

Committee(s) Public Relations and Economic Development Sub Committee Policy and Resources Committee	Dated: 4 July 7 July 2016
Subject: Chairman's visit to Shanghai 2016	Public
Report of: Damian Nussbaum	For Information
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Summary

This report informs Members of the most recent visit by your Chairman to Shanghai, China 10-13 June 2016. The key purpose was to demonstrate the City's commitment to meaningful cooperation and exchange in financial services with China and to strengthen links with firms, officials and regulators.

The key points to come from the discussion are detailed in this report. The visit in particular underlined China's continued focus on financial sector reform and desire to cooperate with the UK on areas such as innovation. Despite these positive messages however there remains much to be done by the authorities to ease market access for foreign firms and greater loosening of regulatory controls in some areas such as derivatives. Your Chairman received recognition for the City of London's work on topics such as green finance and took questions on Brexit, which was of a high level of interest to both Chinese and international stakeholders.

Recommendation(s)

Members are asked to note the report.

Main Report

Background

1. Your Committee approved an annual visit to China by your Chairman (November 2012) on a permanent basis for the City of London Corporation's China programme and China-focussed public relations activities.
2. Your Chairman visited Shanghai 10-13 June 2016. The principal objective was to speak on behalf of the City Corporation to further develop the City of London's links with financial firms, officials and regulators in China.

Main report

3. Your Chairman joined senior City and UK Government representatives at major financial conference, the Lujiazui Forum. Your Chairman sat on a panel titled 'UK-China financial cooperation in the Golden era', attended an official reception and joined a private lunch with the Vice Mayor of Shanghai.

4. Officials were unanimous that further financial sector reform is a top priority for the Chinese government. They emphasised a focus on 'supply side' reform and their desire to encourage more innovation in the market - particularly through product design and inclusive finance initiatives, from reverse mortgage schemes to specialised insurance and the launch of a tax-deferred pension scheme.
5. Brexit was of enormous interest to both private and public sector representatives in China. Your Chairman assured stakeholders that the City of London would remain a leading financial centre irrespective of the outcome of the referendum. All agreed however that a vote to leave would cause major issues that would need to be addressed immediately by the UK Government, in order to prevent loss of investment from China. A potential major inward investor to London from the banking sector highlighted their main reason for choosing London for their first international office was due to its strong reputation as the gateway to Europe.
6. Corporates agreed conditions are difficult for international firms to operate in China. Opinions varied as to whether this will be a short term issue or signals a worrying trend, which sees international firms increasingly discriminated against. Members of the UK business community agreed that financial services have fared better than many sectors. Interest growing in innovative areas such as Fintech venture capital and private equity have kept two-way flows consistent. Outbound flows from China have also been helped in recent months due to increased concern by Chinese firms in managing their risk securely overseas.
7. It was made clear by Chinese regulators and government officials they want more cooperation between UK and Chinese financial services and increased investment from overseas. At a joint roundtable discussion between the Lujiazui Financial City and the City of London, senior officials told your Chairman they can learn a lot from the City as the preeminent global centre. They expressed their wish for continued interaction between experts in both cities. Major UK financial sector firms present acknowledged the Lujiazui campaign to attract new firms to the area; and the potentially important role the Free trade Zone will play in continuing to test new financial policies (leading to the gradual opening up of China's financial markets).
8. Your Chairman's visit marked one year since the Chinese stock markets crisis. Over the past 12 months regulators have sought to recover from the shock but tightening control of some of the newer financial markets in China - such as the derivatives market.
9. Your Chairman observed throughout his conversations with Chinese stakeholders and international firms that the UK's reputation remains strong (boosted by President Xi's successful State visit to the UK) and there is clear incentive for Chinese firms to work in closer partnership with UK firms. For some, cooperation is viewed as a knowledge-sharing opportunity simply, but there are also more practical business partnerships being forged. This positive message was however dampened by uncertainty over the pace of

reform in China, following a period of widespread currency fluctuations, slowing economic growth and a fall in demand and failure to address mounting problems within State-Owned Enterprises.

10. A Connect between the London Stock Exchange and the Shanghai Stock Exchange is being heavily encouraged by both government and industry players. Positive progress will be announced in the coming months.
11. Your Chairman's visit attracted significant TV and press coverage. His remarks on the UK's competitiveness, Chinese financial sector reform and the EU referendum were covered by international and domestic outlets.

Corporate & Strategic Implications

12. The visit to China by your Chairman supports the vision of the City of London's 2015-2019 Corporate Plan and the strategic aim "[t]o support and promote the City as the world leader in international finance and business services".
13. It also met the strategic aim as stated in the Economic Development Office Business Plan 2016-19 "[to] seize and develop new opportunities to ensure London remains the world's leading financial centre".

Implications/ Costs

14. Travel, accommodation, hospitality and incidental expenses for this visit were in accordance with the Business Travel Scheme. The total cost of the visit, including flights and accommodation was under £10,000.

Conclusion

15. The visit provided valuable insights into the current thinking of the City of London's key public and private sector stakeholders in China
16. There was strong support for further dialogue between the UK and China on financial sector issues. This work will be followed up by EDO, including the City of London representative offices in Shanghai and Beijing.

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