China Su Hsing Loh

New Incentives?

The People's Republic of China's twelfth five-year plan, which provides the overarching guidelines for its domestic policies from 2011-2015, was officially adopted on March 14 of this year.

Night view of overhead highways illuminated by LED lights in Shanghai, China.

Notably, the average rate of gross domestic product (GDP) growth has been lowered from eight percent to seven percent, signifying that economic development will not be pursued at the expense of other priorities. The plan suggests China's attempt at a long-overdue transition from an overly export-dependent economic development model mainly based on low-cost manufacturing, to one driven by domestic consumption and services.

Widely regarded as the most 'green' five-year plan to date, significant targets for reducing the environmental costs of development are also outlined, with energy consumption per unit of GDP to be reduced by sixteen percent, and carbon dioxide emission per unit of GDP to be cut by seventeen percent, while non-fossil fuel will account for 11.4 percent of primary energy consumption. Seven 'Strategic Emerging Industries' have been identified: these are biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials and next-generation information technologies. The development of these industries will be encouraged through tax breaks and beneficial procurement policies, with the intention of increasing their contribution of GDP to eight percent by 2015. China has indicated the intention for reform in monopoly industries for easier market entry and greater competition. This is an interesting development in view of the controversy surrounding Baidu, which faces accusations of engaging in unfair practices by making use of its dominant share of the Internet search market in China. In the context of these objectives, what are some of the areas which might hold economic opportunities for Britain and strengthen its relationship with China?

The largest investor in China among European Union (EU) member states, Britain is China's third largest trade partner, whilst China is the sixth largest source of investment for Britain. In 2004, the two countries signed the China-UK Joint Declaration opening other bilateral channels, which now include the Prime Ministerial Summit, UK-China Economic and Financial Dialogue and Sector-specific Ministerial level dialogues. Since coming to power in May 2010, David Cameron has embarked on an active economic courtship of China, pledging "closer engagement" and stating that "the UK-China relationship is at the highest level". His visit to China in November 2010 swiftly followed Foreign Minister William Hague's visit in July 2010, during which Hague pushed for market access into China. It is noteworthy that the British delegation in November 2010 was the largest in recent history, with four Cabinet ministers and fifty business leaders, and that the last visit to China by a prime minister was Gordon Brown's visit back in January 2008. Tony Blair had visited China only three times in his ten years in the office. Li's reciprocal visit in January 2011, with a sizeable delegation of 150 and subsequent statement that "there is huge potential for China-UK cooperation" – as well as Ambassador Liu Xiaoming's comments that the new government is pursuing "a positive China policy...Sino-British relations have achieved a smooth transition and sustainable development," – indicate that Cameron's charm offensive was a success. Trade deals worth over four billion dollars were signed during Li's visit to Britain, which will double annual bilateral trade by 2015. The recent visits and positive overtures

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demonstrate the two countries' commitment to strengthening bilateral relations and establishing strong grounds for cooperation, and this is an opportune period for Britain to broaden and deepen its economic relationship with China.

Based on the five-year plan, there are several areas of possible interest for Britain. Firstly, Britain might benefit from the planned growth in China's clean energy and green technology markets. China's investment in environmental protection is expected to increase to around 460 billion dollars over the five-year period. A significant part of this will be channelled toward pollution control, with the target to cut the release of major pollutants by eight to ten percent. China's focus on green technology coincides with Britain's efforts to boost its renewable energy industry. The British budget for 2011 features several initiatives to this end, including the initial capitalisation of the Green Investment Bank. The ten million dollar renewable energy technology licensing deal signed by Vice Premier Li during his visit to Scotland in January signifies China's interest in looking to Britain for green technology. Clearly, investment and cooperation have to take place within a strengthened intellectual property rights framework, and on a reciprocal basis. In addition, government procurement remains a thorny issue as China has yet to accede to the World Trade Organization's Agreement on Government Procurement (GPA). Only limited areas are open to foreign business in the Chinese government procurement market, and government bodies lean strongly toward domestic goods and services providers. However, some improvements have been put forward by China in its revised GPA accession offer that was submitted in July last year.

Secondly, Britain could further explore research and development projects with China. China is aiming to reach two million annual patent filings by 2015 and has introduced an array of incentives, including cash bonuses and tax breaks for companies that are patent producers. Currently, China publishes more joint scientific research papers with Britain than any other EU country. With the five-year plan allocating 2.2 percent of GDP to research and development, Britain could establish stronger research links with China. At present, Britain and China have undertaken research in various fields, including climate change, infectious diseases, biomedicine and traditional Chinese medicine, nanotechnology and materials science. The commercialisation of the results of these collaborative research efforts would yield benefits for both countries.

Thirdly, Britain might make inroads into the services sector. Under the five-year plan, China is aiming to increase the service sector's value-added output to account for 47 percent of GDP. China's leaders are aware that the development and expansion of the service sector, especially in the fields of banking and telecommunications, lags behind the demand generated by China's fast economic growth. Despite China's accession to the World Trade Organization in 2001, the services sector is still strongly protected and continues to be plagued by problems of restricted exposure to overseas direct investment and dominance by state-owned enterprises. Indications in the five-year plan for reform in monopoly industries to provide for easier market entry and greater competition is certainly a welcome development, though it remains to be seen how these plans will be implemented, and more importantly, if they will be strongly enforced.

There are compelling incentives for Britain to invest in China's economic growth and attain mutually beneficial outcomes. In addition, strengthened economic ties might have positive spillover effects on other domains of the bilateral relationship that are more difficult to navigate due to ideological differences, as economic interdependence confers the advantage of convergence in strategic interests. In this context, the opportunities for greater economic engagement offered in the five-year plan ought not to be overlooked.

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SU HSING LOH is an Associate Fellow with the Asia Programme at Chatham House.