

"How should the UK view China's technological rise?"

As an opportunity: The case for British engagement in China

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The UK National Committee on China (UKNCC) Guest Contributor Programme highlights contrasting responses, by leading authors, to key questions posed by the UKNCC. The programme is designed to stimulate a deeper exploration of China related issues; drive curiosity; and test conventional wisdom.

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From copycat to innovator

For over a decade, China has been moving at breakneck speed as it transitions from an export-driven economy to one driven by domestic consumption, with technology and innovation central to its strategy. Fuelled by highly tech-literate, mostly urban, middle-class consumers, the country has transformed from the world's most prolific copycat into a global innovation powerhouse rivalled only by the United States.

How did a country that ranked 14th in the Global Innovation Index in 2020(7) achieve this feat in such a short period of time? Many argue this is solely because of IP theft, forced technology transfers and various illicit business practices. They argue that, if 'innovative nations' decoupled from China, this would bring its economic and technological growth to a halt. Others say that it is more a national focus on STEM, the growth of its capital markets, and its ability to leapfrog the legacy infrastructure and old technologies that burden more



developed countries such as the UK that has enabled China's unprecedented transformation. In truth, all of these factors tell only part of the story.

Since Deng Xiaoping's reforms in the late eighties, the Chinese people have experienced levels of change unequalled anywhere else on earth. Between 1990 and 2019, they recorded a 32 times increase in GDP per capita - five times the growth of India (6.4) over the same period, and more than ten times that of the USA (2.7)(2). A nation accustomed to rapid changes has internalised agility and flexibility, birthing their biggest global competitive advantage - the ability to adopt, commercialise and evolve new innovations at an unrivalled pace and scale.

From the mass adoption of digital payments (\$67.7 trillion sent in 2020) (3) and e-commerce retail sales (\$2.29 trillion in 2020)(4) to electric car ownership (42% of the world total)(5) and digital healthcare (94% of healthcare professionals use digital health technology or mobile health apps in 2019)(6), China has proven they have no global equal in this regard.

Why we need China

From climate change and food security to healthcare and poverty alleviation, the world is facing unprecedented challenges that can only be solved by the development and adoption of new technologies at a global scale. China is uniquely poised to drive these solutions. It has twenty percent of the world's population, the second largest economy, and a host of sector-leading Fortune 500 corporations and unicorns.



36.2% of China's GDP is attributed to digital economy in 2019. More than Germany's total GDP.¹



\$378 billion spent on R&D in 2018. Second only to the USA.²



68,720 international patents filed in 2020, increasing lead over USA by over **13%**.³



Chinese venture capital represents **40%** of the global total. Second only to the USA with **44%**.⁴



4 of the top **10** cities in the world for venture capital.⁵



210 unicorns in 2019, just **55** fewer than the USA.⁶

Data: 1. IMF 2. China National Bureau of Statistics 3. WIPO 4. Hurun 5. Statista 6. Crunchbase and Statista

This all forms one undeniable conclusion - solving these issues is impossible without China.

What opportunities does this present to the UK?

The UK too can and should play a major part in solving these global challenges. Our world-class universities, research institutes, institutional strength and investment landscape have allowed us to continue to drive STEM-based innovations, particularly in the fields of healthcare, cleantech and agtech. While we are still on the front-foot in some of these areas, our lead is shrinking fast. We need to capitalize on our continued advantage within the next five to ten years, before China equals or surpasses us in these fields (as our American cousins once did).

UK innovators have the opportunity to scale, develop and commercialise their technology in the Chinese market before coming back to the West with proven solutions and healthy profits - a potent strategy for global growth that no other market can provide.

Some of the world's leading Fortune 500 companies are already executing strategies that follow this principle, contributing to a major rise in cross-border M&A of 31% to £4.7 billion in 2020(7).

While a fully open-door policy leaves the UK vulnerable, a complete decoupling would certainly damage the UK while causing, at most, a minor annoyance to China. As we have already seen from progress in quantum computing and space exploration, China will inevitably overtake us in the STEM-focused innovations where it currently trails, all while continuing to shape its own market (and that of Asia and other developing regions) as is already the case with e-commerce, fintech, telecoms, energy and infrastructure.

With or without the West, China will succeed - albeit more slowly. But for the UK, losing our ability to shape and drive forward solutions on the global stage would have severe economic and political fallout, potentially setting our country back decades.

Mitigating challenges and risks

While the UK needs to retain its seat at the table, this should not be seen as providing carte blanche to pursue every opportunity that comes from China. Significant challenges and risks will face every company attempting to engage with the market. Those in sensitive industries, whether in dual-use or politically charged sectors, must carefully examine the regulatory environment of both the UK and China before making any expansion plans - seeking assistance from UK Department of International Trade is an excellent starting point.

These complex regulatory hurdles are further compounded by constantly shifting Sino-UK relations, resulting in an environment that can change (for better or worse) at the drop of a hat. Companies must ask themselves if they can commit the time, patience, resources and energy needed for such an ambitious endeavour.

Those operating in industries without such constraints will still face challenges translating ambition into

success: the Chinese market is vast and fragmented, its political and legal environment opaque, and its business culture alien. Ambitious visions and positive starts often get buried under daily misunderstandings, misaligned interests and poorly structured deals that ultimately result in ventures failing to deliver.

For UK innovators considering expansion into the Chinese market, I would encourage them to remember:

1. Success will not come overnight

Avoid the all-too-common gold rush mentality and belief in a silver bullet that delivers immediate results by committing time and resources from the get-go.

2. The market moves at a blistering pace

Prioritise incorporating strategic agility and operational flexibility into the core of your local operations to keep pace and remain competitive.

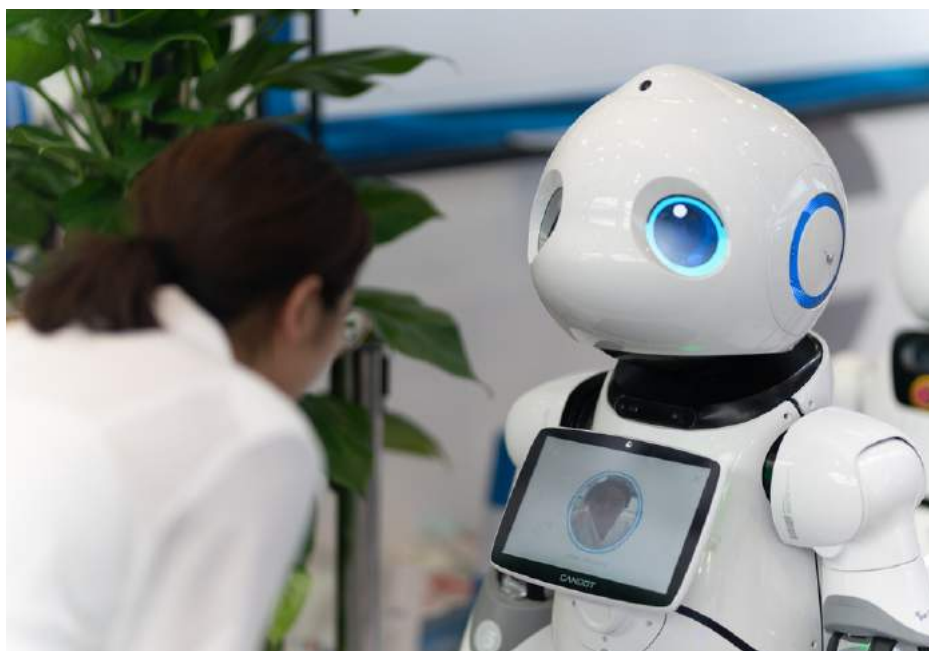
3. Sectors are dominated by tight-knit 'ecosystem clusters'

Working with established local partners and law firms, forging strategic alliances, and hiring experienced local management goes a long way towards levelling the playing field.

While there is no clear one-size fits all solution, these principles can help innovators adapt their approach to the needs, pace, and intensity of this unique market. The allure of China is clear but the path to success is fraught with risks and challenges. This creates a tendency to over or underestimate the difficulty of achieving success there. Companies must adopt measured and intelligent strategies so they can assess the opportunities and risks to them with confidence.

The technology sector is not a monolith

Whether discussing innovation, economic (and social) impact, regulation, or investment, Parliament and the media often take a myopic view, grouping the technology sector into a single monolithic block. When viewing Sino-UK relations specifically, sensitive sectors with dual-use applications like bleeding-edge AI and advanced robotics are being discussed in the same breath as softer sectors such as healthcare and gaming. There is an implicit thinking that all of 'tech' must be equivalent, and a single approach with China can be unilaterally applied. This, especially when coupled with zero-sum game rhetoric, means we are hampering our own ability to make well-informed, strategic decisions about where we cooperate, where we compete and where we decouple.



Our relations with China are not binary

The recent UK National Security & Investment Act has provided much needed clarity and laid solid groundwork. However, these discussions need guidance from a more complete, nuanced picture of global innovation (and the respective roles of the UK and China in it) so that we can move from simplistic binary discussions towards more balanced and impactful debates.

Overcoming the key challenges of our time cannot be achieved without Chinese innovation, capital, and the power of their market. The UK can be a key partner in solving these problems (enhancing our own economy, innovation capabilities and soft power), but has only a small window of opportunity to stake its claim. I believe the UK sits in an ideal position to be a leading voice and contributor to the global technology sector, but to realise this we must take a more pragmatic and proactive approach.

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About the Author

Benjamin Speyer is the Founder and CEO of Serica, a global technology and financial advisory firm. An expert in cross-border M&A, joint ventures and capital investments across healthcare, clean energy, mobility and digital commerce sectors, he is also the Chair of the Technology & Innovation Committee of the British Chamber of Commerce Shanghai and the President of the Hangzhou International Entrepreneur Association.



About the UKNCC

The UKNCC is designed to help the people of the UK make clear sighted decisions on their engagement with China. In an era of an exponential rise of misinformation and uninformed debate, our aim is to differentiate 'the noise' from robust, evidenced and well constructed information. We highlight high quality commentary and research and support those who are already, or could become Britain's leading talents on China.

The current debate on China in the UK is too often dominated by 'hawks' and 'apologists'. This can lead to over simplification and poor decision making.

The UKNCC seeks to promote a broader, nuanced debate without entertaining extreme views or perpetuating false silos.