however, at the start of a process that will continue over the coming years.

Over the next year, our plan is to:

- Submit detailed reports on the remaining sectors
- Carry out our BEMA Survey again to capture the sentiment of businesses and the evolving concerns of UK plc in China
- Consider releasing a public facing paper in 2019

6.0

Contact

To get more involved or to contribute to the BEMA project, please contact:

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