UK trade with China: brighter prospects ahead?

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We know that the phenomenal economic growth of China represents a huge opportunity for British firms. So it may be a surprise to learn that the UK's track record of exports to China is very weak, relative to our European counterparts.

Germany is the star and exports five times more than the UK to China. We also sit well behind France and Italy in terms of growing exports to China since 2000. Seventy five per cent of UK exports go to EU countries and other advanced markets (the United States, Japan and Australia) and less than ten per cent of UK exports go to the ten largest emerging economies. We do well in India, but are significantly behind in Brazil, Russia and China.

So Britain is still too dependent on advanced economy markets, which are growing slowly, if at all. Too few UK firms are selling into high-growth emerging economies, particularly China.

Several factors suggest that UK exports to China are likely to grow more rapidly in the next five years. There will also be a significant change in the kinds of products and services that British firms sell into China's growing domestic market. Whether British firms make the best of these opportunities, however, depends partly on their ability to adapt to the vagaries of China's domestic market and partly on how well the UK government's China policy evolves.

Pitfalls: What is limiting UK exports to China?

Perhaps the major constraint to growing UK exports to China is the lack of understanding about China, particularly among small- and medium-sized enterprises (SMEs) but also among some larger, more multinational British firms. Distributing products and services, marketing, protecting intellectual property rights, developing client and customer relationships, recruiting experienced managers and training and managing local workers; all present big management challenges according to our research. Foreigners particularly struggle with the uncertainties and hence the risks associated with Chinese laws and regulations.

The December 2013 Cameron-led trade mission stands as a marked improvement on past efforts to build the kind of political relationship that supports business partnerships. But there is a lot of catching up to do on the diplomatic side. There is also evidence showing that government support for exporters is disconnected from regional industry development policies and from the requirements of SMEs across the UK.

Prospects: Why might the UK export performance improve?

A number of economic trends are likely to make it easier for British firms to expand their exports to China. Wage rises and other cost increases, particularly along the East coast of China are beginning to make UK-made goods more attractive. In its most recent ten-year plan the Chinese government is also pushing hard for consumption-led growth and away from infrastructure, property and other forms of investment as the key economic drivers. This will help some British businesses more than others. Arup and other engineering and construction businesses may see a downturn in orders while others, like automotive exporters, may see a further boost in sales. UK automotive exports to China accounted for nearly $5.5 billion in 2012 (about a third of total UK exports to China). It is Jaguar Land Rover's (JLR) largest single market and accounts for nearly 30 per cent of sales for Rolls-Royce motors. There are also encouraging signs of improvements in UK government support for exports to China. In a welcome development, UKTI (UK Trade & Investment) have recently revitalised the 'Britain – Open for Business' campaign and created stronger links with the China–Britain Business Council (CBBC), which will help overcome some of the limitations outlined above.

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