

New Economy Working Papers



**Increasing Manchester's
Connectivity with China**

**Li Hsia Chan
Juan Gomez**
April 2010

NEWP 04

New Economy Working Papers

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Abstract

China is developing into a global economic leader and pursuing investment opportunities throughout the world. To capture these opportunities, Manchester¹ should continue to enhance its connectivity with China to deliver economic benefits to the region. This paper presents research carried out between June-September 2009 on the level of connectivity between Manchester and China. Desk based research was carried out and 51 consultees were interviewed, providing insight into China's outward investment policy, trends and patterns of investment.

The paper examines the links Manchester has created with China through trade and investment activity, local authority relationships, education, tourism and leisure activities. Drawing upon our research and consultations, we present a set of high level objectives that strengthen engagement with China and propose actions to deliver these objectives.

It is recommended that these proposed strategic objectives be considered as part of the Greater Manchester Strategy's international objectives.

The focus of the paper is on inward investment opportunities for Manchester, although the authors acknowledge there is great potential for trade opportunities with China. A comparative analysis of the outward investment potential for different global regions is beyond the scope of this paper.

¹ For the purposes of this report, "Manchester" refers to the Greater Manchester area which includes the ten local authorities of Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan.

Table of contents

Abstract	03
Table of contents	04
Executive Summary	06
1 Background	08
1.1 Introduction	09
1.2 Background to China: Trade and Investment	09
2. Current Connectivity between Manchester and China	18
2.1 Links between Manchester and China	19
2.2 Key Suggestions from Consultees	29
3. Delivering Further Economic Benefit for Manchester	32
3.1 Proposed Objectives	33
3.2 Conclusions and Recommendations	37
References	40

April 2010 Update

Since this paper was written the authors would like to include reference to the actual GDP growth of China in 2009. At the time of writing, an estimate of 7% GDP growth was quoted which reflected the economic climate and conservative outlook for the first and second quarters in 2009. The actual 2009 growth rate of China has exceeded its target of 8% and the National Bureau of Statistics quote an achieved rate of 8.7% GDP growth. (www.cnn.com Jan 2010)

In addition, the authors wish to acknowledge the “Hello Manchester” soft landing scheme which was officially launched in January 2010. The offer, which is part of a wider Northwest scheme, provides new overseas investors with free office space in serviced offices for 12 months across Manchester. The scheme has been developed in partnership between the Northwest Regional Development Agency, MIDAS and leading serviced office providers – Avanta, Bruntwood, Manchester Science Park and Orega.

Executive summary

China's rapid development is reshaping the global economy and it is important that Manchester is positioned to meet the challenges and opportunities this presents. This document draws on the current links between Manchester and China and considers how these links can be utilised and increased to deliver economic benefits.

In spite of the recent economic outlook which has seen stifled growth in the developed nations, China is achieving a 7% average growth rate. Traditionally an export-led market, the current economic conditions have led to a more rapid development of the Chinese domestic market in order to continue fuelling growth. This has particularly been helped by a £400 billion stimulus package and internal policy reforms which will increase the numbers of middle-class citizens. These actions are helping China to maintain its robust rate of growth and increasing importance as a world market. By 2020, it is predicted that 55% of China's population will be middle class and the projected value of Chinese consumption will hit US\$8.8 trillion.

Although the Chinese market offers significant two-way trade and investment opportunities for Manchester, one must bear in mind the potential short-to-medium risks associated with the Chinese economy, particularly macroeconomic risks of increased protectionism and global trade tensions, currency appreciation, trade imbalances, domestic demand and financial stability.

Despite China's predicted growth potential and booming business opportunities within China, Chinese direct investment abroad is still small by any relative measure. The Chinese economy is heavily influenced by the state and direct investments abroad have been accelerating, encouraged by the government's 'Go Global' policy of 2002. As a result, attitudes towards outward direct investment have shifted from outright prohibition to gradual opening and active promotion, particularly with regard to strategic state owned enterprises. As China's business environment becomes more outward looking, it will contribute more to global investments, which are currently relatively insignificant, especially in Europe. The driving force behind Chinese investment in Europe is to gain access to foreign markets, technologies and factors of production. The pursuit of natural resources is a key factor in investments elsewhere with the majority of outward investments to date attributable to China's state owned enterprises (SOEs).

Manchester has developed links with China, particularly through the education sector and local authority civic connections. This paper proposes that leveraging these links and utilising the region's assets to further enhance connectivity will attract more Chinese investments into the region.

Given the fiscal and financial challenges facing both the public and private sectors, it is critical that we prioritise and consider what options can deliver the most value in strengthening our trade linkages with China.

The framework for achieving this aim should be the Greater Manchester Strategy (GMS) which was approved by the leaders of the local authorities in 2009. (http://neweconomymanchester.com/stories/842-greater_manchester_strategy)

One of its key strategic priorities is to increase the connectivity of Manchester's economy to the world. A China strategy, along with approaches to engaging other important emerging markets such as India and Brazil, will undoubtedly be a key element in realising this objective.

In implementing the GMS, it is important that all Manchester partners with connections to the Chinese market collaborate in a way that avoids inefficient duplication and builds on each others' strengths.

With these considerations in mind, we set out a proposed roadmap for optimising Manchester's business linkages with China. Our recommendations are summarised underneath a set of six policy objectives which are:

Objective 1 – deliver inward investment from China by adopting a strategy focussed on cities, sectors and types of companies with high investment potential and closer engagement with UK regional and central government.

Objective 2 – increase trade and investment links with China by utilising networks and relationships to encourage and support more Manchester based firms to do business in China.

Objective 3 – leverage existing local authority civic links and develop new strategic economic links focussing on delivering trade and investment economic benefits.

Objective 4 – promote the strengths of Manchester's education sector, utilising its universities to attract more Chinese students and technology collaborations.

Objective 5 – utilise the Chinese community in Manchester including Chinese professional services, Chinese business investors and Chinese culture.

Objective 6 – improve access to Manchester for business visitors.

We have recommended actions under each policy objective and these recommendations are prioritised as follows:

- focus on SMEs and private/family owned companies for new investments into the UK and promote Manchester to SOEs already in the UK (London);
- increase our use of in-country resources, eg UKTI, NWDA and local authority representatives, and consider sub-contracting to other organisations;
- utilise existing Chinese investor links for lead referrals;
- make use of civic links with existing cities and consider strategic cities for development of new economic benefits;
- build closer relationships with central UK government and China's government to specifically encourage SOE investments;
- target key sectors, cities and types of companies as suggested by the research;
- develop and promote a soft landing package to Chinese investors which includes rent incentives, serviced offices, access to Chinese speaking local business and cultural support (professional services, business support);
- develop an internship scheme aimed specifically at placing Chinese overseas graduates into Manchester businesses;
- link business investment with cultural and leisure events associated with strong Manchester brand names, eg Manchester United; and
- support the development of a direct flight from Manchester to China.

Measurable targets should be assigned to the objectives at the implementation stage and their delivery should be supported by a concerted effort from the local authorities, universities, other public sector agencies and the private sector.

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Background

1.1 Introduction

A key finding of the MIER (Manchester's Independent Economic Review www.manchester-review.org.uk) is the positive impact of foreign inward investment on the Manchester economy. As the MIER notes, the changed economic environment poses a serious threat to investment. Part of the response to this challenge is the targeting of new markets for inward investment. This includes China, which is becoming a global economic leader and is pursuing investment opportunities throughout the world.

1.2 Background to China: Trade and Investment

1.2.1 Government Influence and Key Bodies

Historically, foreign investment decision making has not been separated from China's political leadership and both political and economic influences shape Chinese outward investment trends. Three political bodies are instrumental in this area.

The Ministry of Commerce (MofCOM) authorises provincial and municipal level departments to verify and approve Chinese investments abroad. The National Development and Research Committee (NDRC) formulates new policies for economic and social development. Its focus is on domestic economic reform and restructuring but it also has a role to play in controlling

and supervising outward investments. The State Asset Supervision and Administration Commission (SASAC) was created in 2003 to supervise China's state owned enterprises (SOEs). Its role in reforming SOEs has led to a reduction in their number through de-commissioning and many of the smaller non-profitable SOEs have been absorbed by the larger ones (Berger & Berkofsky n.d.).

These organisations have developed China's outward investment policy favourably for public owned companies and influenced the direction of China's SOEs, which account for the majority of Chinese investments abroad (Nicolas 2009). Different levels of authority are required to approve overseas investments at central and provincial levels (see Table 1). A set of policy amends in May 2009 have relaxed the approval requirements which should lead to around 85% of applications being dealt with at provincial level. (Eversheds 2009)

Table 1: May 2009 Outward Policy Approvals

Investment Level in US\$	Approval Required
>100 million	Central MofCOM review
Between 10-100 million	Provincial level review
<10 million	Submit application, certificate granted within 3 days

(Source: CASCC Briefing Paper Berger & Berkofsky n.d.)

The 2006 Outward Investment Sector Direction Policy encourages and supports investments in natural resources and raw materials, export sectors in which China has a global competitive advantage, sectors which raise China's technology and R&D capabilities, and sectors which enable China to obtain advanced technology, management skills and capabilities (Berger & Berkofsky n.d.).

1.2.2 State Owned Enterprises

In 2002, the government implemented its 'Go Global' policy encouraging Chinese firms to seek opportunities abroad. The policy supports the government's desire to create '50 global champions' which will position the country's top SOEs into 50 global multinational corporations that feature on the Fortune 500 list (Pamlin & Long 2007). Consequently, China's SOEs make a significant contribution to China's outward investment activity. In 2007 they accounted for over 81% of overseas investments and 80% of SOE acquisitions have been in two main sectors: natural resources and technology and communications (Berger & Berkofsky n.d.). In 2009 there were 34 mainland Chinese companies listed on Fortune 500, compared to only 8 companies 10 years ago (Xinhua News Agency 2009).

China's ambition to create 'global champions' and government support specifically for SOEs is therefore shaping the nature of outward investments. This includes providing market information, helping SOEs to list on the Chinese stock market, providing low interest loans and giving them preferential supply contracts. Recently, Beijing stated its intention to use its foreign exchange reserves of \$2,132 billion to support and accelerate overseas expansion and acquisitions by Chinese companies (Anderlini 2009). State owned enterprises, particularly in the oil and natural resource sectors, have increased their ability to acquire overseas companies and assets.

1.2.3 Chinese Outward Direct Investment (ODI)

Although ODI from emerging economies is gaining ground, it is still led by the developed countries. In comparison, China's ODI is still extremely modest as a ratio of GDP. According to UNCTAD's index, its contribution to global outward investment in 2007 was US\$95 billion in terms of outward stock FDI, far less than might be expected given its economic size. Whilst this is only 0.6% of the world's total FDI, it has shown 25.6% growth since 2000, increasing from US\$4.4 billion in 1990 to US\$95.7 billion in 2007 (UNCTAD 2008).

China is likely to emerge as a significant player, particularly in Africa and Asia for natural resources and the US, which is a key export market. Its overseas investments will continue to be driven by its desire to acquire natural resource assets, gain access to markets and make strategic acquisitions of under performing firms, giving them access to advanced technology, established brands and distribution channels. Examples of this are shown in Table 2.

Asia continues to receive most Chinese outward FDI, accounting for 67% at the end of 2007 with Latin America receiving 21% in the same period. However, these figures are distorted by the use of tax havens. The majority of China's FDI into Asia goes to Hong Kong with an unknown proportion consisting of 'round-tripping' investments to take advantage of tax concessions. Investments in Latin America are mainly registered to the Cayman Islands and the British Virgin Islands (Davies 2009).

Of the developed countries, the US is the largest recipient of Chinese investments. Chinese firms are motivated to invest in the US due to the size of the market and the US' reputation for global innovation. The US is the single

Table 2: Examples of Chinese M&A 2009

China Investment Corp, the \$200 billion sovereign wealth fund has been buying stakes in overseas resource companies and has taken a 1.1% stake in Diageo, the British distiller (www.ft.com 21 July 09). In June, CIC increased its stake in Morgan Stanley to 9.88% (reported on 3 June 09).

Guangdong Foreign Trade Group announces it will take a 15% stake in Australian copper and zinc miner Kagara for US\$50.7 million. This is the latest in a string of investments in overseas miners by Chinese firms. Recently China Minmentals' US\$1.39 billion bid for Australian miner OZ Minerals was approved by OZ shareholders (reported on 12 June 09).

PetroChina spent US\$1 billion to acquire a 45.5% stake in Singapore Petroleum Co from Keppel Corp in May 2009. It is now in discussions to make an investment in a European refiner and is said to be considering an investment in a refinery in Grangemouth, Scotland, owned by private chemicals group Ineos (reported on 19 June 09).

Sinopec has agreed to buy Addax Petroleum for US\$7.2 billion. Addax is a Toronto and London-listed firm with assets in Africa and Iraq. This is the largest Chinese oil and gas acquisition to date (reported on 25 June 09).

Suning Appliance buys a 27.36% stake in Japanese retailer Laox. The Chinese consumer electronics company has agreed to pay US\$8.4 million in the deal which will allow it to gain experience in the international consumer electronics market via exposure in Japan (reported on 25 June 09).

China Construction Bank will buy 100% of New York-based AIG's Hong Kong subsidiary AIG Finance for US\$70 million. It will be China Construction Bank's first overseas acquisition since 2006 when it bought Bank of America's Hong Kong and Macau unit for US\$1.25 billion (reported on 13 August 09).

Yanzhou Coal Mining has had its bid for Felix Resources accepted by the firm's Australian directors. The US\$2.95 billion bid is the largest takeover of an Australian company by a Chinese firm to date but still requires approval from the Australian Foreign Investment Review Board and Felix shareholders (reported on 17 August 09).

(Source: www.chinaeconomicreview.com 2009)

largest consumer country and accounts for 42% of the global consumer goods market. It has a reputation for leading in science, a rapid rate of innovation and an ability to transfer that technology to the market for commercial purposes. Forty percent of the world's R&D expenditures are made in the US (National Defense Research Institute the Rand Corporation), 11 of the 15 top universities are based there (Times Higher Education Supplement) and the US creates nearly 40% of the "patented new technology" (OECD) (US Department of

Commerce 2009). Thus, the Chinese desire to acquire technology and R&D know-how and the attractive size of the consumer market are prime motivations for investing in the US.

In terms of investments into Europe, 7.2% of Chinese outward stock is invested in Europe with a focus on manufacturing and retail sectors where Europe has a competitive advantage (Kharbanda 2008).

There are signs of increases in other sectors with a shift towards service and productive industries, scientific research and manufacturing (see Table 3). Increases in retailing suggest attempts to improve access to global export markets.

Europe will benefit from trends to seek new markets for products, access to distribution channels for retail, scientific research and management skills. The UK has benefited the most from this diversification, becoming the main European destination for Chinese outward investment in 2007. This was ahead of Germany, which historically was the lead destination for Chinese investment into Europe (see Table 4).

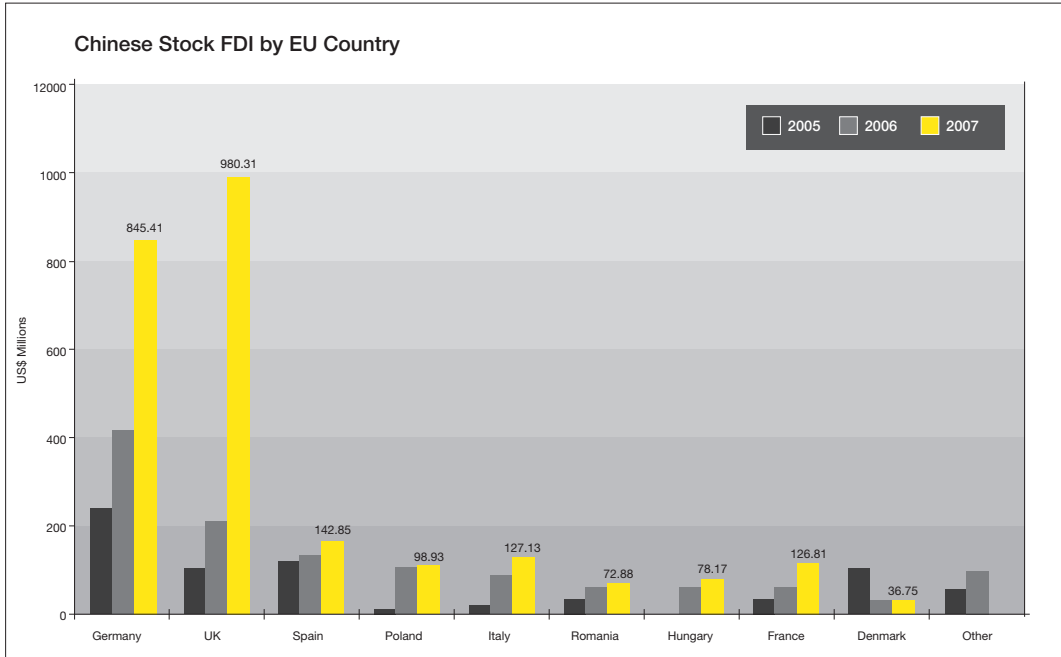
Table 3: Chinese Global Outward Stock FDI by Sector US\$million

Industry	2004	2005	2006	2007
Agriculture	834	511	816	1206
Mining	5951	8651	17901	15014
Manufacturing	4538	5770	7529	9544
Power	219	287	445	595
Construction	817	1203	1570	1634
Transport	4580	7082	7568	12059
IT	1192	1323	1449	1901
Retail	7843	11417	12955	20233
Finance	0	0	15605	16720
Real Estate	202	1495	2018	4514
Leasing	16428	16553	19463	30515
Science Research	123	604	1121	1521
Environment	911	910	918	921
Residential Services	1093	1323	1174	1299
Education	0	0	2	17
Public Health	00.2	0.1	2	4
Cultural Sports	5	5	26	92

(Source: MofCOM cited in Kharbanda 2008)

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Table 4: Chinese Flow FDI into Europe



(Source: MOFCOM cited in Kharbanda 2008)

In March 2009 it was reported that MofCOM confirmed that the UK is the number one destination for Chinese investment into the EU with investments in the UK by stock at US\$972 million compared to Germany US\$930 million (British Chamber of Commerce 2009).

projects accounted for 898 new jobs and 439 safeguarded jobs. An examination of sectors show that seven projects in the automotive and chemical sectors accounted for 50% of the new job figures.

In terms of UK investments, the number of UKTI recorded Chinese investment projects have increased from 14 to 59 from 2001 to 2008. Table 5 shows that these 59

Table 5: UKTI Recorded Successes 2007/08

Sector	No. of Projects	No. of New Jobs	No. of Safeguarded Jobs	Total No. of Associated Jobs
Aerospace (Civil)	1	1	5	6
Automotive	6	322	250	572
Biotechnology and Pharmaceuticals	3	38	0	38
Business (and Consumer) Services	1	2	0	2
Chemicals	1	126	171	297
Clothing, Footwear and Fashion	7	30	0	30
Communications	2	18	0	18
Creative and Media	3	60	0	60
Education and Training	1	2	0	2
Electronics and IT Hardware	3	7	2	9
Environment	2	18	0	18
Financial Services	1	5	8	13
Food and Drink	2	63	0	63
Giftware, Jewellery and Tableware	4	22	0	22
Healthcare and Medical	4	70	0	70
Household Goods, Furniture and Furnishings	5	35	3	38
Mechanical Electrical and Process Engineering	3	7	0	7
Oil and Gas	2	30	0	30
Software and Computer Services Business to Business (B2B)	6	33	0	33
Textiles, Interior Textiles and Carpets	2	9	0	9
TOTALS	59	898	439	1337

(Source: Kharbanda 2008)

Greenfield investments focus on the establishment of headquarters, subsidiaries, trade representative offices, trading companies and R&D centres. These facilitate the Chinese firm's access to the European market and help it customise its products for the local market. Large state owned enterprises are involved in large merger and acquisitions (M&A) as well as setting up representative offices, which in the UK are predominantly based in London. Chinese multinational companies tend to establish joint ventures with western multinationals within China before investing overseas. They often use equity joint ventures and M&As as a way of directly acquiring advanced production, technology and managerial skills overseas. Through M&A, Chinese investors seek access to brands and distribution networks, engineering know-how and customer networks.

The UK has stated its intentions to capitalise on China's growth. In 2008, the Foreign and Commonwealth Office issued its policy on engagement with China, citing three overarching aims. One of these is "getting the best for the UK from China's growth" with goals to achieve \$60 billion in bilateral trade in goods and services, 100 new investment projects and 100 Chinese companies listed on the London Stock Exchange (Foreign and Commonwealth Office 2009).

1.2.4 Opportunities in China

Social changes within China will bring about larger numbers of middle classes and a propensity to spend. Coupled with the government's investments in infrastructure and social policy reforms, this means that there are immense opportunities to trade with China.

Data shows that in 2008 the total retail sales of consumer goods in China reached RMB10.8 trillion, a new record high since 1996 (National Bureau of Statistics China 2008).

With the initiation of various measures taken by the central government since last September, consumption is becoming a new engine of Chinese economic growth. Following the raising of social protection standards, the actual consumption capacity of urban and rural residents has been further strengthened. The £400 billion stimulus package is helping China's domestic market to provide economic growth at a time where export growth has reduced dramatically due to decreasing global demands. The package is allocated to domestic projects to boost infrastructure, public housing, environmental projects, health and social services as well as investments in rural areas.

Over the next 20 years, Chinese workers will continue to migrate from rural to urban areas into higher paying jobs, becoming tomorrow's middle class consumers. Zheng Xinli, Vice-Minister of the Communist Party's central policy research office, said that, taking price changes into account, 55% of the population will be middle class by 2020, with 78% of city dwellers and 30% of those in rural areas reaching that status. Middle class is currently defined as having an annual household income of between RMB 60,000 and RMB 200,000. According to Credit Suisse, China is on course to become the world's second largest consumer market by 2015. China is the third biggest consumer of luxury goods accounting for 12% worldwide (Goldman Sachs) and is growing 20-30% per year. The projected value of Chinese consumption will hit \$8.8 trillion by 2020 (Euromonitor 2009).

As well as economic growth predictions, confidence to trade with China is further buoyed by the fact that Chinese perceptions of UK exports are generally very positive. A survey by Anholt-GfK Nation Brands of 1000 online Chinese respondents in 2008 found that:

- UK exports are highly rated by the Chinese;
- the UK is ranked 3rd (behind US 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 (Visit Britain 2009).

China's domestic and consumer market offers huge potential for business opportunities and, despite the global financial outlook, companies are still choosing to expand their investments in China. In February 2009, Volkswagen announced that it was committed to its plans to invest RMB21.19 billion in China by 2010. In March 2009, Thermo Fisher Scientific, a Fortune 500 company, transferred the global headquarters of its major operating departments from the US to Shanghai (People's Daily Online 2009). In September 2009, HSBC announced that it was moving its CEO from London to Hong Kong in a move that, as quoted by Stephen Green, HSBC Chairman is "both symbolic and practical... with Asia and China being the centre of gravity of the world and our business" (Jenkins & Tucker 2009).

1.2.5 Macroeconomic Considerations

Although the Chinese market offers significant two-way trade and investment opportunities for Manchester, one must bear in mind the potential short-to-medium term risks associated with the Chinese economy. In macroeconomic terms these include:

- **Increased protectionism and global trade tensions** – As countries like the US and UK reset their economies to focus more on export driven growth and away from

relying on domestic credit fuelled consumption growth, there will be increased demands on China to reduce trade imbalances by opening up its market to more foreign goods and services. However, China's ongoing need to absorb vast numbers of workers from its interior provinces – estimated at around 200 million – make this politically difficult in the short-term. These two drivers raise the spectre of protectionism outside China combined with retaliatory moves from China, which would undoubtedly have a negative impact on growth and trade.

- **Yuan (RMB) Appreciation & Chinese Trade**

Imbalances – Another variable which impacts trade relationships with China, is the value of its currency. China has been under pressure, in particular from the EU and US to appreciate the Yuan, which they argue is undervalued and gives the Chinese an unfair advantage in export markets. Whilst a short term appreciation in the Yuan would aid foreign exporters, there is some question amongst economists as to whether this would impact on Chinese trade surpluses over the long term. One factor which could influence Chinese policy on the value of the Yuan however, is a return to (food) price inflation inside China and the possibility of triggering internal (food price) riots in rural/interior areas of China as occurred several years ago. Appreciating the Yuan would lower the costs of imported food products and act to boost the competitiveness of exporters to China.

- **Chinese Domestic Demand & Financial Instability**

– Given the pressures on China from the US and other countries to boost domestic demand, Chinese policymakers could be tempted to ease monetary/credit conditions. However, this runs the risk of igniting speculative investment/property bubbles in China with all the risks this carries for not only for the Chinese economy and banking system, but for the global economy as a whole.

2

**Current Connectivity
between Manchester
and China**

2.1 Links Between Manchester and China

The first part of this section summarises the level of connectivity that Manchester has established with China. It focuses on inward investment activity, civic links, university education and the level of Chinese cultural and community activity taking place in Manchester. The second part highlights the key findings and opinions obtained from interviewing the consultees. Both sets of findings have been used to formulate the recommended objectives and interventions.

2.1.1 Inward Investment

MIDAS promotes Manchester to foreign direct investors and the following approaches have been used to attract Chinese inward investment:

- supporting civic activity in China and organising large scale inward investment seminars, delivering small scale workshops and one-to-one meetings with potential lead companies in Beijing, Shanghai and Wuhan;
- partnering with Manchester based professional service providers who provided financial sponsorship for MIDAS' China based activity;
- working with representatives based in China (NWDA China manager who is co-located within the UKTI team in Shanghai, and a Manchester representative based in Wuhan);
- utilising paid intermediaries, eg COIC (Chamber of International Commerce in Shanghai) and UKTI's Overseas Market Introduction Service, to set up meetings and manage event guest lists;
- developing relationships with key organisations in the UK and China;

- maintaining relationships with science parks in China, particularly the Wuhan East Lake Development Zone, and promoting the SinoVentures soft landing project;
- meeting Chinese students and Chinese executives at business schools in Manchester;
- hosting inward visiting delegations;
- PR activities in Manchester (press releases) and holding press conferences in China to publicise Manchester's China related activity; and
- utilising the brand names of Manchester United and Manchester City to deliver inward investment activity in China associated with football tours in key cities.

The above activity has helped to attract investors from mainland China to Manchester. Investments are small in terms of job creation, typically less than ten, with one or two local employees and a Chinese company representative to oversee the operation. Occasionally Chinese students are employed on a part time basis. The business function tends to be sales and marketing to develop European markets.

Sustained activity has led to links being built with organisations in China which can help to deliver further inward investment leads. Until March 2009, funding was available from the NWDA to support the SinoVentures soft landing facility based on Manchester Science Park which provided a three month rent free period, furnished office space and dedicated resources offering Mandarin language and cultural support. Experience has shown that leads can come out of 'leftfield', for example due to a family/friend connection in the area rather than through strategic promotion activity.

Other UK cities have a range of initiatives including up to 12 months rent free periods and China-UK business networks (see Table 6).

Table 6: Other 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 has a dedicated city pavilion at Shanghai Expo 2010 where an estimated 70 million visitors will attend between May to October 2010. Peel Holdings is the lead corporate sponsor of Liverpool's pavilion. Peel is also leading a £50billion investment into "Shanghai Tower", a 60 storey tall building on Liverpool's waterfront.

London www.thinklondon.com

Think London has an office in Beijing and is recruiting for 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 provides overseas companies with 12 months free office space. A dedicated China campaign capitalised 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 1-1 meetings. The cities visited were Beijing, Tianjin, Qingdao, Ningbo, Hangzhou, Shanghai, Wuhan, Chengdu, Chongqing, Guangzhou, Shenzhen and Hong Kong.

Newcastle www.onenortheast.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 between business, education, government, research and culture.

Sheffield www.creativesheffield.co.uk

The Sheffield China Business Network was established in 2008 to facilitate trade and investment in China for organisations from Sheffield. The current focus is on developing a relationship with Chengdu where Sheffield has forged strong links in football – Sheffield United bought Chengdu Blades Football Club.

Experience has shown that leads can come out of ‘leftfield’, for example due to a family/friend connection in the area rather than through strategic promotion activity.

London has been particularly successful in attracting Chinese investments, helped by its capital city status. In addition, Think London 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 has created awareness and business opportunities. Liverpool's participation in Shanghai Expo 2010 and the 'Shanghai Towers' development in Liverpool will strengthen its links to Shanghai and provide potential for inward investment.

Outside of the UK, the US and Germany are key destinations within the developed countries for Chinese investments. The US provides help through its "Invest in America" and "Access America" programmes. In 2008, the US Commerce Secretary said the US government is preparing a ten city series of programmes to introduce Chinese investors to opportunities in the US. Washington is also trying to streamline the application process for US visas for Chinese business people (Ho 2008).

Prior to the UK becoming the lead destination, Germany had attracted the most Chinese investments in Europe. This is perhaps due to their history of cooperation, particularly with regards to Germany's military innovation and technological expertise. Germany continues to be actively engaged with China and is currently delivering a series of events in China through "Germany and China – Moving Ahead Together". Scheduled to run over three years, Germany is presenting its cultural, economic, scientific and social diversity in China's key cities and provinces. The initiative is led by the foreign office in cooperation with the Goethe Institute, the Asia Pacific Committee of German Business and the Marketing for Deutschland GmbH, along with official corporate partners such as Deutsche Bank and Siemens (Germany Land of Ideas website 2009). The aim is to position Germany as an innovative and attractive country and to offer China the opportunity to develop solutions for the future together.

The event opened in Beijing in August 2007 and will culminate in the Expo 2010 in Shanghai. Events have taken place in key cities including Nanjing, Chongqing, Guangzhou and Wuhan. Visiting Wuhan between 20 September to 31 October, Sino-German conferences and workshops, including a "Forum on Sustainable Development", are intended to generate ideas on how to create sustainable cities. Representatives from industry, town planning, culture, education and the scientific community are involved (www.auswaertiges-amt.de 2009).

2.1.2 Local Authorities China Links

Greater Manchester comprises ten local authority boroughs as shown in Map1.

The individual authorities provided suggestions on how to take forward their civic links in relation to China:

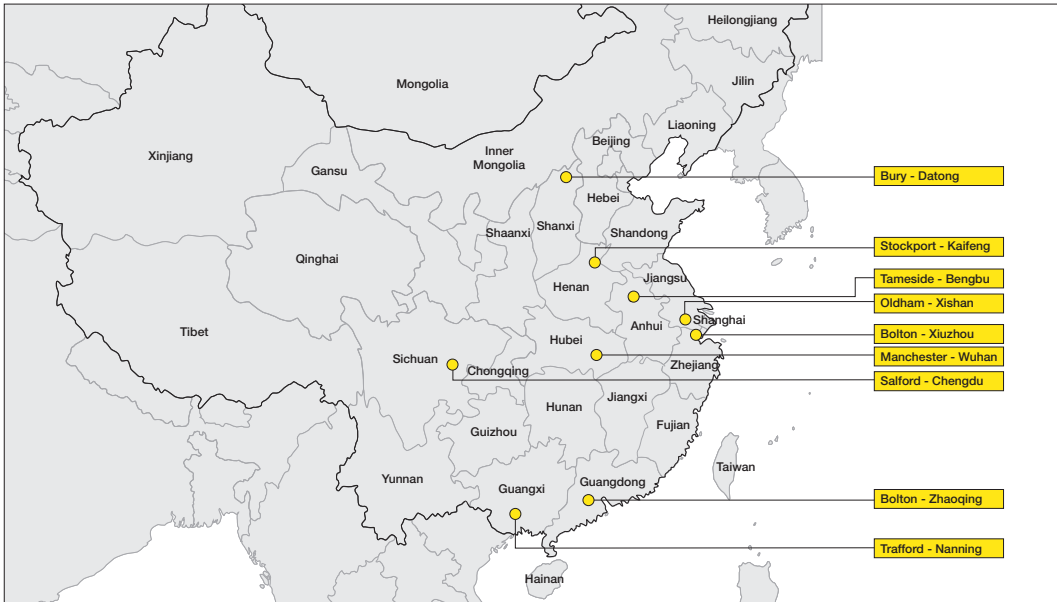
- use the civic links and develop activities with an economic focus;
- twinning and friendship relationships require an individual approach with the local authorities, but the sharing of ideas and experience across Manchester is useful;
- culture and education exchange can be successful on an individual local authority level but business activity benefits from a combined approach and a sub-regional offer is needed;
- it is not viable for individual authorities to match larger Chinese cities – encourage more collaboration to promote Manchester as a whole;
- position individual local authorities as the "gateway to the Manchester region" supported by Chinese marketing literature highlighting local authorities within a Manchester context; and
- have AGMA (Association of Greater Manchester Authorities www.agma.org.uk) or a non local authority body co-ordinate international China activity.

We highlight on Map 2 the local authority links that Manchester has developed in China.

Map 1: Greater Manchester



Map 2: Mainland China



(Source: http://english.freemap.jp/asia_e/china.html)

Table 7: Local Authority Links with China

Local Authority	Chinese Town (province)	Information
Bolton	Zhaoqing (Guangdong) Xiuzhou (Zhejiang)	Zhaoqing sister city agreement signed in 2004, particularly built on strong university links to develop economic, commercial, cultural, educational and health opportunities. Agreement with Xiuhou district in Jiaxing City signed in 2007 to promote economic and commercial cooperation. Agreement built on links made by local Bolton businesses.
Bury	Datong (Shanxi)	Connection made because of steam railway industry. Friendship city agreement for seven years in culture, education and trade/business, but links have mostly been around culture/education. Student and teacher exchanges. Datong arts group performed in Bury.
Manchester	Wuhan (Hubei)	Twin relationship since 1986. Have had two Wuhan Foreign Affairs Office (FAO) representatives working in Manchester and agreement in place for next representative. Also part funds Manchester Representative in Wuhan who is also the CBBC Wuhan representative. Active cultural, educational and economic links, eg Hubei Museum display at Manchester Museum. SinoVentures agreement using Manchester Science Park as a soft landing zone and Wuhan East Lake Development Zone resulted in five Chinese investment projects from Wuhan. Environmental and creative sector developments.
Oldham	Xishan (Jiangsu)	Share a textile heritage. Friendship agreement starting in 1999 around "investment, skills, education and culture". Have a documented Oldham-China strategy 2007-2010 which also explores collaboration with Macau. An OMIS report was commissioned to identify areas of collaboration with Xishan/Wuxi. Four main industrial clusters, electronics and electronic material, precision machinery and car components, hi-tech textile and clothing, and modern logistics.
Rochdale	No formal links	Explored possible links with Meishan based on links that the local FE college already had. Outcome was that there was no clear advantage to the borough from progressing with further links.
Salford	Chengdu (Sichuan)	Links since 1996 due to University of Salford establishing relationship with Ginniu to increase student numbers. Until recently, University of Salford and Salford City Council jointly paid for a representative to develop student numbers and trade/investment opportunities from Chengdu. Chengdu FAO interested in health, biosciences, environmental services.
Stockport	Kaifeng (Henan)	Currently exploring links with Kaifeng following an arts/culture performance in 08/09 Chinese new year. Friendship agreement in relation to education. Have links with eight schools in Stockport, funded by British Council.
Tameside	Bengbu (Anhui)	Economic twinning relationship since 1995 now includes education and environmental co-operation agreements. Chinese companies have expressed interest in environmental, health, food safety hygiene.
Trafford	Nanning General Chamber of Commerce (Guangxi)	An agreement on co-operation between Trafford and Nanning General Chamber of Commerce signed in July 2009 to promote trade, economic and technological development. This is not a formal twinning arrangement.
Wigan	No formal links	

2.1.3 The Universities in Manchester

The education market is a way to secure long term interests with China by solidifying good relations with the future business and government leaders when they are young and at university.

Chinese students remain the largest group among overseas students in the UK with the number expected to rise to 900,000 by 2020 (Mackie 2005). If the government meets its aims of quadrupling the number of overseas students by 2020 to 900,000, education would deliver more than £11bn annually to the UK economy.

In 2007/2008 there were 2,300 students from mainland China studying at the universities in Manchester which equates to 15% of the total non-UK students. Table 8 shows the student numbers per university.

The universities have links with Chinese universities in Beijing, Shanghai, Shenzhen, Guangzhou, Zhaoqing, Dalian, Wuhan, Zhejiang, Nanjing, Shendong, Harbin and Sichuan.

As noted earlier, UK education is held in high regard by China and there are opportunities to develop the education sector by attracting more students from China to attend the universities in Manchester. In addition, encouraging and providing support for Chinese graduates to gain employment with firms based in Manchester would also increase the level of interconnectedness between Manchester and China. The knowledge of China that the Chinese intern could bring to the local firm may also provide opportunities for the local business to develop business links with China.

Aside from links with students, the universities also have projects that can further increase the region's connections with China. UMIC (The University of Manchester Incubator Company) has a couple of examples of local companies who have forged links with China, particularly relating to outsourcing opportunities. In both cases, a Chinese national has been employed by the company and, because of their business knowledge of China and language capability, they have been able to develop trade links with companies in China. One of the Chinese employees came through the Knowledge Transfer Partnership which aims to create knowledge transfer links between universities and companies.

Table 8: Chinese Students Attending Universities in Manchester 07/08

University	From China	Total	% of Total from China	Other Non-UK Total	% of Non-UK from China
The University of Bolton	30	7845	0.5%	744	4%
Manchester Metropolitan University	355	32967	1.0%	2550	12%
The University of Manchester	1491	37360	4.0%	6884	18%
The University of Salford	411	19181	2.1%	2297	15%
TOTAL	2287	97353	2.3%	12475	15%

(Source: Higher Education Statistics Agency 2009)

University of Manchester Intellectual Property (UMIP) has recently launched the “IP Net” which is a free international portal for technology seeking or technology marketing organisations. Promotion of the portal will be global, but due to the timing of key events it will initially target China and Taiwan. The tool could be used to enhance the connectivity of UK technology firms with Chinese firms.

2.1.4 Travel and Tourism

Travellers between Manchester and China include those who travel for business, tourism, students and visiting friends and family.

Visitor Numbers

In 2007, there were 143,000 visitors from China to Manchester (Visit Britain 2009). Chinese tourism abroad has to be approved and in 2005 the UK received approval from the Chinese authorities for groups of five or more to travel for tourism purposes. The number of visitors from China to the UK can be expected to grow as a result of this. A survey by metrics2.com found that Southeast Asia is losing popularity to Europe and East Asia as a holiday destination for Chinese tourists (Visit Britain 2009). It is estimated that there were 28.3 million outbound visits from China in 2007 and forecasts of 52.3 million trips by 2012 (Global Insight n.d.). China is the fastest growing market for outbound tourism and Europe will remain the largest Chinese international long haul destination (Global Market Forecast n.d.).

Airport Usage

Statistics show that there were 92,000 airport passengers travelling between Manchester and China in 2008. This figure is split into 40% business and 60% leisure travel (Manchester Airport 2009). There are currently no direct

passenger flights from Manchester to China, so the passengers will have travelled onto Manchester Airport via one of many international hubs, such as London, Frankfurt and Dubai. Whilst there are cargo flights, a major carrier has recently suspended its service. The Chinese aviation authorities advised airlines to cancel or postpone all airline orders in 2009 in the face of the deepening recession and downturn in the air travel market (Visit Britain 2009).

Consultees have commented on the positive aspects of having a direct flight between Manchester Airport and China, citing convenience, increase in trade, investment and tourism as key benefits. The Chinese investors in Manchester recommended Shanghai or Guangzhou as priority cities for a direct connection, given that these cities are more outwardly commercial. Beijing was also mentioned as a key destination for a direct route connection.

2.1.5 Leisure, Cultural and Community Links

Leisure and sport related activities also create links between Manchester and China. Manchester United is a global brand name, with 333 million fans worldwide, of which reportedly there are 71 million based in China (China Daily 2009). Manchester United has recently opened a megastore in Macau and since 2005 has included China on their biennial tours of Asia. The club has an official Chinese website which provides online information in Chinese.

Major sporting events held in Manchester provide another touch point for Chinese nationals as the Chinese national team participates in these events, eg swimming and cycling events in 2008.

In 2007, the Paralympic sports committee of Chinese representatives visited Manchester on a reconnaissance visit ahead of the Beijing Paralympics 2008. As part of the city council's civic link with Wuhan, the Wuhan youth football team took part in a football festival in 2007.

The Museum of Science and Industry formed a link with the China Science Technology Museum in Beijing in 2008. The links will provide opportunities to deliver joint travelling exhibitions, webcasting and staff exchanges. The first exhibit from China will be the China Space Programme in January 2010. MOSI hope to achieve direct benefits which include improving the awareness of MOSI, promoting Manchester and its heritage, encouraging more travel to Manchester and the Northwest and strengthening links with the Chinese community in the Northwest. The Hubei Museum in Wuhan is also in discussions with the Manchester Museum to hold a display of items from Wuhan.

The Chinese community in Manchester is the second largest in the UK. A wide variety of community support services aimed at the local Chinese community exist, as do organisations helping to promote understanding of Chinese culture. Table 9 profiles some of these organisations.

Table 9: Chinese Organisations in Manchester

The **Chinese Arts Centre** was established in 1986, and aims to raise the profile of Chinese artists from around the world. The work covers many areas including exhibitions, residencies, artist support schemes, publications, agency work, advocacy, consultancy, commissions, festivals, and tours. It also houses a gallery shop with handicrafts from China, books and a tea house. It also offers contemporary dance and 'Mandarin Corner', an opportunity for learners of Mandarin Chinese to meet and improve language skills and enjoy free screenings of mandarin films. www.chinese-arts-centre.org

The **Confucius Institute** is set up at the University of Manchester and aims to promote language and culture to the local community. It is linked to 12 other UK Confucius centres. As well as providing evening language classes and outreach programmes to local schools, it has provided sponsorship for Chinese cultural events, for example Chinese films at Cornerhouse. www.confuciusinstitute.manchester.ac.uk

The **Lee Kai Hung Foundation** was formed as a UK registered charity in 1992. Since that time the Foundation has provided scholarships for almost fifty Chinese students to study in the UK. The Foundation is dedicated to educating and supporting Chinese students in the UK, providing a base for quality education in a safe environment. www.cshelpline.org

The **Manchester Chinese Centre** is a non-profit making, non-political and non-religious, charitable organisation. It is committed to providing a community service for Chinese speakers and people who are interested in Chinese Culture. Its services include education, sports activities, arts society, an information service centre and a drop-in centre. www.mchinesecentre.org.uk

The **Manchester Chinese Library Service** was set up in 1986. It was the first comprehensive Chinese library service in the UK and is based at Manchester's Central Library. The department is run by bi-lingual staff and offers an extensive collection of books and Chinese national newspapers, magazines, music CDs, videos and VCDs reflecting Chinese culture, a full range of cassette language courses in Cantonese and Mandarin and annual cultural activities at Chinese New Year and Mid-Autumn festivals.

Established in 1993 in Manchester, **SuMan Education International** is a specialised educational organisation and helps representatives from Chinese educational institutions and organisations to visit Britain. It provides services to Chinese and British universities for joint training programs and to Chinese students who wish to come to Britain to study. www.suman.uk.com

The **Wai Yin Chinese Women Society** is a registered charity and is the largest Chinese community centre in Britain, providing community services aimed at women in the Manchester area. They have more than 500 Chinese families registered as members and provide services for the children's group, youth group, women's group, adult and elderly group, and Chinese with mental health problems. www.waiyin.org.uk

A study found that the Chinese community in Manchester does not currently contribute much in promoting trade and investment in China because they are relative newcomers with most concentrated in catering and related businesses (Lancaster University 2006). However, in the future the Chinese are likely to play an important role in promoting trade and investment through import/export businesses, manufacturing in China and providing a ‘business platform’ between Britain and China. They also make contributions of a social and cultural nature, eg attracting tourists as visitors to Chinatown and cultural events. The Chinese community takes education seriously with almost 44% of children of owners of Chinese owned businesses attending private school. The number of second and third generation Chinese who are moving into the higher professions and management positions is evidence of how the Chinese community is further integrating into the wider community and society. This is increasing the stock of professional and managerial workers in the Manchester population.

The Chinese community in Manchester is attractive for potential Chinese investors who will have lifestyle and family considerations to make. Showing how the existing Chinese community is established, and successfully integrated into the fabric of the wider community, creates an additional positive message to enhance links between China and Manchester.

2.2 Key Suggestions from Consultees

The following summarises the key opinions and suggestions arising out of 51 interviews with consultees. These have been used to formulate the proposed objectives set out in Section 3.

2.2.1 Market Views:

- Chinese outward investment is still in the early stages of development;
- the financial crisis has impacted on the volume and level of Chinese investments overseas;
- investment follows trade – encourage business links and investments should follow;
- likely investors in the future are import/export, property investors, manufacturing and recycling companies and investors attracted to the area’s assets, eg software companies linking into computer science at the universities;
- SOEs naturally choose London and there is not much leverage in their decision making;
- SMEs generally follow the market – they tend to be more flexible and invest where there is market opportunity; and
- Manchester as a business location has the following advantages: support through SinoVentures, easy to reach customers because of its central UK location, Manchester Airport (for passenger and freight flight convenience), university links for recruitment, lower business costs and the Chinese community.

2.2.2 Target Areas:

- target developed, entrepreneurial provinces and cities, eg Shanghai, Guangdong, Zhejiang and Shandong;
- focus on second tier cities, eg Wuhan, Hangzhou, Ningbo, Qingdao, Nanjing, Wenzhou and Chongqing;
- SMEs are more accessible and flexible in their decision making – target those that are mid-range and ready to internationalise;

SOEs naturally choose London and there is not much leverage in their decision making. SMEs generally follow the market – they tend to be more flexible and invest where there is market opportunity.

-
- focus on sector developments in China, eg Wuhan's initiatives in the creative and environmental sector – pair up with Manchester's strengths;
 - target companies in sectors which match with Manchester's strengths in finance/IT/creative; and
 - banks are likely to be big outward investors, setting up overseas subsidiaries.

2.2.3 Suggested actions in China, UK and Manchester Level

In China:

- have a permanent presence in China – Manchester needs someone there, preferably in Shanghai or Guangdong, to deliver inward investment either through a local post or subcontractor;
- links and relationships take time to develop – maintain and build on relationships that have been developed in key cities;
- provide information about Manchester and its sectors more clearly and directly to UKTI posts overseas; and
- increase the links and utilisation of the in-country representation already invested in China by the NWDA and UKTI.

In the UK:

- changes to visa/immigration rules – the UK is not part of the Schengen Zone and the short length of UK business visas granted can be prohibitive to investment set up; and
- use other UK initiatives, eg Liverpool's links to Shanghai or London-led activities.

Manchester Level:

- soft landing support was a key advantage and the SinoVentures brand is known – try to re-establish this;
- links with twin cities are useful and the placement of a representative in Manchester is crucial;
- Mandarin speaking local support is very important to help Chinese investors understand UK business culture and set up business here;
- use the connection and presence of Chinese students in Manchester but also help them to integrate and experience the business community, eg set up a local internship scheme;
- promote Manchester's strengths and sectors (R&D, Media City);
- provide a two way business match-making service;
- promote the investor visa route to development;
- provide specific investment opportunities and promote specific priority projects, eg Media City;
- business and government is interlinked, therefore do more local government-to-government initiatives, eg a Manchester Open Day, host a Chinese trade show;
- support direct flights from Manchester to Shanghai/Guangdong/Hong Kong;
- use the Manchester brand name advantage, and support well known Manchester brands to promote the city, eg Manchester United in China;
- utilise programmes such as the Knowledge Transfer Partnership to encourage more employment of Chinese employees who can form business links with their home country; and
- consider how to capitalise on the potential spillover effects of the Liverpool-Shanghai twinning relationship and the activity of Shanghai Expo 2010.

3

**Delivering Further
Economic Benefit
for Manchester**

3.1 Proposed Objectives

Taking into consideration the research findings and within the context of this paper, we outline six proposed objectives which aim to deliver further economic benefits from existing connectivity and relationships with China. We recommend that the delivery organisation set measurable targets in the context of their organisational objectives and resource commitment.

Objective 1

Deliver inward investment from China by adopting a strategy focussed on cities, sectors and types of companies with high investment potential and further engagement with UK regional and central government.

China is a huge country and resource allocation for inward investment lead generation needs to be strategically managed. Manchester could utilise its existing links with Chinese cities, and cultivate those relationships that have already been established by the local authorities and MIDAS. In addition, where it is viable, target those Chinese cities that have been identified by the research to be more commercially vibrant.

The strategic approach could be sector focussed, sector led and ideally match Manchester strengths with China's needs, for example in sectors such as healthcare, creative, technology and the environment. Key companies within priority sectors should be identified and targeted differently depending on if it is an SOE or SME. Chinese investors look for specific 'concrete' investments and, increasingly, partnerships (joint ventures, distributors, alliances) are being sought to ease the investment risk. Considering that investment follows trade, identify and analyse the top Chinese companies that are trading with the UK, but do not

have a physical presence and target those with high potential to invest in Manchester.

Evidence shows that major Chinese investments are made by SOEs which are directly owned by the Chinese government and that SOEs tend to migrate towards London. For these reasons, strengthening engagement with central UK government could influence government intervention at the highest level which may have an impact on where investments land in the UK. To do this, Manchester has to show the UK and Chinese central governments that it is an excellent business location and that it is a suitable region for Chinese investments to establish and expand.

Suggested Actions:

- implement a strategy to approach SOEs focussing on promoting Manchester to SOEs already in London and working at government level to secure new SOE investment into the Manchester region;
- identify top Chinese companies trading with UK but with no physical presence;
- identify priority sectors and key companies within sectors to target;
- identify potential investment projects/partnership programme;
- consider whether the Manchester city region can have on the ground representation in China;
- offer a soft landing package for Chinese investors which include rent incentives, furnished offices, language and cultural support and business development support;
- engage with Northwest Regional Minister, BIS, UKTI, Chinese Embassy in London, All Party Parliamentary China Group;

It is important to view China in the long-term and, bearing this in mind, our approach should be underpinned by long-term sustained commitment coupled with realistic expectations.

- Manchester representatives to participate in trade/investment delegations led by UK plc, eg City of London Mayor's visits to China, UKTI/CBBC Lord Mandelson visit to China;
- create a Manchester-China internet portal;
- develop promotional literature and distribute in China; and
- support the placement of a Chinese central government representative in Manchester.

Objective 2

Increase trade and investment links with China by utilising networks and relationships to encourage and support more Manchester based firms to do business in China.

China's growing economy and anticipated consumption levels provide opportunities for companies around the world to engage and develop stronger trade links with China. In addition to the anticipated trends in China's economic growth, China Britain Business Council's regional cities report (www.uktradeinvest.gov.uk) highlights key regional cities where economic growth and trade have high potential for development. Increased links with China will help to increase the region's international outlook and potential for business development with China.

Suggested Actions:

- further work with UKTI/CBBC/Chamber of Commerce relating to trade delegation visits, educational seminars;
- China representatives in Manchester to be given trade targets; and
- actively sustain and develop the networks and relationships already built up from previous activity both within China and in the UK.

Objective 3

Leverage existing local authority civic links and develop new strategic economic links focussing on delivering trade and investment economic benefits.

This objective is about leveraging the existing links and relationships which have been invested in by Manchester's local authorities and to continue engagement with a coordinated approach focussing on delivering economic benefits.

The ten local authorities of Manchester have varying degrees of activity with China. Eight of the ten authorities have a formal civic, friendship or economic link of varying lengths of time, and others are currently exploring links with Chinese cities.

The focus of the links has been on strengthening cultural, educational and economic exchanges and benefits. There is a general consensus and desire to further the economic links and benefits from the civic relationships. There is also a view that more central coordination would be beneficial to the local authorities to provide strategic support and Manchester-centric messages to China. More should be done to use the Chinese representatives linked to the local authority twin city both in situ in China and those placed in Manchester.

Suggested Actions:

- deliver a sector analysis of the current Chinese twin cities and identify and match their needs to Manchester's strengths;
- develop a MOU with a strategic Chinese province to develop a formal economic link with Manchester;
- support the placement of Chinese Foreign Affairs Office representatives in Manchester and China and assign specific inward investment and trade targets;

-
- develop a Manchester message incorporating all the local authorities and associated marketing and information material; and
 - deliver a ‘Manchester Open Day’ or trade and investment show for Chinese companies from twin cities to come to Manchester to meet potential customers/partners.

Objective 4

Promote the strengths of Manchester’s education sector, utilising the strengths of the universities in Manchester to attract more Chinese students and technology collaborations.

The UK education system is held in high regard by China. The universities in Manchester already attract a high proportion of students from China and these numbers continue to grow. Chinese students often come from wealthy and influential families, and their potential to reach an influential business or governmental position in the future could bring economic benefits to their region of study.

Deepening the Chinese student’s experience of Manchester will enhance the long term relationship that a student has with Manchester and this could be achieved by developing sponsorship or internship schemes offering commercial experience opportunities for Chinese graduates with Manchester based employers.

Chinese companies are being encouraged to develop international collaborations in the fields of science and technology to enhance their own R&D capabilities. The University of Manchester has a highly rated reputation in this field and the potential to collaborate with Chinese academics and commercial entities in this field could be explored further.

Suggested Actions:

- develop a China/Manchester scholarship scheme which includes sponsorship for high achieving students from China and business internships;
- identify and support further collaborations by the university faculties that have potential to develop technology partnerships with Chinese companies, eg UMIC and UMIP; and
- promote Manchester based English language schools to potential Chinese students.

Objective 5

Utilise the Chinese community in Manchester including Chinese professional services, Chinese business investors and Chinese culture.

Manchester has a large and vibrant Chinese community centred around Chinatown and spread throughout the area. As well as first, second and third generation Chinese living in Manchester, there are increasing numbers of Chinese investors from China who are establishing UK businesses in Manchester.

Relationships and referrals are important in Chinese business culture and there is evidence of a growing cluster of Chinese trading companies setting up in Manchester due to the presence of existing Chinese companies. Understanding of Chinese business culture and language can also influence location decisions made by Chinese investors. Manchester has developed a network of Chinese speaking professionals who can offer legal, accounting and banking services to help businesses set up and grow.

Suggested actions:

- collaborate with existing Chinese investors and intermediaries to promote Manchester as an investment location to potential new investors;

-
- develop a professional 'China-Manchester' network both on and offline; and
 - promote a package of Chinese language, culture and lifestyle support.

Objective 6

Improve the conditions enabling business visitors to access the Manchester region.

The consultee interviews suggested that the issue of visas and immigration could hinder the level of connectivity between Manchester and China. The UK is not part of the Schengen agreement and many Chinese investors have commented on the difficulties of obtaining visas to visit the UK for business purposes.

Chinese investors have also commented on the convenience of having a direct flight from China to Manchester. The anticipated growth of the Chinese middle classes, increasing numbers of tourists from China to the UK and the increasing student numbers from China and their associated visiting friends and family contribute to an increasing demand for direct routes.

Suggested actions:

- co-operate with other city regions to influence the policy impact of UK visa/immigration policy;
- feedback issues highlighted by investors to relevant agencies and maintain dialogue; and
- support direct passenger flight from Manchester Airport to China.

3.2 Conclusions and Recommendations

Chinese outward investment is still in its early stages but has the potential for significant growth. However,

in the short to medium term, the emphasis is on resource acquisition and expansion of SOEs. The growth of China's internal market provides a more immediate opportunity and Manchester's priority should be to encourage and support more Manchester firms to trade and establish business with China. The long term potential for outward investment from China should also be borne in mind and the inward investment approach enhanced.

Doing business in and with China takes time and resource and the efforts already invested in cultivating relationships should be utilised. Leveraging existing local authority links with an economic focus could deliver immediate benefits in trade and investments, particularly relating to trade and investments from SMEs. In the future, new strategic links on a regional or provincial level could be achieved subject to resource availability and the willingness of potential partners.

Chinese business is inter-linked with government and politics. Manchester's approach to China could mirror how China does business. Manchester may benefit more if it were to connect more with central government led initiatives to develop trade and investment links with China and may help to deliver SOE investment into the UK outside of London and the Southeast.

In relation to education, helping Chinese graduates to gain employment with local businesses has proven a successful route for developing trade and links with China and Manchester should be encouraging more of this. By utilising and strengthening its university links with China, Manchester could attract more Chinese students. Helping them gain internships or employment with local businesses would help to facilitate knowledge transfer and increase the international outlook of domestic firms.

Manchester has some key assets and brand names that are well known in China which could be used to further promote the awareness of Manchester, eg Manchester Airport, the University of Manchester, Manchester United and Manchester City football clubs. Manchester could increase its usage of cultural and leisure events to highlight and promote Manchester in China, eg MOSI exhibits in Beijing, the Manchester United tour of Asia. Manchester could draw upon and use the presence and the strength of the well-established and integrated Chinese community in Manchester to attract further linkages and increased investment in the region.

Manchester could also consider how to influence the barriers to investment, two of which have been highlighted as a lack of direct flights to China and exclusion from the European Schengen Zone. We acknowledge that these issues may be deemed a lesser priority, particularly as they lie outside of the immediate sphere of influence, but we have recommended action due to the potential benefits that positive change may deliver.

In the context of the current fiscal and financial challenges Manchester should prioritise and consider what options can deliver the most value in strengthening its business relationship with China. We recommend that Manchester should maintain its momentum by cultivating the relationships it has already established and adopt a more focussed and targeted strategy.

In summary, some recommended inward investment approaches in priority order could be:

- focus on SMEs for new investments into the UK and promote Manchester to SOEs already in the UK (London);
- increase the use of in-country resources, eg UKTI, NWDA, local authority representatives and consider sub-contracting to other organisations;
- utilise existing Chinese investor links for lead referrals and utilise the presence of the Chinese community in Manchester;
- make use of civic links with existing cities and consider strategic cities for the development of new economic benefits;
- build closer relationships with central UK government and participate in their China initiatives;
- target key sectors, cities and types of companies as suggested by the research;
- develop and promote a soft landing package to Chinese investors which includes rent incentives, serviced offices, access to Chinese speaking local business and cultural support (professional services, business support);
- develop an internship scheme aimed specifically at placing Chinese overseas graduates into Manchester businesses;
- link business investment with cultural and leisure events associated with strong Manchester brand names, eg Manchester United, MoSI; and
- support the development of a direct flight from Manchester to China.

Given the close links between trade and investment, an enhanced collaborative approach towards China amongst key organisations such as MIDAS, UKTI, AGMA and the Chambers of Commerce could result in stronger engagement and improved trade and investment benefits for the region. The framework for all parties to achieve increased international connectivity of Manchester's economy would be the Greater Manchester Strategy(GMS).

It is important to view China in the long-term and, bearing this in mind, our approach should be underpinned by long-term sustained commitment coupled with realistic expectations.

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Notes:

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