

BRITISH CHAMBER OF COMMERCE IN CHINA

BRITISH
BUSINESS
IN CHINA:
COVID-19
IMPACT REPORT

APRIL 2022



BRITISH
CHAMBER OF
COMMERCE
IN CHINA

中国英国商会



1 EXECUTIVE SUMMARY

Over the past two years China has developed and managed effective COVID-19 control measures. Rapid lockdowns, quarantines, mass testing, and travel restrictions have helped ensure China has been able to keep COVID outbreaks under control. For everyone in China, the policies have allowed us to work and live safely with minimal risk of infection, and for our businesses to operate, albeit with barriers to travel to and from China.

China now finds itself in the midst of the worst outbreak of COVID-19 since 2020. The development and deployment of effective vaccinations and the emergence of the Omicron variant has seen many countries now chart a new pathway, hopefully towards an endemic end-state. Circumstances in China have led policymakers to maintain strict zero-COVID policies which, as this survey shows, are now affecting business confidence in China. This follows the recent outbreaks, most notably the very challenging situation seen in Shanghai. The risk for many British businesses operating in China today is at its highest since 2020.

The question we ask is whether it is possible to mitigate the outbreaks today successfully through measures that minimise economic and social disruption, but that protect the most vulnerable and do not compromise public health. Is it possible for policy makers to exercise flexibility and adapt the approach to managing COVID-19 in keeping with the evolution of the virus and the new challenges that that brings? If not, the foreign companies surveyed here suggest that the prospect of prolonged and sporadic disruptions on business operations, people, logistics and supply chains will have significant consequences for their businesses in China.



74% of the British businesses surveyed report the outbreaks this year have had a serious or large impact on business operations and cash flows. Businesses are reporting an impact on the ability to attract and retain foreign talent (69%), decreased yearly revenue projects (55%), difficulty in developing the market and opportunities (54%), supply chain disruptions (51%) and decreased and delayed investment (49%) as a result of recent outbreaks. Equally concerning is the outlook for the next year if current COVID-19 restrictions remain in place, with surveyed businesses expecting a reduction in:

- 1 Revenue and profit (68% of responses);**
- 2 Expatriate and local staff (57% of responses);**
- 3 Investment (34% of responses); and**
- 4 Local (China) operations (34% of responses).**



Shanghai, China's largest city with a population of over 25 million people and China's commercial capital, was reported as the city where business operations were most affected by the latest COVID-19 outbreaks (68% of responses). This is to be expected given the wide scale lockdowns across the city at the time the survey was conducted. However, the concern is that more cities will be affected, and that further disruption will follow. Beyond lockdowns, however short, there follows a prolonged period of business disruption, sometimes many months, as supply chains work to catch up and production levels resume.

Businesses and individuals alike are asking for greater clarity and predictability in the enforcement of COVID-19 controls measures in China. Surveyed businesses reported dissatisfaction as a result of unclear regulations concerning lockdowns and testing (50% of responses), with the largest number of respondents identifying the instability created by unpredictable and frequent COVID-19 lockdowns and restrictions as the main reason for delaying planned investments. 46% of companies also cite unclear and non-uniform implementation of regulations in China as one of the aspects which has affected the ability to attract and retain foreign talent. The education industry specifically stands out due to the difficulty in hiring foreign talent (74% of responses). Forecasts for the upcoming 2022-2023 school-year indicate an expected turnover of at least 40% of teachers in foreign-passport schools. Should they not be replaced, international families will be forced to relocate to ensure continued education for their children, and that those considering moving to China will look elsewhere. This will exacerbate further the flow of talent from China in the coming months.

As the world continues to work towards a future where COVID-19 becomes endemic, the approach to controlling the spread of COVID-19 in China is starting to have an increasingly negative effect on businesses. In the current circumstances, China's attractiveness as a destination for investment and talent is diminishing. China has previously consistently been considered a global leader in COVID prevention. The question foreign business is asking is whether the dynamic zero-COVID management can be adapted sufficiently to enable predictable and proportionate measures to be implemented that minimise business and economic risk yet protect the vulnerable.

We believe that under the dynamic COVID-19 policy, it is possible to reduce the level of disruption to day-to-day business operations and personal life, without compromising public health and protecting the vulnerable. Importantly, home quarantine and/or other substitute options to centralised isolation (both on arrival to China and for asymptomatic, mild and close contact cases in China) should be permitted (recommended by 79% of responses). Allowing more flights to enter into and leave China (recommended by 62% of responses), allowing foreign vaccines into China (recommended by 57% of responses), ensuring minors are not separated from parents or guardians (recommended by 56% of responses), and a shift towards easing travel restrictions (recommended by 45% of responses), would go a long way towards alleviating the pressures faced by British business operating here.



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INTRODUCTION & METHODOLOGY

The British chambers of commerce in China conducted this survey on the impact of recent outbreaks of COVID-19 in China on our member companies. This survey, conducted between 6 April and 14 April 2022, received over 200 responses, from start-ups and SMEs to multinational corporations, and represents the views of British businesses in China operating across the country and in a variety of different industries. It provides a clear picture of the effect that recent COVID-19 outbreaks in China have had on business operations, revenue projections, investment plans, supply chains, attraction and retention of skilled foreign talent, as well as an understanding of the general sentiment from businesses in respect of the management of COVID-19 within China.



The survey comprised 18 questions, grouped under five key sections:

1. "General Questions", which focused on obtaining information regarding respondents' corporate profile;
2. "General COVID-19 Impact Questions", which sought to ascertain the overall impact of the recent COVID-19 outbreaks in China on respondents' businesses and the outlook of businesses if the current dynamic zero-COVID policy is to remain in place for the next 12 months;
3. "Supply Chain & Labour", which focused on global supply chain disruption and impact on the ability to attract and retain skilled foreign talent;
4. "Revenue, Cash Flows & Capital", which focused on the impact on revenue projections and investment plans; and
5. "Management of COVID-19", which focused on ascertaining which aspects of the management of COVID-19 in China businesses were satisfied and unsatisfied with, and where improvements could be made.

The responses to this report have been anonymised, and no data identifiable to any individual or company has been published or made available to any other organisation.

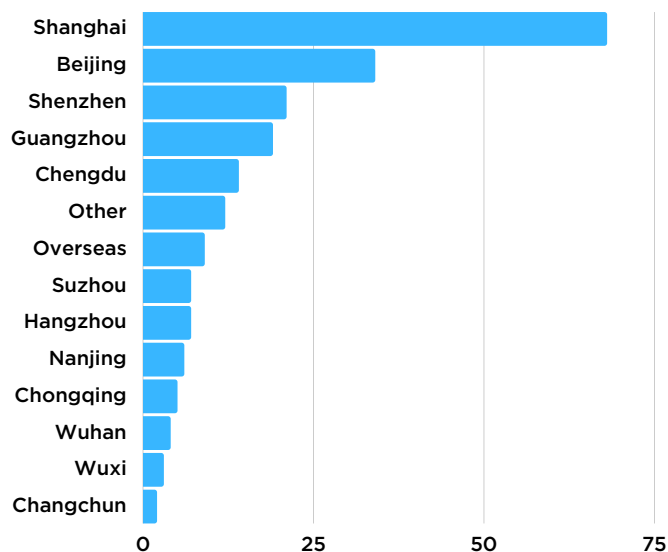




3 CORPORATE PROFILE

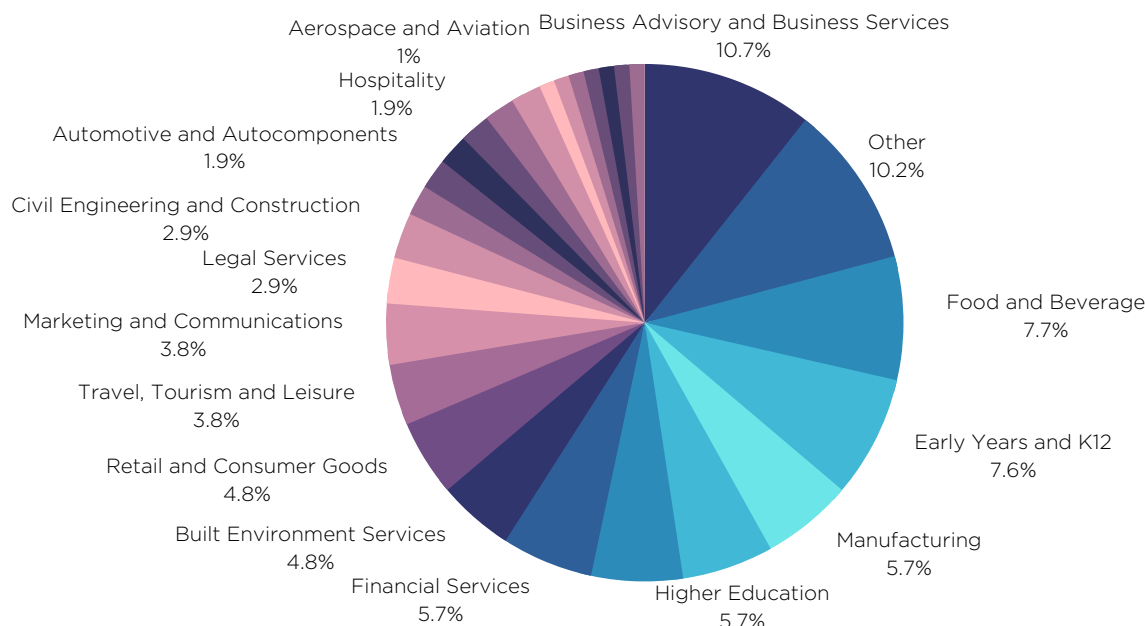
The survey represents the views of British businesses from a range of sectors all across China. Multinational corporations constitute 44% of total respondents, while 43% of respondents are small-medium enterprises. While British businesses reported that recent outbreaks had had an impact on company operations across a number of cities in China, the vast majority reported that their operations in Shanghai (68%), Beijing (34%), Shenzhen (21%) and Guangzhou (19%) had been the most affected. The highest representation of companies is in education (19%), followed by business advisory and business services (11%) and food and beverage (8%).

In which cities are your company's operations most affected by the latest COVID-19 outbreaks?



As companies in different industries will primarily provide either a physical offering or a service, we have separated them in our analysis and considered how the two groups have been impacted differently by recent outbreaks.

Which primary industry is your business involved in?



4 FINDINGS

IMPACT OF COVID-19 AND GENERAL OUTLOOK

The overwhelming sentiment expressed by respondents was that the impact of recent outbreaks of COVID-19 on British businesses in China has been severe: 74% of businesses reported a “very serious” or “large” impact on day-to-day business, business operations and cash flows. Almost no companies reported “no impact” or a “positive impact” (both 1%).

Overall, to what extent have your business operations been affected by the recent COVID-19 outbreak in China?

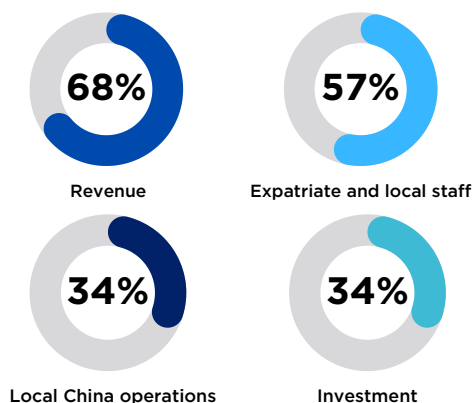


Across both goods and services industries, the most significant challenges British businesses are facing as a result of recent outbreaks are the requirement that employees work remotely or online (63%), difficulty in developing markets and opportunities (54%), and government ordered lockdowns causing slow, reduced or halted production or business operations (46%). Unsurprisingly, given the mass lockdowns that are currently in place in Shanghai, companies who reported that their business operations in Shanghai were the most affected made up 75% of these responses.

When asked about what the likely impact would be on businesses if China's dynamic zero-COVID approach continues, almost 80% of responses indicate that it will have an overall negative impact due to disruptions to supply chains and business operations, and increasing difficulty of hiring foreign talent. A very small number of responses indicated that it would not have an impact on their business (1%) or would benefit business in the long run by helping to contain the outbreaks (7%), whilst 12% were unsure of the impact it would have on business.

Companies surveyed expect reductions in revenue (68%), expatriate and local staff (57%), local China operations (34%) and investment (34%) if current COVID-19 restrictions were to remain in place for the next year. Reduction in revenue is of particular concern for MNCs, with 77% citing declining revenues as their biggest concern. Businesses in the education industry are most concerned with reductions in expatriate staff (33%), whilst the financial services industry is most concerned with reductions in investment (12%) if circumstances remain unchanged for the next 12 months.

Companies surveyed expect a reduction in:





IMPACT OF COVID-19 ON SUPPLY CHAIN

Companies dealing with physical goods were, predictably, impacted heavily by COVID-19 lockdowns and control measures. “Slow, reduced or halted production or business operations due to supply chain issues” was reported by 42% of goods companies, but only 23% of companies overall. In contrast, less than 10% of service companies reported supply chain issues.

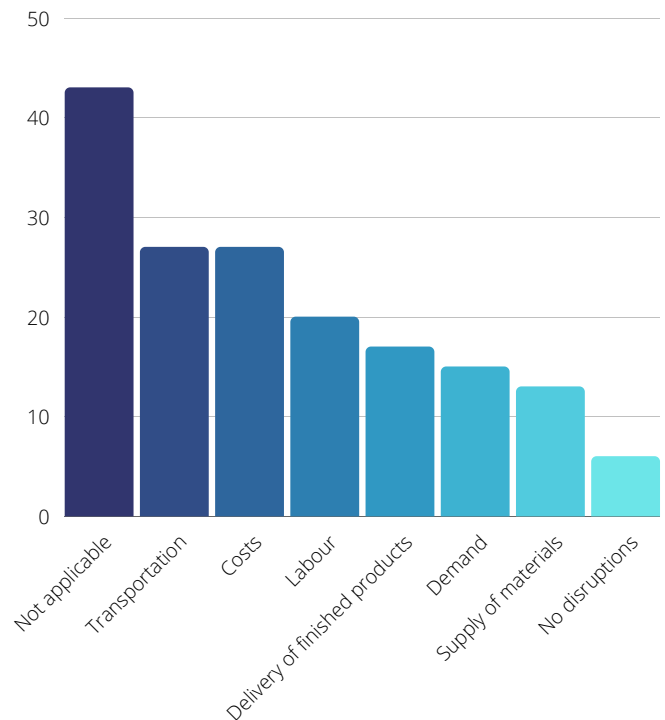


A majority of all respondents (66%) expected continuing COVID control measures to lead to a negative impact on their business through supply chain disruption, which was consistent across businesses of different sizes and across different areas of China.



FINDINGS

If your business has experienced global supply chain disruption as a result of the recent COVID-19 outbreak in China, primarily where have these disruptions occurred?

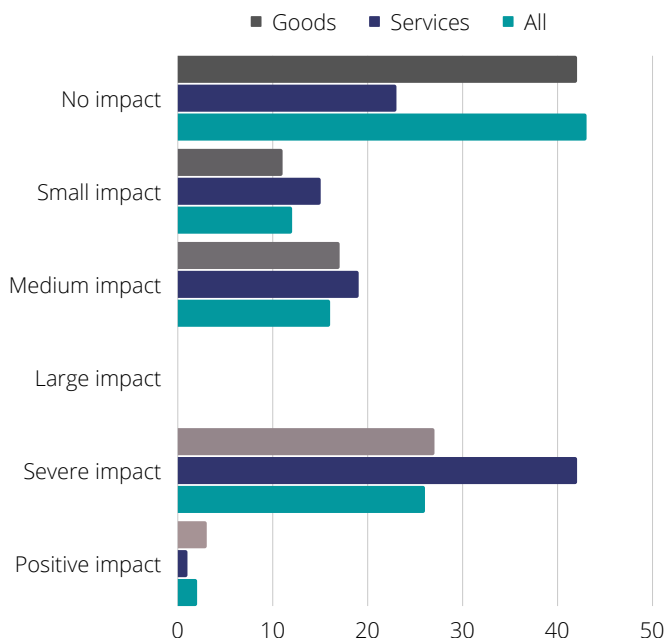


However, when considering the future effects of COVID-19 control measures on their business, respondents were much more concerned about supply chain issues, reflecting the delayed effect of supply chain disruption on the economy. Goods companies again expected the most disruption, with nearly three-quarters of respondents expecting supply chain disruption to be the biggest negative impact to their business. However, respondents across all sectors expected similar disruption. A majority of all respondents (66%) expected continuing COVID control measures to lead to a negative impact on their business through supply chain disruption, which was consistent across businesses of different sizes and across different areas of China.

Looking toward the reasons for supply chain disruptions, both goods and services companies consistently reported transportation issues and rising costs as the top two factors causing disruption to their business. However, goods companies were more affected by disruptions (71% of respondents, compared to 51% of companies overall), and also reported downstream delivery of products (32%) and the upstream supply of materials (25%) as significant pain points, whereas labour issues were more commonly reported by services companies (20% of respondents).

IMPACT OF COVID-19 ON LABOUR AND TALENT

What impact has the recent outbreak in China had on your ability to attract or retain skilled foreign talent when compared to 2021?

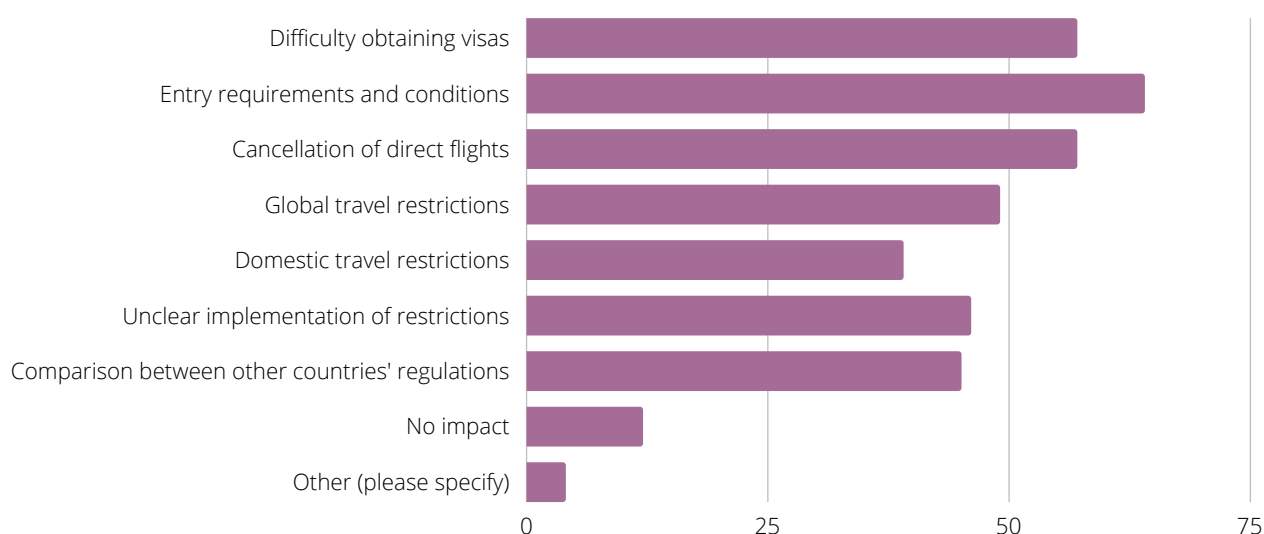


A consistent trend that BritCham China has observed since the start of the pandemic is the adverse effects of the pandemic on hiring and retaining staff, particularly foreign staff (ranked the number one issue for members in our recent sentiment survey). So too was this the case for the service sector in this survey, with 42% of respondents reporting a severe impact on attraction and retention of talent owing to recent COVID-19 outbreaks.

In the longer-term, 72% of service sector companies reported a large or noticeable impact on attraction or retention of foreign talent based on China's approach to zero-COVID. Only 7% of firms reported that their hiring and retainment had not been impacted at all. For goods firms, the impact was notably less but still significant: 48% reported a large or noticeable impact on attraction or retention from China's approach to zero-COVID. However, in the short term, only 26% reported a severe impact on talent from recent COVID-19 outbreaks. This disparity can largely be explained by the relative importance of foreign staff to goods and services firms: while staffing is a key issue for services firms (for example foreign teachers), the concerns of goods firms are reflected in large part by the supply chain & logistics section above.



What aspects of the dynamic zero-COVID policy has, in your opinion, impacted the ability to attract and retain foreign talent?



When it came to reporting specific issues relating to foreign and local talent, both goods and services firms were consistent on the three largest issues being: entry requirements such as pre-arrival testing and vaccination requirements; visa regulations; and the cancellation of flights. While there were disparities between goods and services on the proportion reporting these issues - 73% of services firms were adversely affected by entry requirements into China compared to 47% of goods firms - each of these issues was reported by at least 40% of companies surveyed.

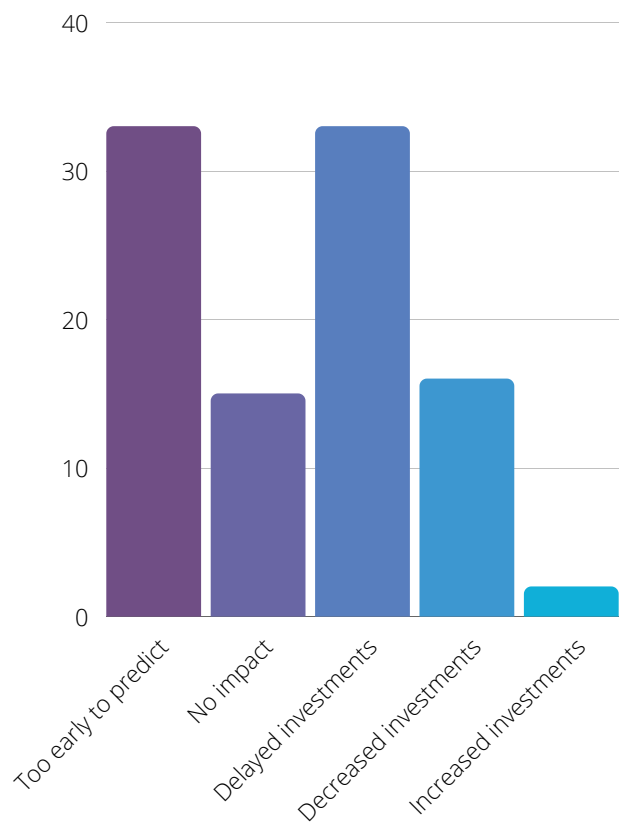
It should also be noted that talent issues are by no means restricted to hiring: one of the main fears for the continued impact of the pandemic on services firms is a reduction in foreign staff, and the same is true for staff layoffs in goods firms (26%). For services firms, 44% of companies are worried about reduction of staff (as opposed to being unable to hire new staff), the second biggest fear arising out of the ongoing crisis behind a reduction in revenue (66%). This was especially pronounced amongst MNCs (49%), with 9% considering moving operations out of China and 3% a complete closure of all operations as a result.



IMPACT OF COVID-19 ON REVENUE AND INVESTMENT

Reduction in revenue is expected by 68% of companies, and is cited as the leading concern for 74% of goods firms and 66% of those in service industries. When asked about the impact of recent outbreaks on their company's revenue projections, 60% of goods firms unequivocally stated their revenue projections for 2022 have decreased, and a further 32% said it was too early to predict. Services firms answered 51% and 43% respectively. Somewhat surprisingly, 77% of MNCs expect their revenues to decline if COVID-19 restrictions remain in place over the next year, in comparison to 63% of SMEs and start-ups. However, 59% of SMEs and start-ups reported decreased yearly revenue projections, while only half of MNCs reported the same, with 43% indicating that it was too early to predict.

What impact has the recent COVID-19 outbreak in China had on your investment plans?



Despite severe disruption to business activity, especially for businesses with operations in Shanghai and Shenzhen, there appears to be a tendency towards a cautious approach to revising investment plans, with one-third of respondents reporting that they had not yet decided on any change in investment. Another third of businesses responded that they had delayed investments in China as a result of recent COVID-19 outbreaks, suggesting that businesses were not proactively looking to reduce investment in China; however, there is a small minority of businesses (16%) who have already reduced their levels of investment. Goods and services firms were affected in broadly similar ways, with around half of businesses in each sector reporting impact. However, multinationals and SMEs in the services sector seemed less affected, with 37% and 39% of businesses respectively reporting delays or decreases in investment.

When considering how the continuation of current COVID policies over the next year would impact investment decisions, 34% of all businesses expected a reduction in investment if present policies were maintained, although goods firms (26%) and SMEs in the service industries (27%) appear to be less pessimistic.

Looking towards the reasons given for impacts on investment decisions, the primary driver was instability due to unpredictable and frequent lockdowns and other COVID control measures; excluding the 30% of respondents whose investment decisions were not impacted, instability was mentioned as the top reason by over 50% of the remaining respondents. This was consistent across both goods and services firms, as well as between multinationals, SMEs, and start-ups. Disruption to travel caused by COVID restrictions was the second most common reason given by services firms (15% of all respondents), whereas for goods firms the negative effects of COVID on the domestic economy were felt more keenly, being mentioned by 22% of respondents.

“ 34% of all businesses expected a reduction in investment if present policies were maintained ”

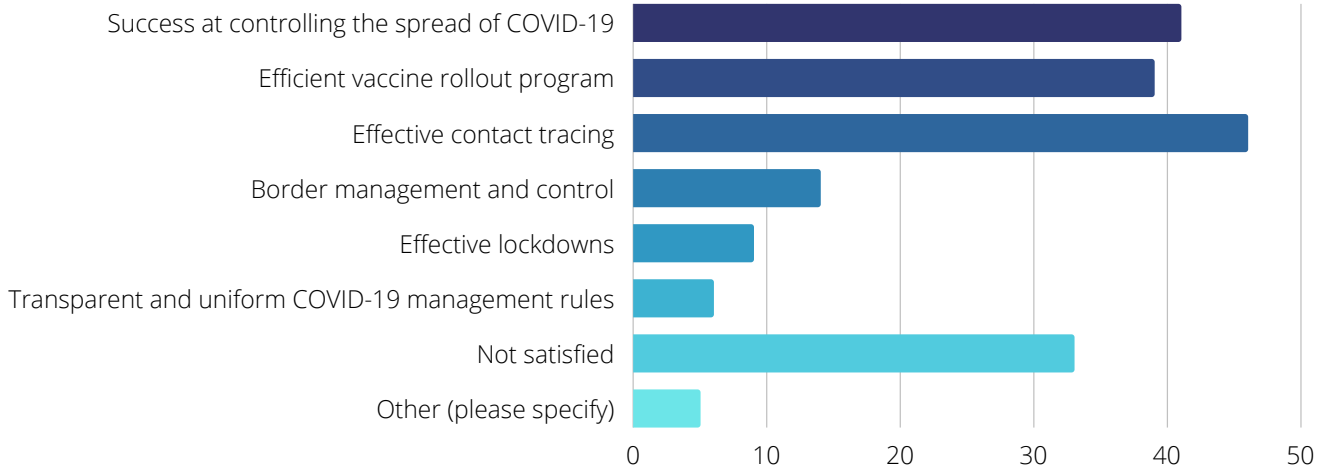


SENTIMENT REGARDING THE MANAGEMENT OF COVID-19

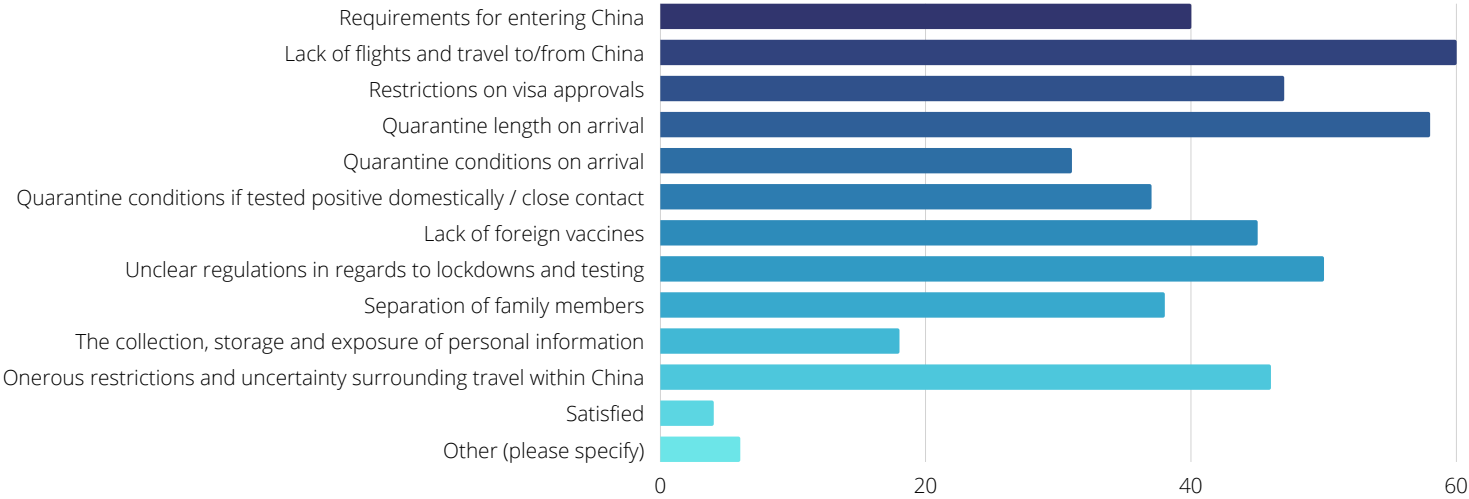
Given the success that China has had in managing COVID-19 in the two years following the initial outbreak, keeping COVID-19 related deaths in mainland China well below that of other major countries, it is not surprising that many surveyed companies commended China on its effective contact tracing measures (46%), success at controlling the spread of COVID-19 (41%), and the efficient rollout of the vaccine programme (39%).

However, 37% of services firms and one-quarter of goods firms gave no answer to this question, and 33% of respondents indicated they were not satisfied with the management of COVID-19. 60% of the respondents who indicated dissatisfaction with the management of COVID-19 are start-ups or SMEs. The top three reported aspects of COVID-19 management that are causing dissatisfaction across all business and industries surveyed are a lack of flights and travel to/from China (60%), quarantine length on arrival (58%) and unclear regulations for the management of COVID-19 in regards to lockdowns and testing (50%). Comments from respondents also report a sense of exhaustion with travel restrictions, exasperation with the scale of disruptions, and concerns over the continued shrinkage of the foreign talent pool within China.

What aspects of China's management of COVID-19 are you satisfied with?



What aspects of China's management of COVID-19 are you not satisfied with?



Services firms reported greatest dissatisfaction in regards to the lack of flights and travel to/from China (65%), quarantine length on arrival (62%) and restrictions on visa approvals (53%). This is unsurprising given that 42% of service firms indicated a severe impact on the ability to attract or retain skilled foreign talent as a result of recent outbreaks when compared to 2021, with almost three-quarters of services firms also expecting a continued noticeable or large impact on this ability if the dynamic zero-COVID policy remains in place.

Goods firms also reported dissatisfaction with quarantine length on arrival (55%) and lack of flights and travel to/from China (49%); however, unclear regulations for the management of COVID-19 in regards to lockdowns and testing were also commonly cited as a cause for dissatisfaction (44%). This dissatisfaction likely stems from the instability created by unpredictable and frequent COVID-19 lockdowns and testing, which goods firms cite as the top factor impacting planned investments (39%).



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KEY RECOMMENDATIONS

Respondents offered a number of recommendations for the management of COVID-19 in China moving forward. The most frequently suggested recommendations by all companies surveyed were:-

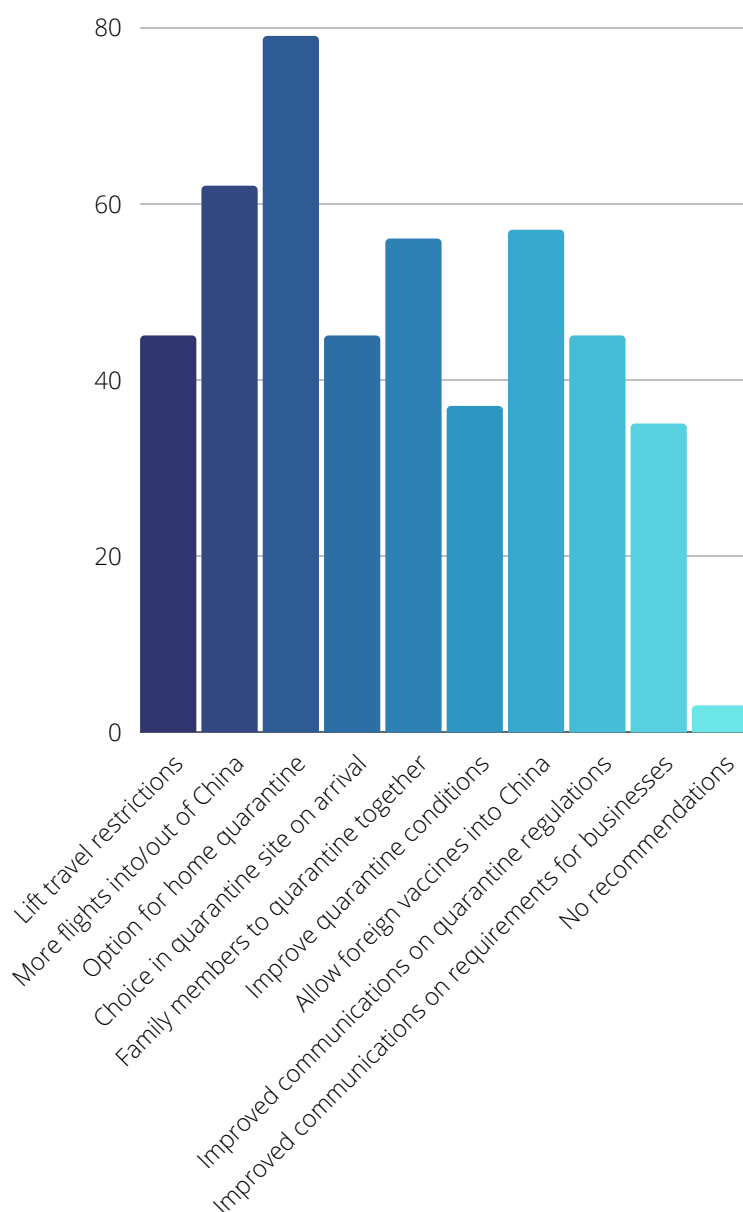
- 1. Allowing for home quarantine and/or other substitute options to centralised quarantine on arrival, for asymptomatic and close contact cases (79%);**
- 2. Allowing more flights into/out of China (62%);**
- 3. Allowing foreign vaccines into China (57%);**
- 4. Allowing family members to quarantine together (56%); and**
- 5. Improving communications on quarantine and lockdown provisions which are standardised across cities (45%).**

Services firms frequently requested home quarantine provisions (77%), more flights into and out of China (72%) and allowing foreign vaccines into China (68%). Goods firms similarly requested allowing for home quarantine (82%), flights into and out of China (47%), and family members being able to quarantine together (44%).



Respondents who indicated Shanghai as their most affected operations overwhelmingly recommended that home quarantine provisions be established (85%), as did respondents who indicated that their operations had been affected in other cities (80%). However, Shanghai respondents prioritised family members being able to quarantine together (60%), whilst respondents from other cities prioritised the provision for more flights into and out of China (67%).

What aspects of China's management of COVID-19 are you not satisfied with?





ABOUT THE BRITISH CHAMBERS OF COMMERCE IN CHINA

The British chambers of commerce in China are a collective of membership organisations in the Chinese mainland focused on providing advocacy, business support and networking opportunities for British business in China. We operate as independent, not-for-profit organisations with a strong and diverse membership. The British Chamber of Commerce in China was established in Beijing in 1981 shortly after reform and opening up was launched, and the British Chamber of Commerce Shanghai extends back to 1915. For more than 100 years, the British chambers of commerce in China have brought the British business community together to help them thrive in one of the world's fastest growing markets

Our chapters across Beijing, Guangdong, Shanghai and Southwest China build a sense of community for member companies through social and informative events held across the country.

Our advocacy work seeks to promote a strong, inclusive, and prosperous operating environment for businesses of all backgrounds to succeed in China. Two important annual advocacy initiatives include the publication of the Business Sentiment Survey and the Position Paper. The former takes the pulse of British businesses in China on a series of issues, including their reflections on the past years' business environment, their most pressing market access issues and their views on current events that affect their business. Our Position Paper lays out the key recommendations of British business operating on the ground in China and aims to improve the business environment for British companies in China

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