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The big China sell: UK cities need to hitch our supply to their demand to turn genteel decline into spurred growth

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Abstract
This article reflects on how UK cities are very slowly adapting themselves to the changing world where growth economies, and particularly China, the world's second largest economy, have become the focus of global policy attention. Most UK cities, accustomed to a highly centralized state, are poor at any consistent international targeting, and especially poor out of their traditional US and Western European comfort zone, where the great majority of their exports still go. However, the China challenge—whether a city can hitch its particular supply to their particular demand—is probably the single most important economic challenge of the decade, and will determine whether a city experiences genteel decline or spurred growth.

Keywords
BRICs, China, city, export, finance, growth, innovation, internationalization, Manchester, MIDAS, MIER, New Economy, twinning, UK, UKTI

The context

Goldman Sachs' Chairman of Asset Management, Jim O'Neill, has some $800 bn under management, and famously coined the acronym 'BRICS'. He has now stopped talking about China as an 'emerging economy', referring to it instead as a 'growth economy'. If anything, this is rather belated, as China is already the world's second largest economy, and set to overtake the US by 2020 (see Figure 1). It is also the world's fastest growing major economy, with growth even during the last two years only dipping mildly below 10 percent, and

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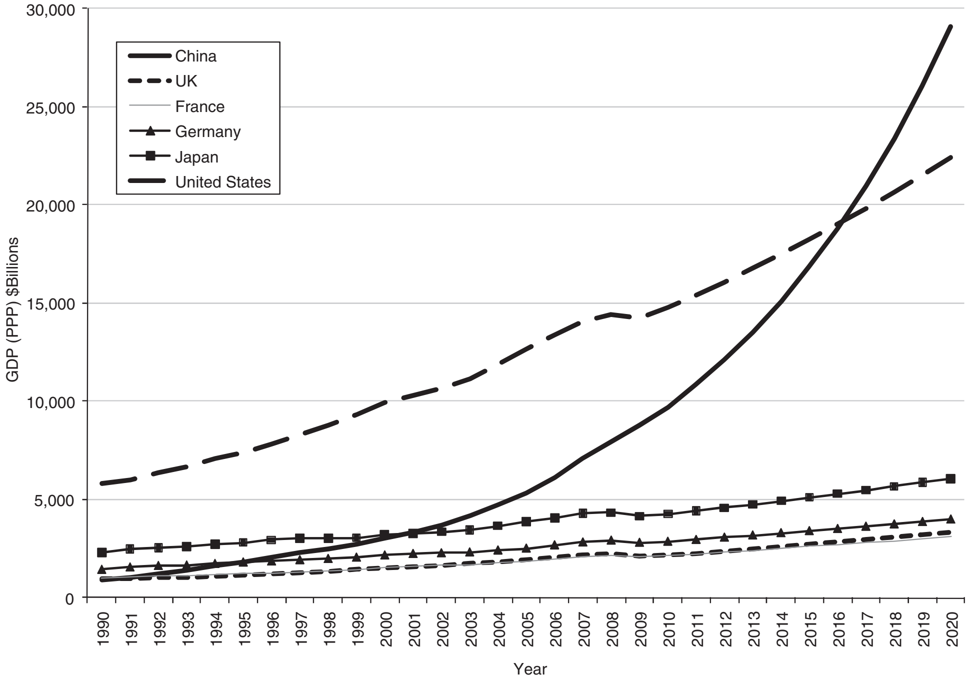

Figure 1. China to become world's largest economy by 2020 (IMF, PPP)
Source: International Monetary Fund, World Economic Outlook Database, April 2010. (Estimates start after 2009).

now already steaming ahead at pre-crisis levels, in stark contrast to non 'growth' economies—like those the vast majority of British exports still go to. This path-dependent trading legacy has led to the UK consistently losing its share of global exports, with its performance in the last decade particularly disappointing. There are other factors (an overvalued pound being one), but much blame lies squarely with a lack of penetration of these growth markets, and above all China.

As we in the UK break the bank, and stretch the political elastic to breaking point to think about building some 150 miles of high-speed rail, China has 11,000 miles of a 20,000 mile programme already built or under construction. Its swelling middle class, in its 35 cities of more than 1 m, will number 700 m by 2020, dwarfing the US and European markets. China is already the world's largest car market; it is forecast to double that of the US by 2020. Perhaps most importantly, China's two-way global trade is growing at an annualized rate of over 25 percent. A key driver for this increase is the Chinese Government's 'Go Global' policy, which seeks to massively increase its overseas investments beyond its present focus on natural resources and into technology, R&D and services. China has matured into a global economic leader and is today actively pursuing trade and investment opportunities throughout the globe. This includes particular expansion in the finance sector. For example China's biggest lender, the Industrial & Commercial Bank of China Ltd, which already has a branch in London, recently opened five new

European branches. This is one of several announcements that evidence how even Chinese banks are moving beyond their traditionally slow overseas expansion, throwing off the constraints of inexperience, a conservative domestic culture and the restrictions imposed by overseas regulators.

Cities on the front line

The growing size of the Chinese economy and its accompanying purchasing power, now being actively deployed, offers massive export and inward investment opportunities for UK cities. This is very much recognized by the UK Government, which has made enhancing trade with China a key national economic and foreign policy objective. Along with leading economists from Harvard and elsewhere, Jim O'Neill was responsible for the Manchester Independent Economic Review. Their report (2009) has highlighted the key factor the west has to deploy if it is to realize this potential, and indeed through it arrest relative global decline—its cities. Jim has stayed involved since the Review, to try and help the UK's second city harness its economy to the demands of the upcoming global market leader. This is not an impossible aspiration, as technology, R&D and services are areas of comparative advantage for many UK's cities. What is also striking is the urban nature of Chinese growth: a recent study by the Brookings Institute and LSE, on the economic performance of city-regions during the recent economic downturn, showed no less than four Chinese cities in its top 10. This makes our own experiences, for better or for worse, and the solutions we have arrived at, potentially invaluable. The UK is the number one destination for Chinese FDI into the EU, with investments in the UK by stock at $983 m (British Chamber of Commerce Guangdong, 2009). Confidence to trade with China is further buoyed by the fact that Chinese perceptions of UK exports are positive. A 2009 survey by Anholt-GfK Nation Brands of 1000 online Chinese respondents (Visit Britain, 2010) found that:

- UK exports are highly rated by the Chinese;
- the UK is ranked third (behind the USA and Germany) in terms of nations making the biggest contribution to innovation in science and technology;
- Chinese are confident about buying products made in the UK and see the UK as a creative place in terms of cutting edge ideas and new ways of thinking;
- Chinese rate UK as a top nation to study for educational qualifications; and
- the UK is seen as a good place to invest money.

Not to be overlooked either, is the important role UK universities and higher education institutions play in building UK-China relationships. Chinese students remain the largest group among overseas students in Britain—over 85,000 at the latest count, more than in the US. This could rise to 225,000, or some 25 percent of a possible total of 900,000 overseas students, by 2020 (Mackie, 2005). Changes to national policy now question this trajectory, although it is worth noting that the net value of such an increase would see more than £11bn delivered annually to the UK economy.

Discovering China

However positive the outlook for Chinese trade and investment in the future though, there are some basic issues cities need to tackle before embarking on any strategy to benefit from this market. Most crucially, they need to be in it for the long haul, with a deep commitment to pursuing a

China strategy that is realistic for them, especially in a constrained fiscal environment where tough choices on priorities are the order of the day. If it is to be done—and the long-term rewards are plain—then what strategy will enable a particular city to best capitalize on the opportunities to enhance connectivity with China in order to deliver economic benefits to its citizens? How does a city position itself and the city's assets as a core element in the UK's investment prospectus for China as a trading partner?

In answering this question, it is useful to look at the relationships that have been established between China and some of the UK's major cities. These experiences can provide us with lessons on how best to approach the task. Many UK cities, counties and nations, such as Scotland, are rapidly building close relationships with the Chinese market and its growing cities. Activities include inward investment activity, exporting to and investing in China, civic links and university education.

These relationships often reflect local business sector strengths and global profile. London has been particularly successful in attracting Chinese investment, helped strongly by its capital city status. In addition, Think London, the city's investment agency, has a physical presence in China, operating the 'Touchdown' soft-landing scheme. It has a twinning relationship with Beijing, and the handover of the Olympics from Beijing to London created renewed awareness and business opportunities. In Scotland, over 20 councils have stated links to China, including twinning arrangements, Mandarin classes, university links (like that of Stirling with Tongji University in Shanghai) and East Renfrewshire's Confucius Hub. In Northern England, Liverpool's participation in Shanghai Expo 2010, and its proposed 'Shanghai Tower' development, have strengthened its links to Shanghai and provide potential for enhanced inward investment and trade. Meanwhile, Birmingham has a full time Mandarin speaker to help boost its trade and other links with Shanghai and China. Reflecting its manufacturing strengths, Rover cars are now owned by the Chinese firm Shanghai Auto. Table 1 summarizes some of these links and efforts.

Manchester

Manchester offers an interesting case study for UK cities contemplating taking a coordinated and strategic approach to engagement with the Chinese market. As part of implementing the Greater Manchester Strategy's 'Internationalization' Priority, the conurbation's economic development and inward investment agencies (MIDAS and the Commission for the New Economy), in collaboration with public and private sector partners, developed a new strategy to engage with China and secure long-term commitment. During 2010, research and intelligence on the level of international connectivity between Manchester and China was gathered and analysed as part of a review of connectivity with China. This work provided important insights into China's outward investment policy, trends and patterns of investment and suggested how Manchester could position itself to benefit from this more outward-looking super-economy. The findings of this in-depth review and analysis were published in a Working Paper that was presented at a launch hosted by HSBC, the Hong Kong and Shanghai Banking Corporation (Chan and Gomez, 2010). Its key findings (Table 2) were well received and supported by a broad range of public and private sector stakeholders throughout Greater Manchester. At the time of writing, a co-author is in China meeting senior executives of large Chinese companies and working up a major project involving eight Chinese cities and a Chinese business fair in Manchester.

Table 1. UK cities and China initiatives.

Birmingham (www.birmingham.gov.uk)
The Birmingham-China Business Forum was launched in June 2007 to enhance relations between Birmingham and China, help local companies benefit from China's economy and bring investment to Birmingham. Supported by Birmingham City Council and corporate partners including Pinsent Masons and Emirates, the Forum's opening ceremony was attended by the Chinese Ambassador to the UK. Birmingham has a sister city partnership with Guangzhou.
Liverpool (www.l-s-p.org.uk)
Liverpool is a twin city with Shanghai. It had a dedicated city pavilion at Shanghai Expo 2010 where an estimated 70 m visitors attended between May and October 2010. Peel Holdings is the lead corporate sponsor of Liverpool's pavilion, and is also leading a £50bn investment in 'Shanghai Tower', a proposed 60-storey building on Liverpool's waterfront.
London (www.thinklondon.com)
Think London has an office in Beijing and is seeking a representative to be based in Shanghai. It has a Chinese language website (www.thinklondon.cn). In conjunction with Avanta, a serviced office provider, it gives overseas companies 12 months' free office space. A dedicated China campaign capitalized on business opportunities from the Beijing 2008 Olympics: 'Road to London' was a three-month business initiative in 12 Chinese cities, with a London taxi travelling to each city, hosting business events and one-to-one meetings. The cities visited were Beijing, Tianjin, Qingdao, Ningbo, Hangzhou, Shanghai, Wuhan, Chengdu, Chongqing, Guangzhou, Shenzhen and Hong Kong.
Manchester (www.neweconomymanchester.com)
Greater Manchester's inward investment agency, MIDAS, promotes Manchester in China to foreign direct investors by supporting civic activity in China and organizing large-scale inward investment seminars. It also delivers meetings with potential lead companies in Beijing, Shanghai and Wuhan, utilising the brand names of Manchester United and Manchester City to deliver inward investment activity in China associated with football tours in key cities. Major Chinese investments in Greater Manchester include Huawei, and extensive links with China are also being developed through Manchester's universities and cultural organizations such as the Chinese Arts Centre.
Newcastle (www.newcastle.gov.uk)
In 2008, Newcastle established a 'soft landing' service for Chinese companies, called Shanghai International Business Incubator, located at the Gateshead International Business Centre. This was developed as part of an on-going Memorandum of Understanding between One North East and the Science & Technology Commission of Shanghai Municipality to develop links in the fields of business, education, government, research and culture.
Sheffield (www.creativesheffield.co.uk)
The city established the Sheffield China Business Network in 2008 to facilitate trade and investment in China for organizations from Sheffield. The current focus is on developing a relationship with Chengdu, where Sheffield has forged strong links in football, Sheffield United having bought the Chengdu Blades Football Club.

Drawing on the findings of this work, a strategy with a set of high-level objectives and suggested actions to strengthen the conurbation's links with China was developed and endorsed by Greater Manchester partners. A China Working Group was founded to carry the work forward. This group is a unique partnership, comprising representatives of local authorities, Universities, UKTI and Chinese cultural,

Table 2. Key findings of New Economy Working Paper.

New Economy Working Paper: Increasing Manchester's Connectivity with China
– Chinese ODI in UK and Europe is relatively small, but showing a dramatic and exponential upward trend
– Immediate opportunities exist for Greater Manchester firms through the growing domestic market in China
– Great potential exists to better leverage existing GM connectivity with China and to develop stronger strategic links to promote trade and investment
– A set of six key recommendations around investment, trade, local authority links, education, community and sports and visitor access

business and government organizations. The group identified a first set of high-priority, short-term actions. These were primarily focused around improvements in existing coordination and delivery of links with China, as well as the optimizing of opportunities for attracting Chinese investment and firms to Greater Manchester.

Key lessons

Know your comparative advantages and strengths

As noted earlier, building relationships with China must be built on a realistic appraisal of a city's strengths and comparative advantages, such as Birmingham's manufacturing sector, Liverpool's port and Manchester's University and R&D capacity. Cities need to know which of their local assets can best serve as a platform for engagement. They also need to have a good understanding of the Chinese economy, including its sector dynamics, demographics, investment trends and geography. A review, such as that undertaken by Manchester through its Working Paper process, is one approach to gaining such insights.

Scale is important

What Liverpool, Manchester, Birmingham and London have in common is a scale and diversity of offer that can attract investment and provide a base for increased export activity. For some smaller centres, building co-operative relationships with other neighbouring cities may be a way of generating more interest and presenting a more compelling offer to potential investors. Moreover, there is the advantage of making better use of resources and building upon each centre's relative strengths.

Working collaboratively and strategically

Given the wide range of individuals, businesses, educational institutions and governmental organizations with relationships to the Chinese market, it pays for cities to develop a coordinated and strategic approach that makes best use of resources. Doing so avoids needless duplication in activity and is also critical for cities trying to get their economies on to the agenda of the Government's trade strategy. One logical vehicle for this is Local Enterprise Partnerships, some of which, like Manchester's, have identified internationalization as an area of strategic interest to move forward on.

Embrace the export of services

Services' share of total UK exports has steadily increased, from 30 percent in 1990 to 41 percent in 2009, services having grown at 9 percent a year in value terms over that period. Computer and information services have been the strongest performers, up an average 24 percent a year since 1990, with insurance services at 17 percent and financial services 14 percent (ITEM Club, 2011). This plays to the comparative advantages of cities like Manchester. It can be done, and the demand in China for expertise in pensions, healthcare, design, architecture, logistics and financial services is still increasing exponentially.

Education matters

For cities with a smaller business base but a strong educational sector, the potential of working collaboratively with universities should not be underestimated. The high regard in which UK universities are held in China is a powerful magnet to lure investment and build trading relationships with China. The large number of Chinese students in the UK is an important source of revenues for universities and local businesses, where students spend money on goods and services. As experience from places like Silicon Valley demonstrates, these students can also help in building business relationships once they return to China. Thus, internship schemes which place Chinese students with local firms can be a good way of facilitating this type of activity. Also, many universities have strong academic links with counterparts in China that can help lay the groundwork for future business relationships with local firms.

Conclusion

China is a long, hard slog; not for the faint-hearted. The barriers for firms are much higher than in established markets, as therefore are the failure rates, and there is not all that much a city can do to assist. Traditional tools, like twinning, have limited value, and the UK as a country finds it very difficult to boost its provincial centres, and so finding national support, even where comparative advantage exists, is not easy. Thus China is not for everyone. It is, though, the biggest economic prize on the planet and the cities, firms and countries that crack the world's fastest growing economy will be the success stories of tomorrow, as they hitch their wagons to what is strongly likely to be the globe's fastest growing major economy for a good long time, in contrast to the western economies with their gloomy forecasts of anaemic growth, prolonged stagnation and recession. The investment needed is high and risky, but the returns of success are large and long-lasting.

City leaders are hard to convince about the efficacy of diverting much-needed resources to a risky prospect with few hopes of short-term gain—but if firms, universities, service-providers or investors are willing to play, China is the great game that every major UK city needs to find a way to play seriously if it is still to be a major city in a generation's time. For many of these cities, or functional economic areas (as we sometimes call Greater Manchester), the private sector-led Local Enterprise Partnership may represent a perfect vehicle for boosting global links, and finding China's place in local economic development strategies and programmes. Many cities could become agents making the case, locally and with government, and bringing the right businesses and strategic assets to the table. We can only wish them the greatest success in their mission, on which may rest the difference for the UK between continued genteel decline, and economic renaissance. There was no inevitability about Manchester supplying textiles to the world 200 years ago—its traders saw a niche suited to their circumstances, had a vision, acted on it and seized the opportunity. That took leadership and a very healthy attitude to risk. Can we today summon the same innovativeness and confidence? The best way to predict the future is to invent it.

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