

BRITISH CHAMBERS OF COMMERCE IN CHINA

British Business in China

THE IMPACT OF COVID-19

A SECOND SURVEY ASSESSING
THE EVOLVING IMPACT OF COVID-19
ON BRITISH BUSINESS ACROSS CHINA





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EXECUTIVE SUMMARY

This is the second survey conducted by the British chambers of commerce in China on the impact of COVID-19 on our member companies. The initial survey measured sentiment as companies returned from the Lunar New Year holiday between 5th and 7th February. This survey, conducted between 18th and 21st February, provides an updated picture now that businesses have had time to better understand the impact of the outbreak on their operations.

The survey represents the views of 135 British businesses in China, from SMEs to globally-recognised FTSE 100 companies, operating across the country and across industries. The key findings of this second survey are:

- 1. Half of British businesses expect their 2020 China revenue to drop by more than 10% as a direct result of the COVID-19 outbreak, and more than one quarter of British businesses expect a decrease of more than 20%.** Companies headquartered in Wuhan, as well as those in the creative industries and hospitality, expect the biggest negative impact on their revenues.

- 2. Companies are most affected by reduced demand for their products and services (61%), global travel disruptions (58%), and business uncertainty (55%).** The proportion of companies experiencing these challenges has risen significantly since the initial survey two weeks ago, highlighting that the impact on businesses is far more severe than first anticipated. 55% of British businesses' offices in China remain closed, and 91% of British retailers have seen a drop in demand as a direct result of the outbreak. In response, the majority of companies are implementing remote working (86%) and flexible working hours (60%), and roughly one third of businesses are postponing investment decisions.

- 3. The predominant concerns for businesses for the next six months are continued travel restrictions (69%) and reduced consumer demand (63%).** For companies in Wuhan and Hubei, the most widespread concern is public health and sanitation (60%), whereas companies headquartered in Beijing, Shanghai and Guangdong are more concerned about travel restrictions, reduced demand and reduced attractiveness of the Chinese market respectively.

- 4. SMEs are significantly more vulnerable to the economic effects of the outbreak than MNCs.** 39% of SMEs expect that their 2020 revenues will decrease by more than 20%, compared to 13% of MNCs. SMEs are also three times more likely than MNCs to be postponing investment decisions.

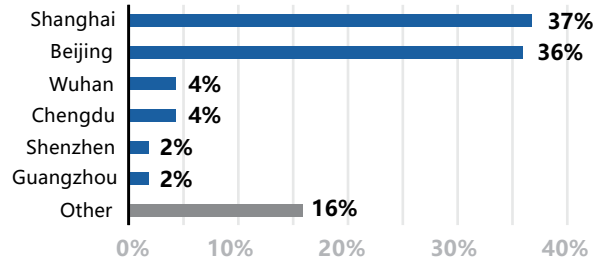
- 5. Roughly half of surveyed British companies are contributing to efforts to curb the impact of the COVID-19 outbreak.** The proportion of companies providing financial donations and pro-bono business advice have both increased 10 percentage points as compared to the previous survey, and 43% plan to make further donations.

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CORPORATE PROFILE

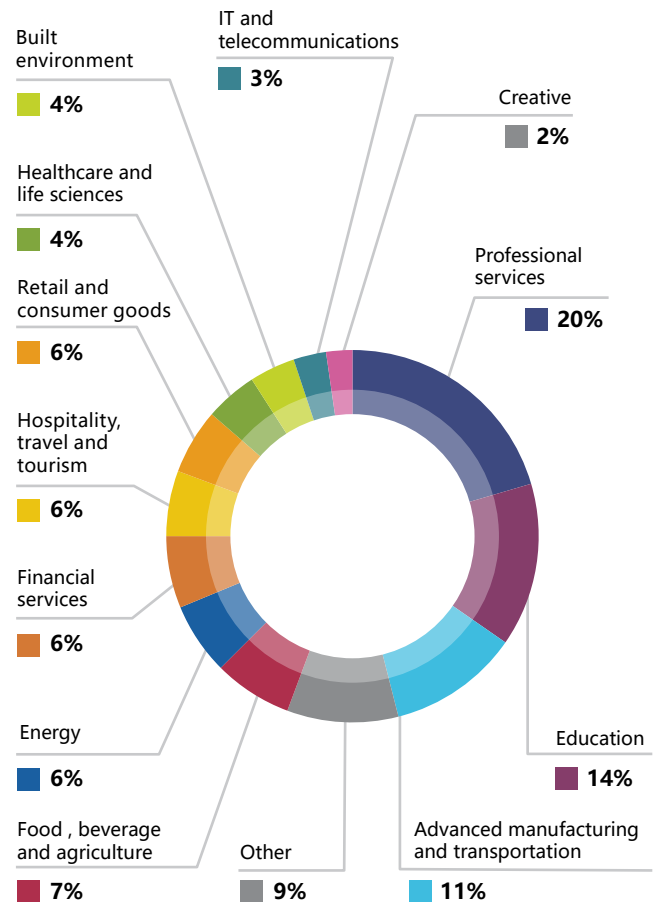


IN WHICH MAINLAND CHINESE CITY IS YOUR ORGANISATION'S HEADQUARTERS LOCATED?

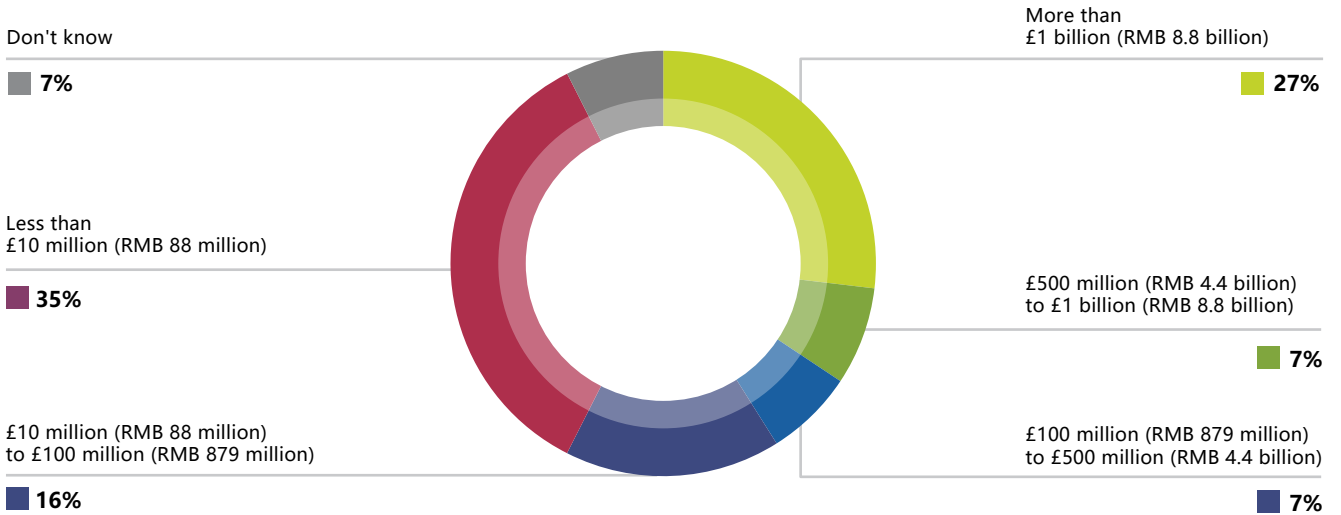


The survey represents the diversity of British business in China in terms of size, sector and location. The highest representation of companies is in professional services (20%), followed by education (14%) and advanced manufacturing and transportation (11%). SMEs (annual global revenues of GBP 100 million or less) constitute 51% of total respondents, while 41% of respondents are MNCs earning more than GBP 100 million annually. While British businesses have a strong presence across the entire country, the vast majority have their mainland Chinese headquarters in Shanghai (37%) and Beijing (36%), with other locations including Wuhan, Chengdu, Shenzhen and Guangzhou.

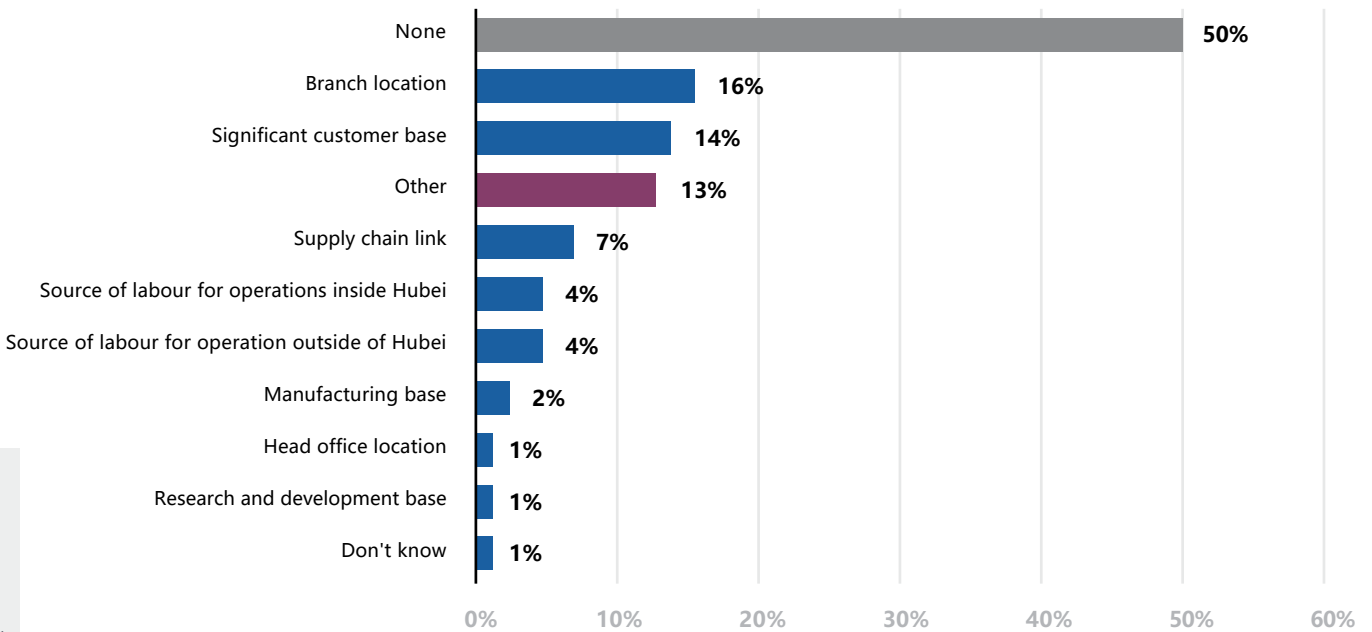
WHICH SECTOR(S) IS YOUR ORGANISATION INVOLVED IN?



WHAT IS THE ANNUAL REVENUE OF YOUR ORGANISATION'S GLOBAL OPERATIONS?



IN NORMAL TIMES, WHAT ROLE DOES HUBEI PLAY IN YOUR BUSINESS OPERATIONS?

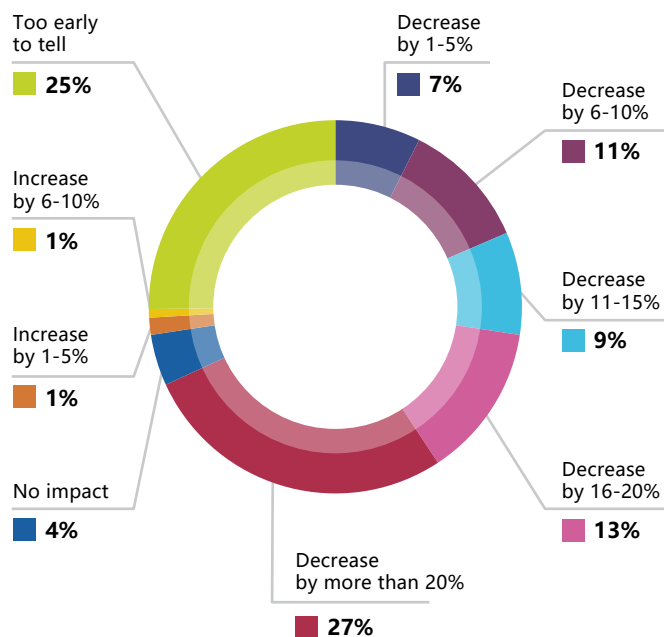


Roughly half of British companies are directly tied to Hubei, the epicentre of the COVID-19 outbreak. 16% of businesses have a branch location in Hubei, and companies are also reliant on the province for its significant consumer base (14%) and supply chain links (7%). Half of companies in the built environment sector have a branch location in Hubei, while 15% of advanced manufacturing and transportation companies have a manufacturing base in Hubei. Options given in 'Other' include potential customer base and future business opportunities.

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FINDINGS

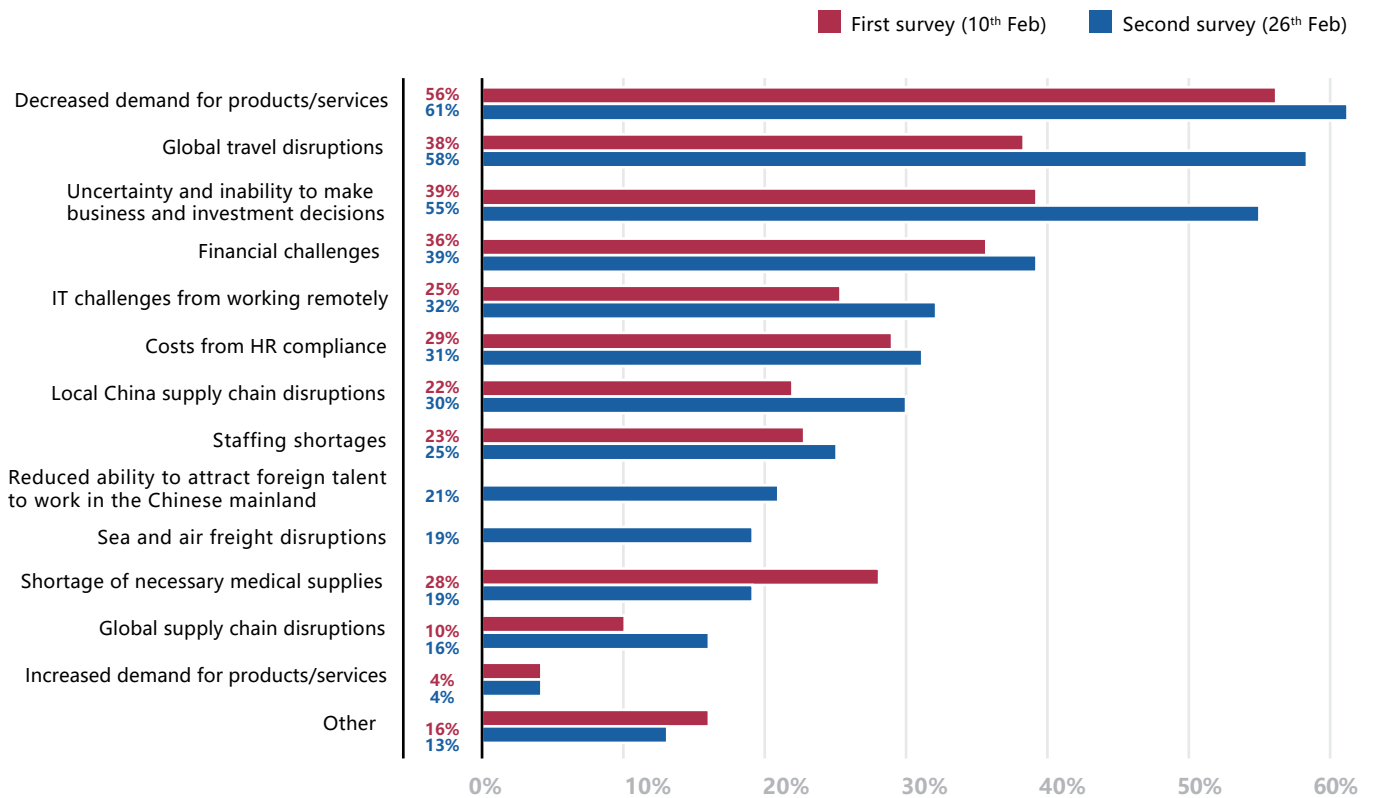
WHAT IMPACT DO YOU ESTIMATE THE CORONAVIRUS OUTBREAK WILL HAVE ON YOUR ORGANISATION'S REVENUE IN THE CHINESE MAINLAND FOR 2020?



Half of British businesses expect the COVID-19 outbreak to reduce their 2020 China revenue by more than 10%, and more than one quarter of British businesses expect a decrease of more than 20%. Companies headquartered in Wuhan are unsurprisingly seeing the biggest impact, with 80% reporting that their China revenues will decrease by more than 20%, while companies in the creative industries and hospitality are equally expecting significant hits to their revenues (80% and 70% of companies respectively). SMEs are similarly more vulnerable than MNCs, with 39% reporting that their revenues will decrease by more than 20% compared to 13% for MNCs.¹

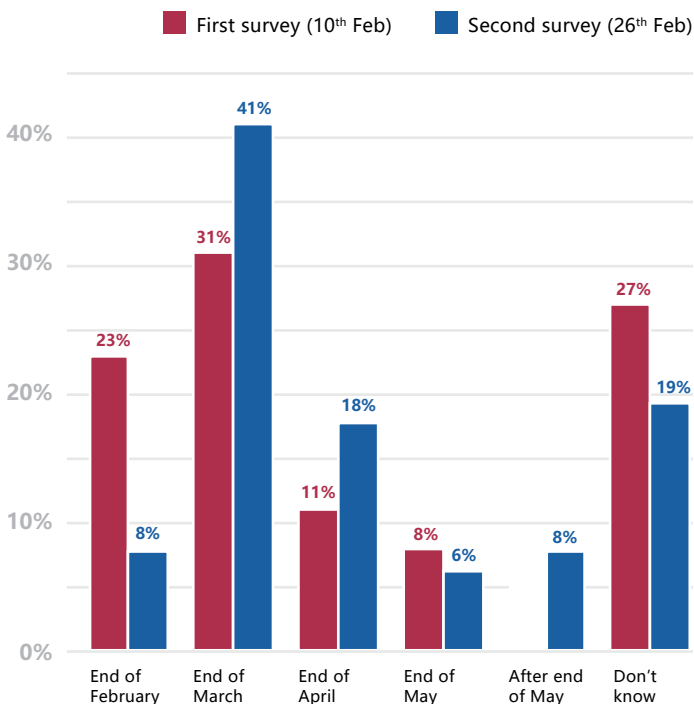
¹ Companies were also given the opportunity to indicate if they expected their 2020 revenue to increase by more than 10%, however no companies have reported this to be the case.

HOW HAS COVID-19 IMPACTED YOUR ORGANISATION'S OPERATIONS IN THE CHINESE MAINLAND SO FAR?



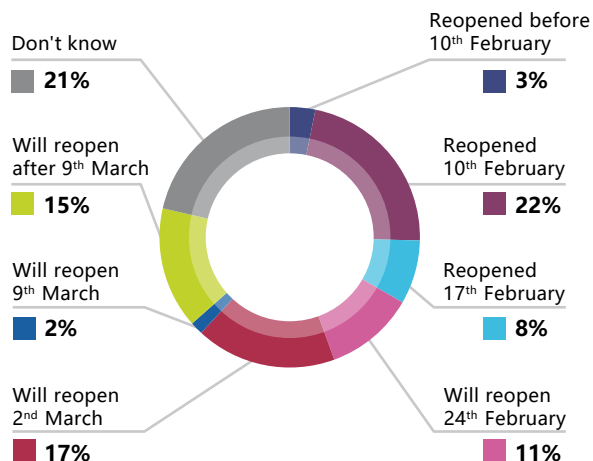
The leading challenges British companies are facing remain largely unchanged from two weeks ago, although the number of businesses reporting these issues has since risen. Decreased demand for products and services remains the most pressing issue at 61%, compared to 56% in the initial survey. There has been a noticeable increase in the proportion of companies being affected by global travel disruptions from 38% to 58%, as numerous airlines have suspended flights to and from China. For British retailers, 91% have experienced a drop in demand, while education organisations and companies in the built environment sector are struggling most with uncertainty (56% and 75% respectively) as schools across China remain shut and construction sites have been closed with no detailed timeline for reopening.

WHEN DOES YOUR ORGANISATION ANTICIPATE THE SITUATION AND YOUR OPERATIONS WILL RETURN TO NORMAL?



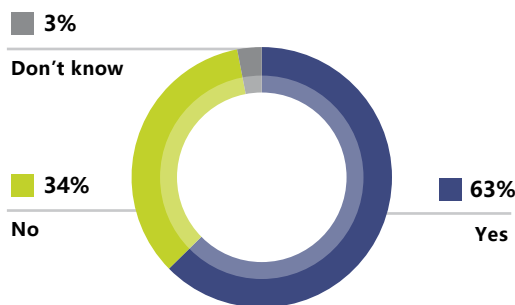
Businesses are more tempered in their expectations for when their operations will normalise in comparison to the previous survey. Only 8% of companies expect to resume full business operations by the end of February, compared with almost a quarter in the previous survey. Instead, a higher proportion of respondents now expect the situation to have returned to normal by either the end of March (41%) or the end of April (18%). Companies headquartered in Beijing are the most optimistic that operations will return to normal by end of March at 51%, compared with 44% in Shanghai, 25% in Chengdu and 17% in Guangzhou and Shenzhen combined. Companies in food, beverage and agriculture are relatively pessimistic, with two out five expecting business to stabilise only by the end of April.

IF YOUR ORGANISATION'S OFFICES REMAIN CLOSED AS A RESULT OF COVID-19, WHEN DO YOU CURRENTLY EXPECT THEM TO REOPEN?



55% of British businesses' offices in China remain closed. The highest proportion of respondents (22%) reopened their offices on 10th February, although a similar number of companies are still uncertain about when they will reopen. Compared to Beijing, Shanghai and Chengdu, more companies in Shenzhen and Guangzhou expect to reopen on 2nd March at 33%. Companies in IT and telecoms and hospitality are delaying opening the most, with 75% of IT firms and 50% of hospitality companies expecting to reopen after 9th March.

IF YOUR ORGANISATION ORIGINALLY PLANNED TO REOPEN OFFICES ON 10TH FEBRUARY, DID YOU DECIDE TO FURTHER DELAY OPENING?



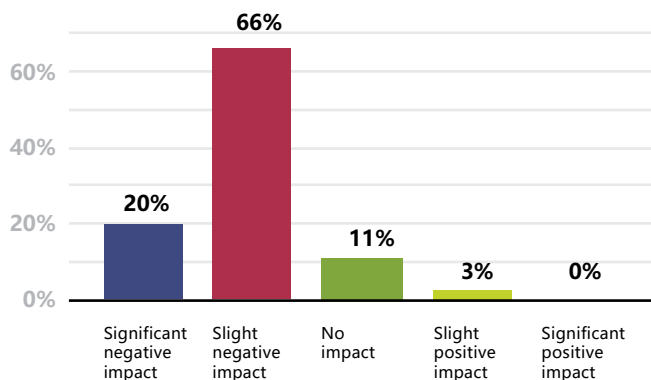
For companies that initially expected to reopen offices on 10th February in the previous survey, 63% of businesses delayed opening, while only one third of companies stuck with their original schedule and reopened according to plan. Of companies that delayed opening, a large proportion expect to reopen offices either on 2nd March (28%) or after 9th March (20%)

WHAT ACTIONS HAS YOUR ORGANISATION TAKEN OR IS CONSIDERING TAKING IN RESPONSE TO COVID-19?

	10 th Feb	26 th Feb	
Implemented working from home	87%	86%	▼
Implemented flexible working hours	37%	60%	▲
Postponing investment decisions	22%	30%	▲
Temporarily suspending operations in the Chinese mainland	17%	17%	—
Sent foreign passport holders overseas to work from outside the Chinese mainland	6%	14%	▲
Relocating operations out of the Chinese mainland		7%	—
Other	12%	6%	▼
Sourcing new suppliers outside of Hubei		5%	—
Cancelling investment decisions	4%	5%	▲
Don't know	2%	2%	—
Relocating operations out of Hubei or Wuhan	1%	2%	▲
No action	1%	1%	—

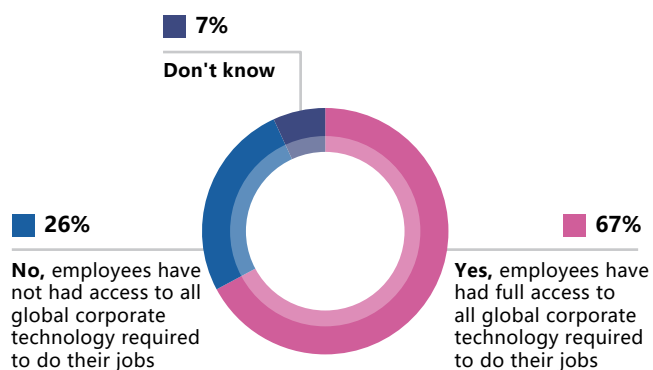
Businesses are continuing to take necessary action in response to the COVID-19 outbreak. While a similar proportion of companies are implementing working from home compared to the previous survey, more businesses are now permitting employees to work flexible hours to address team members' desire to limit travel in busy periods and to support parents working at home who must balance home schooling demands while schools remain closed. While more companies are now postponing investment decisions compared to the previous survey, this is being done much more so by SMEs (45%) than multinationals (13%). For those headquartered in Wuhan, 60% are sourcing new suppliers outside of Hubei and 40% are looking to relocate operations out of Hubei altogether.

IF YOUR ORGANISATION IS IMPLEMENTING REMOTE WORKING, WHAT IMPACT HAS THIS HAD ON YOUR ORGANISATION'S NORMAL BUSINESS OPERATIONS?



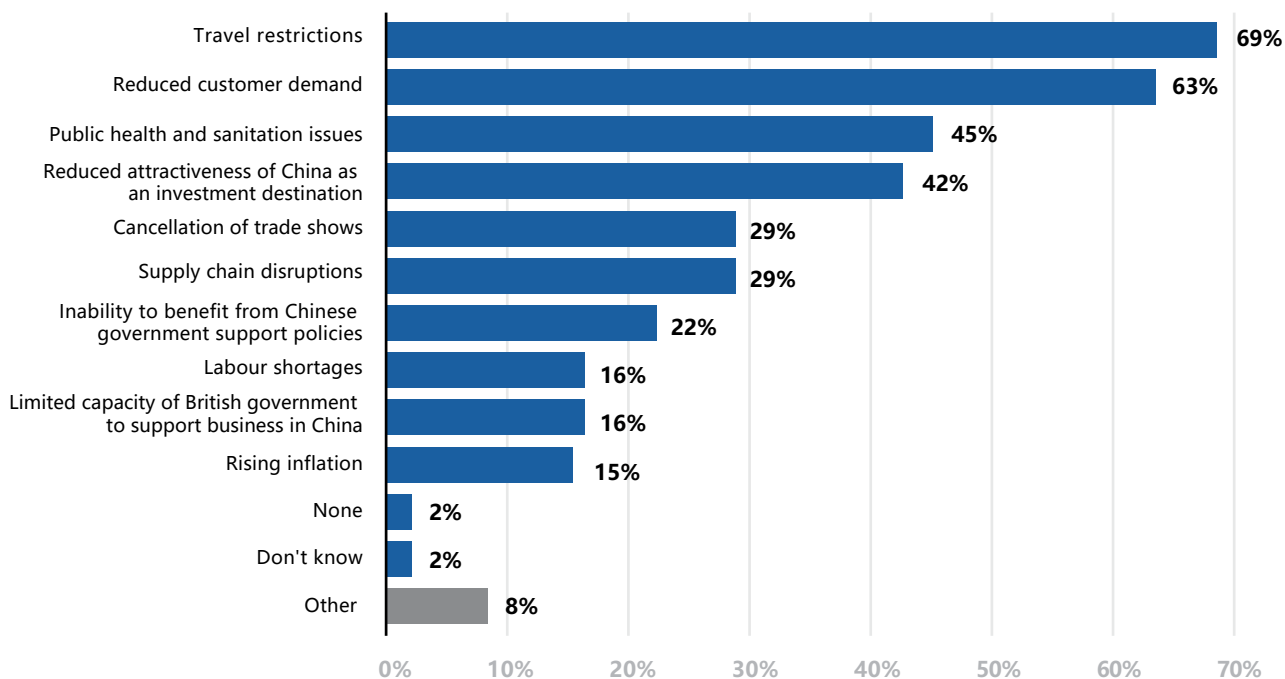
Companies that are implementing remote working are finding it to have a negative impact on their normal business operations, although the majority (66%) report that this is having a slight impact. Companies in the built environment and retail sectors are finding remote working to have the most significant negative impact, at 88% and 55% respectively.

FOR EMPLOYEES WORKING REMOTELY, HAVE THEY BEEN ABLE TO ACCESS ALL GLOBAL CORPORATE TECHNOLOGY PLATFORMS?



Two thirds of respondents report that their employees have had full access to all global corporate technology platforms. For companies where employees are unable to access global corporate technology platforms, 92% report it to be having a negative impact on their operations (71% slight negative impact versus 21% significant negative impact).

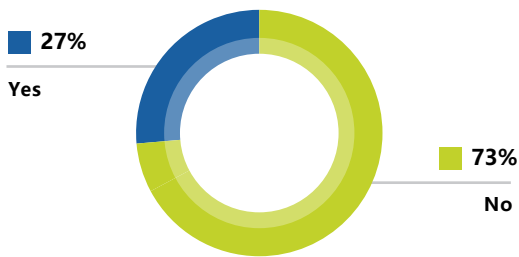
WHAT ARE YOUR ORGANISATION'S MAIN CONCERNS FROM THE OUTBREAK OVER THE NEXT SIX MONTHS?



The predominant concerns for British businesses over the next six months are travel restrictions (69%) and reduced customer demand (63%). For companies in Wuhan, the most widespread concern is, unsurprisingly, public health and sanitation (60%), whereas companies are most apprehensive about travel restrictions if headquartered in Beijing, reduced demand if in Shanghai, and reduced attractiveness of the Chinese market if in Guangdong.

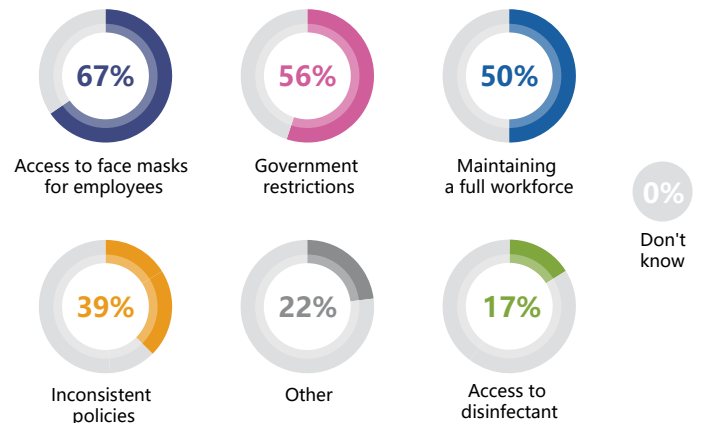
With significant challenges around cash flow, SMEs are most concerned about weak consumer demand, whereas travel restrictions are a greater concern for MNCs, given their more globalised operations and client base. Companies in advanced manufacturing and transportation (53%), energy (50%) and healthcare (50%) are more concerned about longer-term disruptions to supply chains than other sectors.

HAS YOUR ORGANISATION TEMPORARILY CLOSED MANUFACTURING FACILITIES IN THE CHINESE MAINLAND AS A RESULT OF COVID-19?



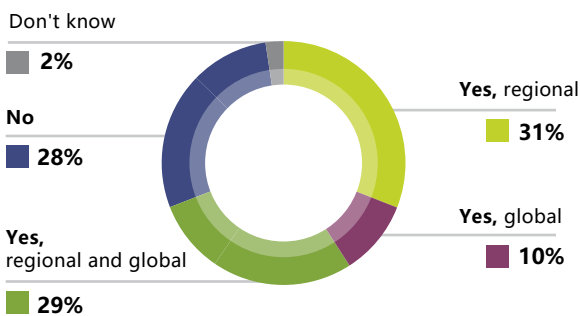
Among companies operating manufacturing facilities in the Chinese mainland, 73% have remained open despite the outbreak and are operating at 67% capacity on average. By contrast, if a company has closed factories and other processing sites, they have on average closed 88% of these spaces. MNCs' facilities are more likely to be operational (83%), but 60% of SMEs also continue to manufacture goods in some capacity. There is a significant lack of consensus and a high degree of uncertainty as to when manufacturing facilities will reopen. A third of companies require more information before they can accurately forecast this. However, no companies expect to delay resuming production until after April.

WHAT CHALLENGES DOES YOUR ORGANISATION ANTICIPATE OR IS FACING IN REOPENING MANUFACTURING FACILITIES?



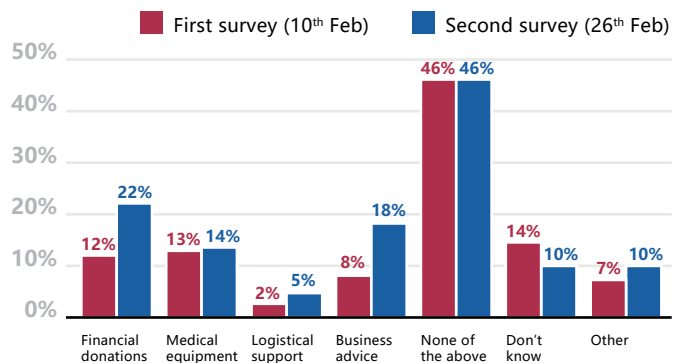
The current shortage of face masks across China is the largest concern for companies looking to reopen manufacturing plants. Restrictive government policies are also expected to be a significant challenge, and effective communication and transparency from the government is necessary to ensuring that companies can resume production as efficiently as possible. Following on from this, half of manufacturers expect that it will be difficult to maintain a full workforce upon the reopening of factories, likely due to self-quarantine measures and difficulties encouraging staff to come back to work.

HAS YOUR ORGANISATION IMPOSED TRAVEL RESTRICTIONS AT A REGIONAL AND/OR GLOBAL LEVEL AS A MATTER OF COMPANY POLICY?



70% of companies have implemented some form of travel restrictions as a matter of company policy, displaying British businesses' readiness to protect their employees and assist in containing the spread of COVID-19. Nevertheless, an inability to travel significantly hampers business operations and opportunities. Companies are keen to recommence business travel as soon as it is safe to do so.

IS YOUR ORGANISATION PROVIDING ANY OF THE FOLLOWING TO SUPPORT THE CHINESE GOVERNMENT'S EFFORTS TO CONTAIN COVID-19 IN HUBEI?



Roughly half of British businesses are supporting the Chinese government's efforts to contain the outbreak to some degree. A quarter of these have made a donation valued at RMB 1 million or more. Compare to two weeks ago, companies have diversified the types of aid they are offering. Now, more are providing financial donations and offering free business advice to companies and individuals who are affected. Two fifths of companies are also actively considering making further donations as the outbreak continues.

ABOUT BRITISH CHAMBERS OF COMMERCE IN CHINA

The British chambers of commerce in China, established in Shanghai in 1915 and in Beijing in 1981, are a collective of membership organisations in the Chinese mainland focused on providing advocacy, business support and networking opportunities for British business in China. For more than 100 years, our chapters across Beijing, Shanghai, Guangdong and Southwest China have brought the British business community together to help them thrive in one of the world's fastest growing markets.

To learn more about our advocacy work and research, please reach out to our policy team at advocacy@britishchamber.cn. For enquiries about Chamber membership, please reach out to steven.lynch@britishchamber.cn.

The British chambers of commerce in China would like to thank all the UK companies who filled out the survey, our executive committees for their guidance and the policy team for analysing the data and compiling the report. Our appreciation also goes to Venture Education for designing the report.

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SCAN TO FOLLOW



EMPOWERING UK EDUCATION IN CHINA

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