

# Growing UK-China Trade within the Multilateral Frameworks of the Asia–Pacific Region



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**Abstract** The *global balance of power* is going through a period of recalibration and tilting from West to East. As a western market, the UK needs to implement a more calibrated approach to understanding this change to avoid being muscled out of global trade, financial markets, and by measure of geopolitical influence. China will be a key part of *post-Brexit strategy* as will regional trade agreements like *RCEP* and *CPTPP*. China and the UK also have the potential to shore up *free trade governance* both regionally and globally to their mutual benefit.

**Keywords** Global balance of power · Post-Brexit strategy · RCEP · CPTPP · Free trade governance

## 1 Introduction

This chapter explores the opportunities and challenges for the United Kingdom (UK) if it were to seek a closer economic relationship with China within the multilateral trade frameworks of the Asia–Pacific region.

Evidence will be presented to show that there is a significant opportunity for the UK and China to build on their current bilateral linkages through their plans to take up roles within the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) agreements, respectively.

The analysis proceeds in three parts. The first section evaluates China's importance in the UK's plan to become more involved in Asia–Pacific trade post-Brexit—through signing a free trade agreement (FTA) with Japan, a roll-over deal with South Korea, and formally applying for membership of the CPTPP. The second section identifies ways that British and Chinese companies can use the terms of these agreements to structure their regional presence more efficiently in the interests of diversified supply chains and improved market access. The final section explores how the UK

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and China could work together across this network to develop new and improved rules governing free trade.

This chapter concludes that the UK and China can work together effectively within these frameworks and that there is merit in both countries moving towards a multilateral model in the interests of supply chain resilience and improved market access, considering that a UK-China FTA appears some way off.

## 2 Considering the UK's Strategic Partnership with China Post-Brexit

The global balance of power is going through a period of recalibration and tilting from West to East. As a western market, the UK needs to implement a more calibrated approach to understanding this change to avoid being muscled out of global trade, financial markets, and by measure of geopolitical influence.<sup>1</sup> To that end, British politicians have placed much stock on the importance of Asian markets and FTAs in securing long-term economic prosperity for the UK outside of the European Union (EU).<sup>2</sup> However, China remains the elephant in the room, for any foreign policy discussion on economic and security linkages in the Asia-Pacific region rests on a secondary conversation regarding how to engage China.

The UK has indicated that it wants to deepen its trade relationship with China, and while these indications remain unofficial to date, they come from the highest echelons of the political system.<sup>3</sup> Looking more broadly, official steps that the UK has taken to improve its trade ties with the Asia-Pacific region have included agreeing to a comprehensive FTA with Japan, securing a roll-over deal with South Korea, and formally applying to become a member of the CPTPP. It is worth noting that while an official step towards deeper UK-China trade ties likely remains on the backburner for now, this does not mean that the British government and the country's businesses are not considering how they could leverage multilateralism to improve the bilateral economic relationship.

Given that China is the largest economy within the Asia-Pacific region, it is hard to see how the British government and business community could pursue a tilt to the East without increasing its engagement with the market. For instance, China's nominal GDP is worth almost three times that of Japan, the second-largest economy in

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<sup>1</sup>John Bew & Martin Jones, *UK Strategy in Asia: Some starting principles*. London: Policy Exchange, 2017. Accessed April 13, 2021. <https://policyexchange.org.uk/wp-content/uploads/2017/09/UK-Strategy-in-Asia.pdf>, p. 4.

<sup>2</sup>Ibid, 3.

<sup>3</sup>Paul Irwin Crookes & John Farnell, "The UK's Strategic Partnership with China beyond Brexit: Economic Opportunities Facing Political Constraints," *Journal of Current Chinese Affairs* 48, no.1 (April 2019): 108.

the region.<sup>4</sup> China looms so large that the value of its annual GDP growth equals that of the entire Australian economy.<sup>5</sup> As such, the market opportunity is too tempting and nigh impossible to ignore as the UK considers growing its economic engagement with the region at large.

It is worth reiterating that these two conversations are not happening in isolation and that there is widespread recognition of the importance of the China market to the UK.<sup>6</sup> But there is also awareness amongst British businesses and policymakers that China is a vital trade partner to the other economies of the Asia-Pacific, too—that it is the lynchpin to the region's trade—and that as the UK looks to tie itself to deeper relationships with markets including Singapore, Japan and Australia, it would be wise to explore ways of ensuring that China appears in any future Venn diagram of UK-Asia-Pacific trade ties as well.

To that end, the British government has learned about the success of UK-China trade ties when promoting the merit of engaging with new emerging markets. In fact, the government's message towards business regarding the potential of the broader Asia-Pacific region echoes what it previously said about the China market, emphasizing that the Asia-Pacific region is home to some of the fastest-growing markets in the world.<sup>7</sup>

The statistics for trade with China are worth repeating when seeking to persuade the British business community that there is a significant opportunity to be found 6,000 miles away to the East. UK trade with China has grown quickly and from a low base. As a result, China is now the largest single-country market for many UK companies, which is reflected in the trade data for UK trade with China: UK exports to China increased by 138% between 2015 and 2019, while Chinese exports to the UK saw a 30% increase over the same period.<sup>8</sup> And these trade volumes translate into tangible benefit at home, considering that links with China in trade, tourism and higher education alone support up to 130,000 UK jobs, according to a survey conducted by Cambridge Econometrics and commissioned by the China-Britain Business Council (CBBC).<sup>9</sup>

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<sup>4</sup>International Monetary Fund, *World Economic Outlook Database* (April 2021), distributed by the IMF, <https://www.imf.org/en/Publications/WEO/weo-database/2021/April/download-entire-database>.

<sup>5</sup>Zhou Xin, "China's GDP growth last year was worth more than Australia's whole economy," *SCMP*, March 3, 2019, <https://www.scmp.com/economy/china-economy/article/2188404/china-says-last-years-gdp-growth-was-worth-more-australias>.

<sup>6</sup>Joseph Cash, "How much does the UK need China post-Brexit?" *FOCUS Magazine*, July 20, 2021, <https://focus.cbbc.org/how-much-uk-need-china-post-brexit/#.YR8PMiORrBI>.

<sup>7</sup>Liz Truss, "Britain is poised to become a Pacific player," *Telegraph*, January 31, 2021, <https://www.telegraph.co.uk/news/2021/01/31/britain-poised-become-pacific-player/>.

<sup>8</sup>Office for National Statistics, 'UK Balance of Payments: Pink Book', March 2021.

<sup>9</sup>Chris Thoung, China Britain Business Council: *UK jobs dependent on links to China*. Cambridge: 2020. Accessed April 13, 2021: <https://www.cbbc.m-w.site/sites/default/files/2021-03/Cambridge-Econometrics-Impact-of-China-on-UK-Jobs-2nd-report.pdf>, p. 5.

Acknowledging both the success that they have had in China and the potential of the markets of the Asia–Pacific region more broadly, the British business community has indicated that it supports pursuing a two-track approach of growing trade with China and the Asia–Pacific region simultaneously.<sup>10</sup> Last year UK companies welcomed China’s ratification of the RCEP agreement, along with 15 other states, and Britain’s leading business federations have already thrown their support behind the UK joining the CPTPP as well.<sup>11</sup> While this will be further expanded on in the next section, UK companies are interested in China’s position within the RCEP because it opens up new possibilities for UK traders with a presence in third markets in the region looking to utilize a ‘Hub-Spoke’ model that takes advantage of the ways that the RCEP, CPTPP and ASEAN Free Trade Zone (FTZ) intersect with one another.<sup>12</sup>

Such an approach does not mean that UK companies plan on leaving the China market. Acknowledging the role that China plays in driving the economies of the other markets with which the UK has sought trade deals, businesses consider embracing multilateralism to be a way of improving the resilience of their China-focused supply chains. Indeed, when surveyed towards the beginning of 2020—and the impact of COVID-19 on global supply chains had become clear—only 3% of UK companies trading with China reported that they were considering shifting their long-term focus away from the market.<sup>13</sup> Such sentiment only advances the argument that UK companies want to grow trade with China and across the Asia–Pacific region simultaneously, and that business understands that the extent to which they can engage with China will influence the extent that they can engage with the region as a whole.

### 3 The Opportunities the RCEP, CPTPP and the ASEAN FTZ Present for UK-China Trade Ties

The emergence of the RCEP, CPTPP and the ASEAN FTZ over the last decade has presented UK companies trading with China with a plethora of new options in terms of structuring their supply chains and regional economic activity. Collectively covering 34% of global trade, the intersection of these trade deals plays a key role

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<sup>10</sup>Carolyn Fairbairn, “The UK cannot afford to self-isolate from China,” *Financial Times*, July 21, 2020, <https://www.ft.com/content/11e46189-2bf7-423c-8fb8-7c1fcb79462f>.

<sup>11</sup>UK Department for International Trade (DIT), “Press Release: UK applies to join huge Pacific free trade area CPTPP.” January 30, 2021, accessed April 13, 2021: <https://www.gov.uk/government/news/uk-applies-to-join-huge-pacific-free-trade-area-cptpp>; Hemita Bhatti, “RCEP: what does this trade agreement mean for your business?” *CBI*, January 14, 2021, <https://www.cbi.org.uk/articles/rcep-what-does-this-trade-agreement-mean-for-your-business/>.

<sup>12</sup>*Ibid.*

<sup>13</sup>CBBC, “Impact of Covid-19 on British trade with China. London: CBBC, 2020. Accessed April 13, 2021. <https://www.cbcb.m-w.site/sites/default/files/2021-03/CBBC%20COVID%20survey%20report%209%20March.pdf>, p. 2.

in determining that the Indo-Pacific region is the most important to the UK post-Brexit.<sup>14</sup> But one cannot overlook China's role in this trade nexus, which is why many British multinational companies are re-evaluating the scale and scope of their presence in Australia, New Zealand, Japan and South Korea, for these markets are members of both the RCEP and the CPTPP, and able to facilitate freer trade into China.

This overlap is not a coincidence: both the RCEP and the CPTPP emerged from the ASEAN FTZ; trade negotiators to the RCEP reportedly referred to the deal as 'the stapler' because it tied together the various FTAs that collectively facilitate the ASEAN FTZ.<sup>15</sup> While the jury remains out on whether the RCEP will deliver similar gains to the CPTPP—considering that the provisions of CPTPP are far more generous than the former—the RCEP does go a long way in addressing inadequacies in the various trade deals enabling the ASEAN FTZ. As a result, the only new market access arrangements introduced by the RCEP are between Japan and China and Japan and South Korea, for these were the only markets without some form of preferential trade arrangement already in place.

The China-Japan trade relationship afforded under the terms of the RCEP is of interest to UK companies because the UK recently concluded negotiations with Japan over an FTA. Given the generous Rules of Origin measures in both agreements, it is not inconceivable that UK firms could use the terms of the UK-Japan Closer Economic Partnership Agreement (CEPA) to move goods, services, and capital from the UK into Japan before making use of the terms of the RCEP—particularly measures relating to tariff re-heading—to move goods on again into the China market at preferential rates.<sup>16</sup>

That said, UK companies still have other options available to them, should they wish to use the terms of the CPTPP or the RCEP to engage the China market. British multinational companies are well represented in Singapore and Malaysia, with many choosing to set up their Asia-Pacific regional headquarters in the former. The RCEP's promise of seamless supply chains within the region incentivizes companies to bolster their operations in these two markets, for a significant prize is up for grabs: preferential access to both the China market and the world's fastest-growing economic region. It is also worth mentioning that the ratification of the RCEP and the CPTPP came at a good time for UK multinational companies, for many were beginning to shift their non-China facing regional operations out of China over concerns that their

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<sup>14</sup>Author's calculation, based on Dominic Walsh, "RCEP: what the new trade bloc means for the Indo-Pacific and the UK," *Policy Exchange*, December 4, 2020, accessed April 13, 2021. <https://policyexchange.org.uk/rcep-what-the-new-trade-bloc-means-for-the-indo-pacific-and-the-uk/>.

<sup>15</sup>Ibid.

<sup>16</sup>DIT, "UK-Japan: An agreement for a Comprehensive Economic Partnership: *Summary of chapters*." November 30, 2020, accessed April 13, 2021. <https://www.gov.uk/government/publications/uk-japan-agreement-for-a-comprehensive-economic-partnership-cs-japan-no12020/uk-japan-agreement-for-a-comprehensive-economic-partnership-summary-of-chapters>.

business operations might suffer as a result of escalating trade tensions between the US and China.<sup>17</sup>

British businesses would be wise to examine deepening their involvement with the broader Asia–Pacific region and not only because of factors such as high growth rates and US–China trade tensions. The existence of two competing trade blocs in the Asia–Pacific region demonstrates increasing regionalism in global trade and that there is a degree of disagreement between leading economies on how to facilitate it. This divergence is significant for two reasons, and businesses must be cognizant of the effects of both.

Firstly, Asia–Pacific regionalism under the terms of these two agreements holds the potential to challenge the multilateral consensus of the WTO. Secondly, it appears increasingly likely that China plans on using its membership in the RCEP and position as the proprietor of the Belt & Road Initiative (BRI) and driver of Asia–Pacific economic activity to take on a more proactive role in setting the rules for global trade.<sup>18</sup> Both of these factors hold the potential to negatively influence issues that affect exporters, including standard-setting for manufacturing and determining Rules of Origin frameworks, how tariffs are/are not applied, and how easily countries can dump goods on other markets in the near future. Business should remain ready to adapt to any changes in these areas and ensure that they are positioned to be able to influence any changes where required.

## 4 Governing Free Trade

China’s membership of the RCEP and the UK’s prospective membership of the CPTPP presents an interesting dynamic within the Asia–Pacific Region concerning setting global trade rules. Both countries have indicated that they wish to take on an enhanced role in trade governance. The UK has demonstrated this through the wording of its negotiating objectives for its FTAs with the US, Australia and Japan; China has signaled similar intent through initiatives such as ‘China: Standards 2035’—an initiative aimed at ensuring China has a stronger voice in standard setting for the technologies likely to drive the markets of the future.

Against a backdrop of a WTO widely considered in need of reform, the case that China and the UK could play a role in herding the markets intersecting the various multilateral trade blocs within the Asia–Pacific region to secure uniform and enhanced provisions for trade governance is a strong one. Especially so, considering that China has indicated that it might look to join the CPTPP too.

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<sup>17</sup>Joshua Kurlantzick, “The RCEP Signing and Its Implications.” *Council on Foreign Relations*, November 16, 2020, accessed April 13, 2021. <https://www.cfr.org/blog/rcep-signing-and-its-implications>.

<sup>18</sup>Peter Petri & Michael Plummer, “RCEP: A new trade agreement that will shape global economics and politics,” *Brookings Institute*, November 16, 2020, accessed April 13, 2020. <https://www.brookings.edu/blog/order-from-chaos/2020/11/16/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/>.

The UK has already taken steps to indicate that it hopes to be a leading force within the CPTPP regarding global governance. Moreover, it has received the tacit support of Japan, an influential presence within the bloc—and CPTPP chair at the time of writing; this support manifests itself in the way that Japan and the UK agreed to e-commerce and data transfer provisions within the UK-Japan CEPA that go beyond the terms of the CPTPP.<sup>19</sup> Considering that both countries framed the negotiations over CEPA as a ‘steppingstone’ to CPTPP admission, one can speculate that the two countries plan on using the enhanced provisions featured in CEPA to push the CPTPP member states to strengthen the agreement’s provisions in these areas when negotiating the UK’s accession.<sup>20</sup>

China has also taken steps to bolster its reputation as a highly competent actor in trade negotiation and rules setting. Not only does China now occupy one of the deputy-director general positions at the WTO—following the election of Yi Xiaozhun to that post in 2013—it has moved fast to negotiate a series of FTAs with a diverse set of economies, concluding negotiations on five separate deals over the last decade alone. As a result, it is clear that China’s policymakers consider growing the country’s capabilities in trade negotiation and governance to be of the utmost importance, and the launch of initiatives such as ‘China: Standards, 2035’ only reaffirms this.

By coincidence, the UK has moved in step with China on developing its capability in these areas, and this coincidence finds interesting application in developments in the Asia-Pacific region. On the one hand, is China; It is the engine of regional economic growth, a member of the RCEP, but is not a member of the CPTPP. On the other is the UK; It is a significantly smaller regional investor, but is able to offer high-quality investment into sectors that are currently immature but will play a key role in driving the development of the region’s economy as a whole, such as the financial services sector. This would be a powerful combination indeed.

In short, the UK and China have the potential to be perfect partners. China has rapidly accumulated experience regulating the so-called ‘technologies of the future,’ such as digital finance and mobile payments. The UK has a pedigree in devising regulatory regimes to uphold the Rule of Law across the business environment, with particular expertise in antitrust and anti-competition legislation. A balance of both will be required to regulate the economy of the future effectively, and the industries that will drive it are emerging strongly across the Asia-Pacific region.

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<sup>19</sup>Minako Morita Jaeger & Yohannes Ayle, “The UK-Japan Comprehensive Economic Partnership Agreement: Lessons for the UK’s future trade agreements,” *UK Trade Policy Observatory*, December 2020, accessed April 13, 2020. <https://blogs.sussex.ac.uk/uktpo/files/2020/12/BP50Dec.pdf>.

<sup>20</sup>Liz Truss, ‘Statement: UK’s approach to negotiations with Japan,’ issued May 13, 2020, accessed April 13, 2021, <https://questions-statements.parliament.uk/written-statements/detail/2020-05-13/hcws231>.

## 5 Conclusion

The UK and China could form a powerful duo in global trade were their ambitions within the CPTPP and the RCEP to align. More by coincidence than design, there are signs that the trajectories both countries want to take their economies would deliver improved market access to the UK and Chinese companies across the Asia-Pacific region and promote improvement regarding both blocs' provisions for trade governance. With the UK indicating that it wants to become a key player in setting the rules for global trade, China stating that it seeks to set the standards for the industries of the future, and both courting the two blocs that constitute 35% of global trade, it appears almost inevitable that their trade teams will find themselves at a negotiating table of some sort at some point. While a bilateral trade deal looks some time away, there is a chance that the UK and China could find themselves well-positioned to advance their trade ties within the multilateral trade frameworks of the Asia-Pacific region.



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