

Committee(s): Public Relations & Economic Development Sub-Committee Policy and Resources Committee	Date(s): 10 th October 2019 17 th October 2019
Subject: Revised China Market Strategy	Public
Report of: Damian Nusbaum, Director of Innovation & Growth	For Decision
Report author: Faye Ye, Head of China & India	

Summary

China is the second largest economy in the world, after the USA, in absolute GDP terms, and has been one of the top priority markets for the UK financial and related professional services sectors (FPS).

The UK has been actively engaging with China through annual UK-China Economic and Financial Dialogues and regular ministerial level visits to promote closer financial links between the two countries. Over the years, financial cooperation has been a highlight and a strong growth for the bilateral relations.

Over 35 major Chinese financial institutions have set up subsidiaries/representative offices in London (majority are in the City) employing around 3,500 people. In recent years, led by the City of London's RMB Initiative, London has developed itself as the largest RMB offshore hub outside of Greater China, and the no.1 offshore RMB FX trading centre in the world which further cements London's position as world's top FX centre. There are now 113 dim sum bonds listed on London Stock Exchange, and the long-awaited Shanghai-London Stock Connect launched in June this year brought the two markets even closer. The UK-China Green Finance Taskforce co-chaired by CoLC has elevated the UK to China's primary partner in green finance.

UK was also the first country to appoint a special envoy to the Belt and Road Initiative, and the first major Western country to apply to join the Asia Infrastructure Investment Bank (AIIB). In 2016, the UK opened a FinTech bridge with China.

The City of London Corporation has been actively supporting the UK Government and UK FPS industry with engagement on China, particularly in areas such as RMB business and Green Finance, championing UK's thought leadership and collaboration with China which contribute to our vision of a global City of London. We have had dedicated offices in Beijing and Shanghai to support our China engagement since 2008, and have had a dedicated team in London managing relationship with Chinese investors from 2017. The more strategically planned Lord Mayor and Policy Chair's visits to China recently have also created a unique and premier venue for direct dialogues with senior Chinese officials and business leaders.

Challenges remain. We cannot ignore the negative impact to the Chinese economy caused by US-China trade war and the on-going political turmoil in Hong Kong. There

are clear signs of a broad slowdown in the world's second biggest economy. It is a challenging situation for Beijing to manage. To ease the pain from declining exports, the Chinese government is cutting taxes, easing restrictions on cross-border money flows and accelerating the opening-up of its financial and capital markets. These policies have created some new opportunities for UK FPS (see Annex B).

In responding to these rising opportunities and challenges, we have revised the City Corporation's China FPS Strategy, including stronger workstreams and delivery channels for members to agree. These are included in the annexes of this report.

Recommendation

Members are asked to approve the updated City of London Corporation China Strategy (Annex A).

Main Report

Background

1. Members approved the developing international strategy for IG as part of the business plan. The Mayoral Visits Advisory's Committee agreed in July for the Lord Mayor to visit China three times in 2020 (Jan, Mar & Sep). The Policy Chair also has planned visits to mainland China and Hong Kong in late Nov 2019 and Jun 2020. This Strategy provides the framework for these visits and wider engagement.

Objectives

2. Our overall China strategy is to position London as a top global financial centre and a supporter to China's financial reform and sustainable development priorities. It will focus on four core objectives:
 - **Investment:** To preserve current Chinese investment stock in the City and build new pipelines of future investment with a focus on higher value investors and large ticket projects e.g. institutional investors (asset management), global/regional corporate treasury centres, bond issuance and high-value FDIs such as China Investment Corporation (CIC) and AIIB establishing in London.
 - **Trade:** To promote to China the London/UK FPS offer with focuses on Capital Markets, Asset & Wealth Management as well as Innovation.
 - **Influence Future Policy Co-operation and Innovation:** To champion London's thought leadership on financial services with focuses on green finance, offshore RMB business, the sustainable development of the Belt & Road Initiative, and Capital Markets Innovation to protect and enhance FPS trade and investment, and influence the development of a modern Chinese financial services sector.
 - **Partnership / Soft Power:** To build strong business, government and UK-China partnerships to deliver investment, trade and policy cooperation.

Financial Implications

3. The estimated cost for the China Strategy is approx. £150k annually to come from existing resources within local risk budget. This figure covers only the programme element of the strategy but excludes staff costs and the running costs of the two CoLC offices in China.

Corporate Implications

4. This strategy delivers against 7b and 7c of the Corporate Plan under the objective 'To Support a Thriving Economy'.

Conclusion

5. China is a top tier priority market for the City of London Corporation, with large investments in the City, and at a crucial time through Brexit, it is important for the City Corporation to maintain active engagement with key stakeholders and investors to protect existing investments and support the growth of new trade and investment opportunities. Members are now asked to review the updated City Corporation Strategy on China and approve the changes.

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Annex A

China Strategic Plan

To support and deliver against our core objectives the City of London Corporation will focus on four work streams in the 2019-2020 financial year:

Strategic Workstreams

1. Investment

- **Retention – to maintain the size and diversification of the UK FPS ecosystem:**

China is the 3rd leading source market in terms of financial services FDI projects for the UK with over 35 major Chinese FS firms present here including large banks (ICBC, Bank of China, China Construction Bank, Agricultural Bank of China etc.), insurance companies and asset managers. Nearly all of these Chinese financial institutions are based in the City and the City Corporation are keeping a close dialogue with them and their headquarters in China. Strong engagement by the City Corporation at all levels with key Chinese institutions is important to demonstrate the value we place on these investments. Our focuses will be to help Chinese institutions to expand their business in London and help their headquarters to understand the important role London plays as a global financial centre.

Planned activities:

- Our engagement with key Chinese stakeholders is ongoing via bilateral meetings, senior visits and major events such as the UK-China Business Leaders Forum we held at the Guildhall on 3 Sep. The next step is to build our connections further around specific topics such as RMB offshore business, asset management, corporate treasury centre and capital markets while the development of these workstreams are maturing.
- **Asset Management – to attract more inflows of capital to be managed in/through London:**

China's asset management industry is now widely regarded as one of the most attractive and important markets for asset managers and investors globally with the size of RMB48 trillion asset under management (AUM). It is predicted that the China asset management market will continue to grow at a CAGR of 10% over the next five years, reaching an AUM of RMB90 trillion by 2023. China's effort to gradually open up its financial and capital markets to international players, including allowing foreign firms to establish Wholly Foreign-Owned Enterprises (WFOEs) or joint venture (JV) in China, has created a tremendous opportunity for the City and global asset managers.

In the past year, we have worked closely with DIT to promote better market access for UK asset managers in China. To capitalise on the access granted to City firms and attract more inflows of capital to be managed in/through London, our focus for the next 12 months is to encourage

Chinese institutional investors such as pension funds and insurance companies to expand their use of London as a platform for their global asset allocation. Portfolio diversification and the growth of ESG investing are increasingly becoming priorities for Chinese institutional investors. UK's global reach and maturity in ESG investing, together with an abundant offering on diversified products, skills, holistic risk-return solutions for institutional investors make us an ideal partner for Chinese institutional investors in both increasing their global allocation and optimising their existing international portfolio (currently heavily tilting towards Hong Kong and the US market). We will explore two themes in the engagement strategy 1) support on capacity building 2) peer-group investment experience sharing.

Planned activities:

- IG are currently developing a campaign with the aim of promoting the use of London as a prime platform to help Chinese investors with their global asset allocation, starting with an exercise to map out the opportunities, stakeholders as well as delivering channels. We aim to activate the campaign from October this year.
 - As a key differentiator of the UK's asset management offer, ESG will form a main component of our efforts to support the management of Chinese mandates through London. An ESG investing workstream is being developed to pair UK and Chinese asset owners to share best practice allocation approaches.
- **Corporate Treasury Centre (new campaign) – to attract multi-national Chinese companies to utilise London as a centre for their global/regional cash management and financing, and to support the growth of London's FX and capital markets:**

IG formed an informal expert group earlier this year to look into the opportunities of London being a global/regional hub for corporate treasury centres and advise the City Corporation on actions to take in order to seize the opportunities. The expert group include members from the Association of Corporate Treasurers, PwC, Slaughter and May and UK Finance. The competitiveness of London is clear due to advantages including fair tax regulations, large network of double-tax treaties, access to network of banking and professional services, access to the largest FX markets, English language, common law and a good living environment. Through this workstream, opportunities have emerged for London to attract corporate treasury teams from two groups of firms, fast globalising Chinese firms and US firms with European operations. It was agreed by the expert group that a China campaign on CTC will be a good start to draw high-value CTC FDIs into the UK.

Planned activities:

- IG will start the engagement with key Chinese stakeholders during CPR's November visit to China.
- We are also engaging with members of the expert group and CTCs already in London to develop a marketing report to support the campaign.

2. Trade

- **Capital Markets – to encourage more Chinese company listings in London:**

The launch of the Shanghai-London Stock Connect is a major milestone of connecting one of the world's largest domestic capital markets with London, the world's leading international market. The City Corporation has worked closely with LSEG and SSE to support the launch of the project, and also hosted a London capital markets event in Shanghai and Hangzhou jointly with LSEG and DIT in July to promote the Stock Connect as well as the wider London capital markets offer.

Chinese companies have become more cautious about using the US markets to raise capital because of the trade war. This presents an additional opportunity for London to be considered as a prime international location for Chinese IPOs.

Planned activities:

- DIT is planning a UK Capital Markets Great Campaign later this year; we will partner with them to look at how to develop the campaign and host promotional workshops during LM and CPR's visits in the next 6 to 12 months.
- IG will also continue working closely with LSEG and SSE to promote the first GDR listing via stock connect. A SSE roadshow event at Mansion House/Guildhall is being planned.

- **Asset Management & Corporate Treasury Centre Campaigns:** In addition to attracting Chinese capital to London using the two campaigns, they are also good channels to export broader UK FPS e.g. banking, legal, accounting etc.

3. Influence Future Policy Co-operation and Innovation

- **Green Finance:** The UK-China Green Finance Taskforce has been the engine room driving the harmonisation of China's green financial regulatory regime with international standards. The overarching objective has been to create fertile conditions for UK FPS firms to attract deal flow to London. Recent engagements include representations to PBoC regarding the inclusion of clean coal in China's green bond standards. In 2019/20, we look to shift our partnership from an exclusively policy dialogue to a commercial catalyst – co-creating new opportunities for UK and Chinese firms.

Planned Activities:

- The UK-China Green Finance Taskforce will continue delivery of priority projects including: the London-Beijing Green Finance Technology Investment Gateway, greening new financial instruments, such as CLOs, ESG disclosures, and ESG integration into investment processes.
- IG will explore the potential of new export avenues, including linking place-based finance projects in the UK to China's green finance pilot zones in Guangdong and Zhejiang.

- **RMB:** Establishing London as a major offshore centre for RMB has long been on the agenda for London and the City Corporation. Launched in 2012 by the then Chancellor George Osborne, the City of London's RMB Initiative (ran from 2012 to 2015) has been monumental in helping London become the No.1 offshore RMB trading hub outside of Greater China. With the recent inclusion of the China A-shares and bonds in major global benchmarks, It is estimated that around \$250bn to \$450bn of global investment capital will be channelled into China's bond market over the next two to three years, and \$70bn of net buying to China A shares. This will help strengthen RMB's weight significantly as an international currency. London being the largest RMB FX offshore centre and a global base for institutional investors will play an important role in facilitating and servicing the cross-border flow of these capital.

In 2018, the Corporation relaunched its influential RMB business initiative in the form of "London RMB Market Monitoring Group" which is co-chaired by the City of London Corporation and the People's Bank of China (PBOC) Representative Office for Europe. The main objectives of the Group are to work with industry to build capacity and to provide recommendations which can further strengthen London's leading role as an RMB offshore centre. The Group has since produced three London RMB Business Quarterly reports and was influential in shaping policy outcomes highlighted in the outcomes paper of the EFD.

Planned Activities:

- The RMB Market Monitoring Group will continue strengthening its leading role in advising both UK and Chinese governments on cross-border/offshore RMB related policy and regulatory matters.
 - IG will continue producing the London RMB Business Quarterly report in partnership with the People's Bank of China Representative Office for Europe and widening the circulation of the report.
- **Belt & Road Initiative:** Sitting on HMT's BRI Expert Board, the City Corporation (represented by CPR) will continue support UK-China collaboration on BRI with focuses on standard setting and exporting UK FPS. A core component of the programme for the BRI Expert Board, and an offshoot of the UK-China Green Finance Taskforce have been the Green Investment Principles (GIP). The GIP are a club of 30 financial institutions aiming to voluntarily redirect their investments away from high emission to green projects.

Planned Activities:

- Through its support for the GIP Secretariat, IG will conduct a maturity assessment of the signatory base. This will highlight relative strengths and weaknesses among significant investors across the BRI and support targeted engagement.
- The potential for UK legal services to enhance the governance of BRI projects, thus meeting a key GIP criterion, will also be explored.

- **Trade Agreement:** Post Brexit there will be an urgent need to create a new trading relationship and partnership with China in services. Working with HMG, and through bodies like TCUK, we will support the development of the future trading partnership to ensure regulatory collaboration and cooperation. This includes working with HMT on the Global Financial Partnership with Hong Kong and supporting Financial Dialogues through business and industry engagement.

4. Partnerships

- **City to City Links:** City of London signed an MoU with the two leading Chinese financial centres, Shanghai and Shenzhen, over ten years ago and the two MoUs were renewed during the Lord Mayor's visits separately in 2018 and 2019. IG is also currently working on a separate MoU with Beijing focusing on developing a joint UK-China green technology gateway in Beijing. Our aim is to ensure London is the FPS partner of choice for Shanghai, Shenzhen, Beijing and Hong Kong, the four largest financial centres in China, and identify tangible opportunities which will help FPS trade and investment. We will focus on ensuring a continuing and regular dialogue at senior level with the Mayor/Party Secretary of the three cities and other key stakeholders through the Lord Mayor, Policy Chair and other senior members.
- **UK-China Women in Finance Initiative:** IG is working with some outstanding UK and Chinese woman business leaders to launch this initiative in the fourth quarter of 2019. The main objective of this initiative is to establish a unique platform for exchanges for experience and knowledge in financial service-related matters and celebrate the achievements of women in FPS in both countries. This initiative will contribute to the diversity and inclusive workforce in FPS for long-term success and support further financial collaboration between UK and China.

Delivery channels

Senior level City engagement: Lord Mayor, Policy Chair and other senior member engagement with key Chinese stakeholders in London and China. Regular meetings with Chinese Ambassador in London and UK CEO of large Chinese financial institutions (see Annex C).

Business Relationship Management: of key Chinese existing and future investors in London and China, working with British Embassy in Beijing and Department of International Trade as well as organisations such as CBBC, London & Partners and TheCityUK to align and share intelligence.

Outbound and Inbound visits: including a yearly Lord Mayoral visits to China and other senior member and officer activity. In the last two years IG, working with Mansion House team, has delivered four outward trade visits to China and Hong Kong with the Lord Mayor, including a senior BRI delegation of 16 and a strong Fintech delegation of 13. We also successfully delivered four CPR visits to China, and one visit by Alderman William Russell to attend the Lujiazui Forum. In addition to organising

outbound visits, IG also regularly receives and facilitates senior inward Chinese delegations (average one to two a week).

UK-China Economic and Financial Dialogue (EFD): the annual EFD is one of the most important platforms to deliver projects that will enhance UK-China FPS collaboration. The City Corporation has been an active contributor to the EFD over the years. In Jun 2019, the EFD was held at Mansion House. A number of IG led initiatives (RMB, Green Finance, BRI) were included in the final EFD outcome paper, and we also had the privilege to host the Chinese Vice Premier HU Chunhua who led the China EFD delegation (incl. Vice Governor of PBoC, Vice Minister of Ministry of Finance) for a visit to the Guildhall.

Memorandum of Understanding (MoU): the MoUs between City Corporation and Shanghai, Shenzhen and Beijing, three most prominent Chinese financial centres, provide a strong platform to support UK-China collaboration in FPS. The MoUs cover a broad range of topics including green finance, RMB, BRI, Fintech, skills, insurance, and innovation.

China Market Advisory Group (CMAG): The Policy Chair is a member of the CMAG, which meets quarterly and chaired by Sir Gerry Grimstone, ex-Chairman of Barclays Bank. The City of London Corporation has an opportunity to both support the work of this group and also influence the future trade policy relationship by influencing CMAG recommendations to UK Government.

CoLC Working Groups: RMB Marketing Monitoring Group, GFI-GFC Green Finance Working Group

Marketing and Communications.

Integrated marketing and communications support will help drive greater reach and influence with target in-market audiences to both reinforce the UK's overall brand offer for FPS, and to embed key messages around the specific workstreams outlined. Leveraging both local partnerships and UK Government networks will be an effective and efficient mechanism to build reach. Existing City of London Corporation communications streams including media relationships, COLC spokespeople, and www.theglobalcity.uk will be utilised and further communications channels including advertising, print and digital can be deployed as appropriate.

Annex B

Can be found in the non-public part of the agenda.

Annex C

Key Chinese Stakeholders

- People's Bank of China
- China Securities Regulatory Commission
- China Banking and Insurance Regulatory Commission
- Ministry of Finance
- Ministry of Commerce
- National Development and Reform Commission NDRC
- State Council DRC
- State Administration of Foreign Exchange
- China Investment Corporation
- China International Capital Corporation
- China Development Bank
- Export-Import Bank of China
- Asian Infrastructure Investment Bank (AIIB)
- China Export & Credit Insurance Corporation (Sinosure)
- ICBC
- ICBC Standard
- Gingko Tree Investment
- China Construction Bank
- Bank of China
- Agricultural Bank of China
- Bank of Communications
- CITIC Bank
- China Re
- Shanghai Pudong Development Bank
- China Merchants Bank
- China Mingshen Bank
- China Industrial Bank
- GF Securities
- Haitong Bank
- Harvest Global Investments
- Shanghai Clearing House
- China Central Depository & Clearing Co. (CCDC)
- Silk Road Fund
- CFETS
- CIPS
- NAFMI
- Asset Management Association of China
- Insurance Asset Management Association of China
- China Banking Association
- Asian Financial Cooperation Association
- Ant Financial / Alipay
- Webank
- Fosun Group
- China Life Insurance Company
- People's Insurance Company of China

- China Galaxy Securities
- ZGC Group
- Huawei Global Corporate Treasury Centre
- King & Wood Mallesons
- China Green Finance Committee
- Tsinghua University
- Shanghai Municipal Government & Financial Bureau
- Beijing Municipal Government & Financial Bureau
- Shenzhen Municipal Government & Financial Bureau
- Shanghai Lujiazui Financial City
- Beijing Financial Street
- Shenzhen Qianhai Free Trade Zone
- Chinese Embassy in London
- Hong Kong Government
- Hong Kong Monetary Authority
- Hong Kong Stock Exchange
- Guotai Jun'an Securities
- China Universal Asset Management
- Shanghai International Group

Annex D

2019-2020 CoLC China Engagement Plan (separately attached)