



European Chamber
中国欧盟商会

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COVID-19:

THE IMPACT ON EUROPEAN
BUSINESS IN CHINA

European Union Chamber of Commerce in China

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About the Survey

Between 18th and 21st February 2020, a total of 577 member companies of the European Union Chamber of Commerce in China and the German Chamber of Commerce in China participated in a flash survey on the impact of the novel coronavirus outbreak on European business in China.

About the European Union Chamber of Commerce in China

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the European Union and European businesses operating in China. It is a members-driven, non-profit, fee-based organisation with a core structure of 31 working groups and fora representing European business in China. The European Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China.

About the German Chamber of Commerce in China

The German Chamber of Commerce in China has currently more than 2,300 members in mainland China and is the official member organisation for German companies in China. By providing up to date market information and practical advice, the German Chamber helps its members to succeed in China. It offers a platform for the Sino-German business community and represents its members' interests towards stakeholders including government bodies and the public.

Executive Summary

The results show that the impact of the COVID-19 outbreak has been severe overall, with every single survey respondent suffering the consequences to varying degrees, and being subject to restrictions and often conflicting regulations. Many companies that have been permitted to reopen lack the necessary inputs/staff to resume full operations, the customers to buy their goods/services or the means to move goods and people to meet demand.

Key Findings

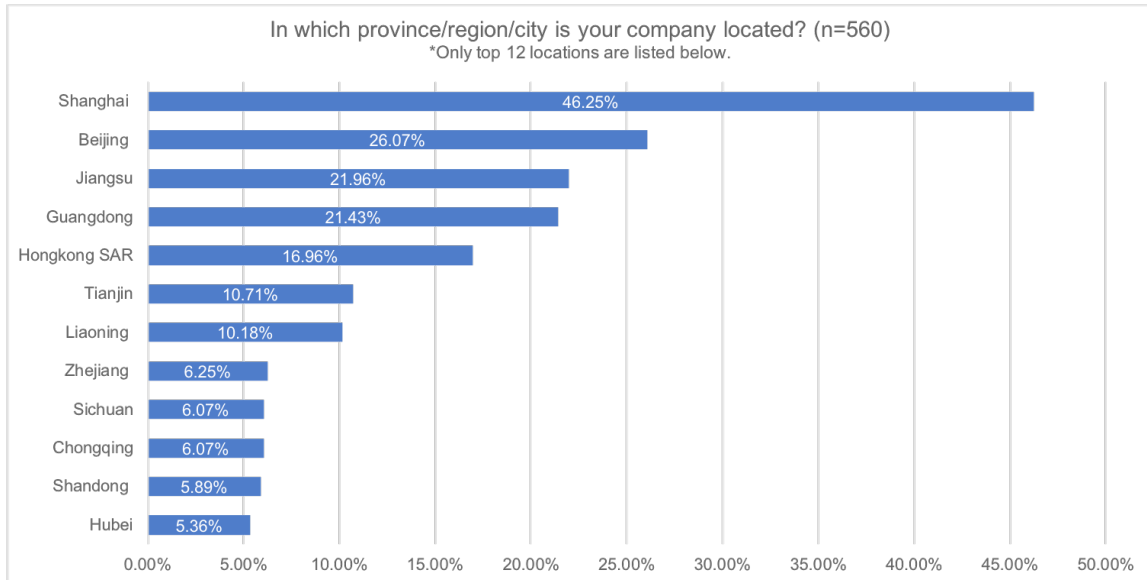
- Almost 90% of respondents report a medium to high impact, while half plan to lower annual business targets.
- Nearly half of respondents forecast a double-digit drop in revenues for the first half of 2020, and a quarter expect to see a drop of over 20 per cent.
- Major challenges include unpredictable rules, highly restrictive quarantine demands and extensive pre-conditions to restart operations.
- Half of respondents face inconsistent rules applied across different jurisdictions and at different levels of government, which can frequently change, often at short notice. For example, deliveries can be subject to multiple onerous restrictions when passing through provinces, cities and even districts.
- More than 300 European companies are actively supporting efforts to contain the COVID-19 outbreak, and around 70% have donated medical equipment to crisis regions, contributed financially to the fight against the virus, and supported logistically.

“The patchwork of conflicting rules that emerged from the fight against COVID-19 has produced hundreds of fiefdoms, making it next to impossible to move goods or people across China,” said Jörg Wuttke, president of the European Union Chamber of Commerce in China. “While virus containment is the most important task, standardising measures across larger jurisdictions should also be prioritised to get the real economy back on its feet.”

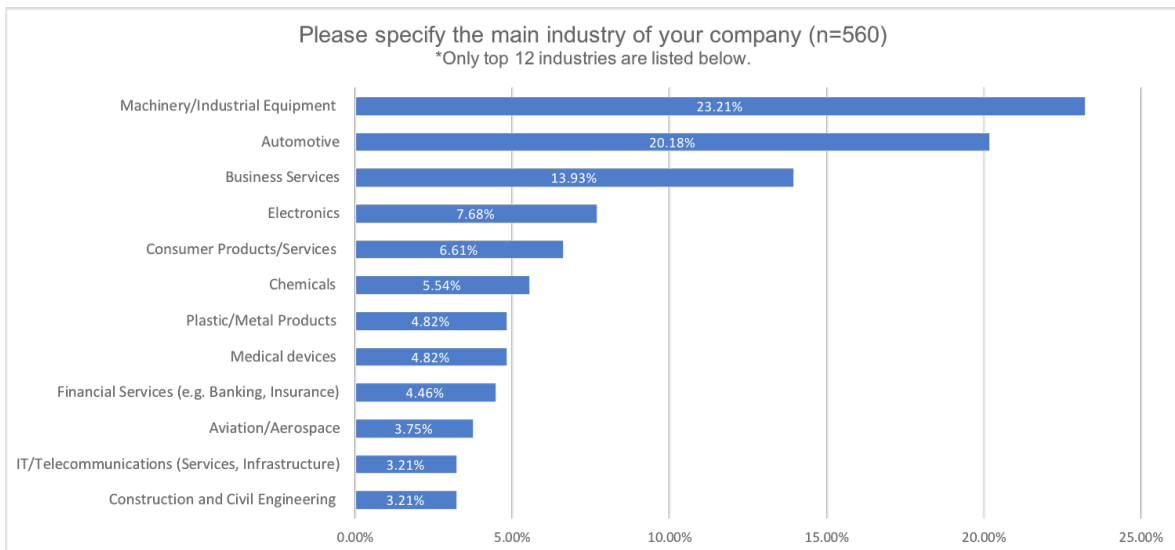
“China finds itself performing a precarious balancing act with two important but divergent tasks: keeping firm with virus prevention measures while fighting for a return to economic normalcy,” said Dr Stephan Woellenstein, chairman of the German Chamber of Commerce in North China. “This will require the Chinese Government to release supporting measures for those most affected—especially SMEs—until operations normalise.”

Respondents' Profiles

Respondents have operations spread far across China. While the bulk of respondents are based in traditional business centres like Beijing, Shanghai, Jiangsu and Guangdong, a not insignificant presence in areas like the



emerging Sichuan/Chongqing basin show how sizeable the footprint of European business in China has become. Respondents represent a wide range of industries in China. There are few sectors in which European companies have no presence, but there is considerable weight in the respondent pool in the machinery/industrial equipment, automotive and business services industries.

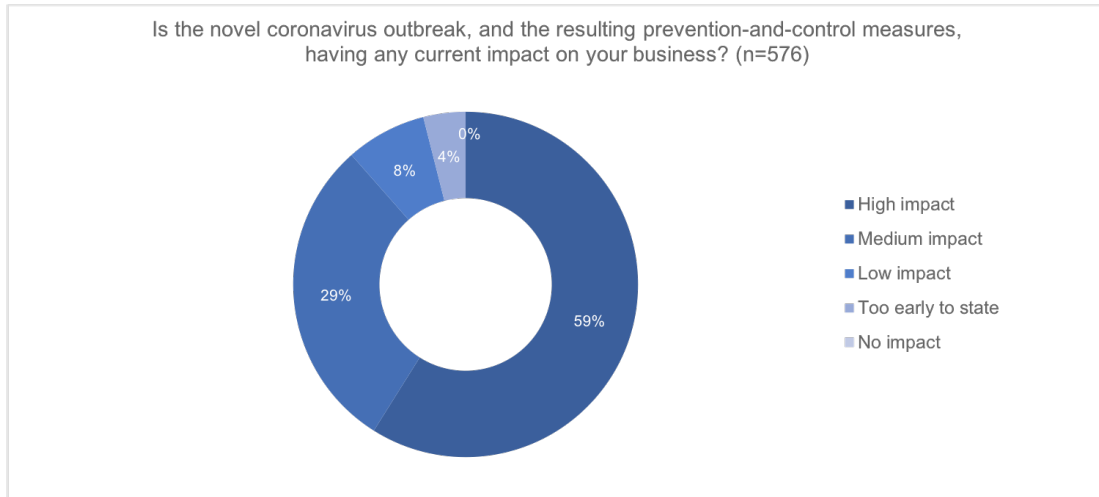


Findings

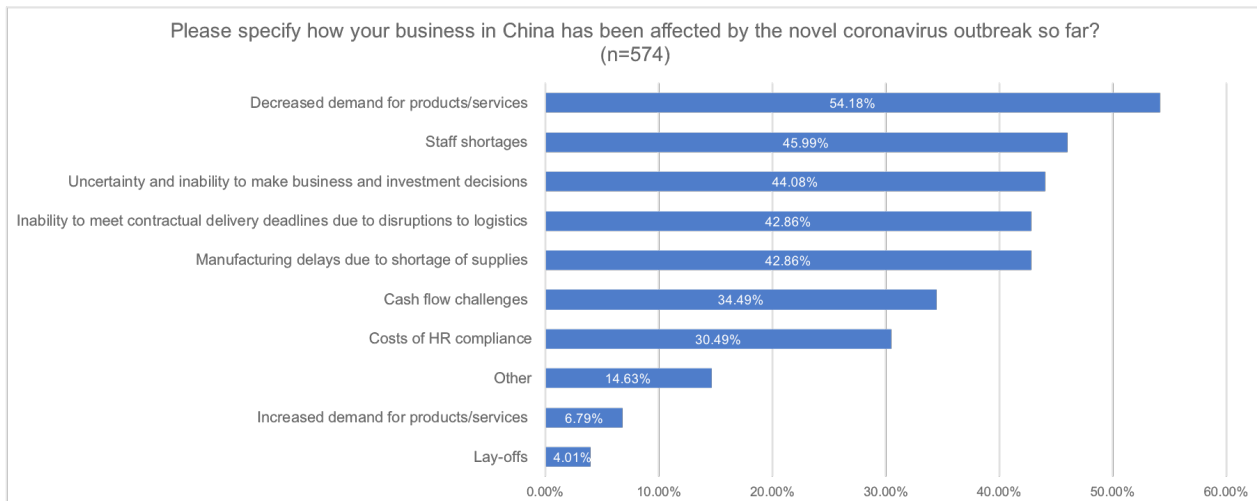
Tackling COVID-19 remains the top priority for the European business community in China, which appreciates the difficulties faced by the authorities charged with coordinating a response. A resurgence of the outbreak in China would be a disaster, but this does not mean that there is no room to improve the existing measures taken to mitigate any further spread. As the official numbers indicate some stabilisation in China, Chinese efforts can now be focussed on refining effective mitigation procedures, while facilitating a return to normal business activities.

With that goal in mind, the European Union Chamber of Commerce in China partnered with the German Chamber of Commerce in China to survey members on the effects of the COVID-19 outbreak on business. This report covers the perspective of the European Chamber on the most significant impacts, as well as recommendations for the Chinese Government to better manage the potential for further spread of COVID-19 within China, while getting the economy up and running again.

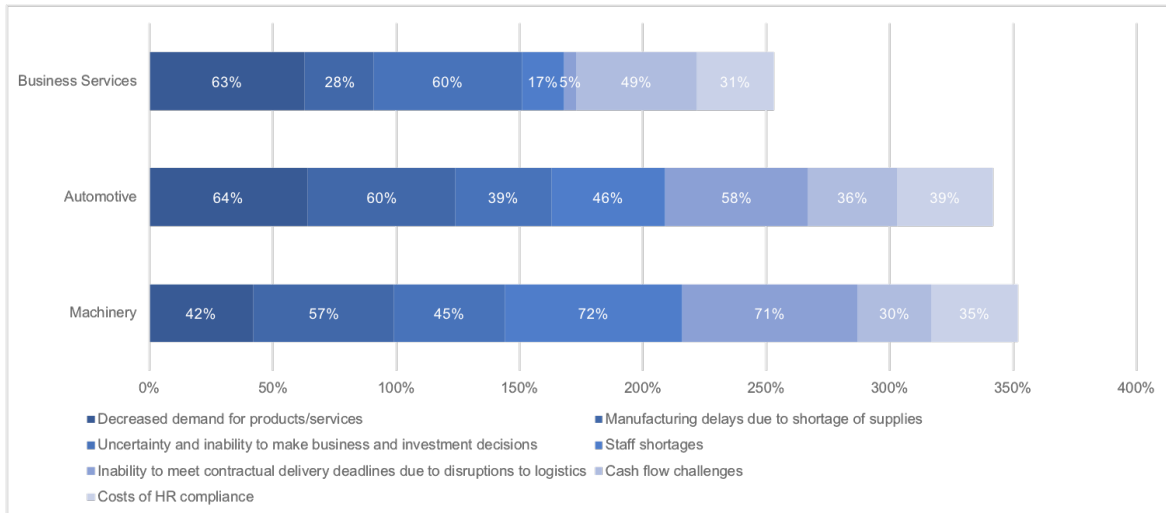
Companies universally face challenges



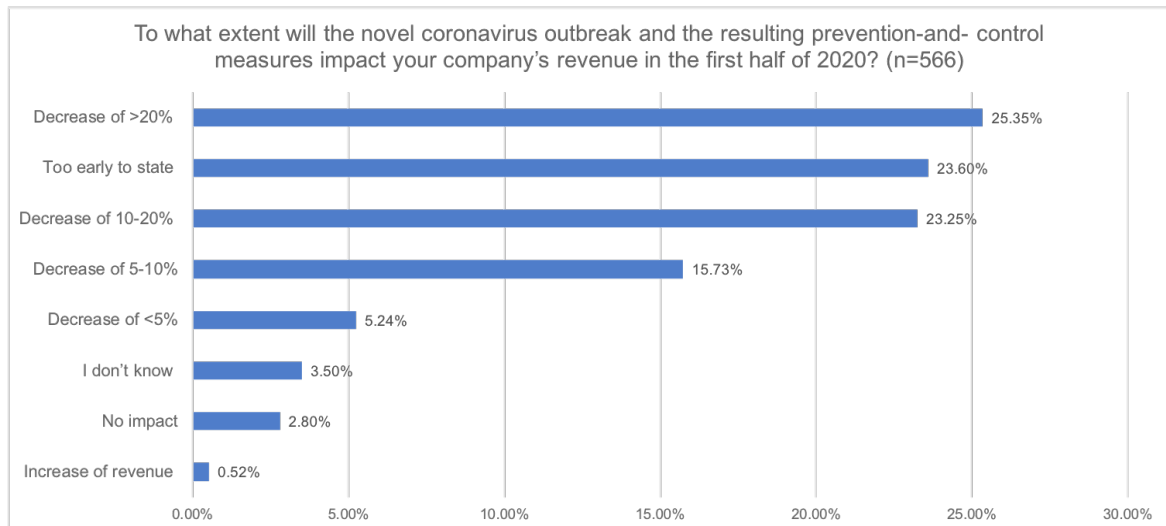
Roughly six out of 10 respondents note a high impact from the COVID-19 outbreak, with half as many feeling a medium impact. The impact is felt in a variety of ways, and may be seen as either lost or recoverable business opportunities, depending on the sector and industry outlook.



Impacts are widely spread across different aspects of a company's operations. Supply chains are bearing the worst disruptions, with 54% seeing demand slide, 46% facing erratic supplies and 46% struggling with logistics nightmares. Challenges stemming from the movement of people are also dragging down efforts across the board to resume operations, as 46% report staff shortages and 30% are struggling with HR compliance burdens like requirements to stockpile masks and other products aimed at the prevention and control of virus transmission.

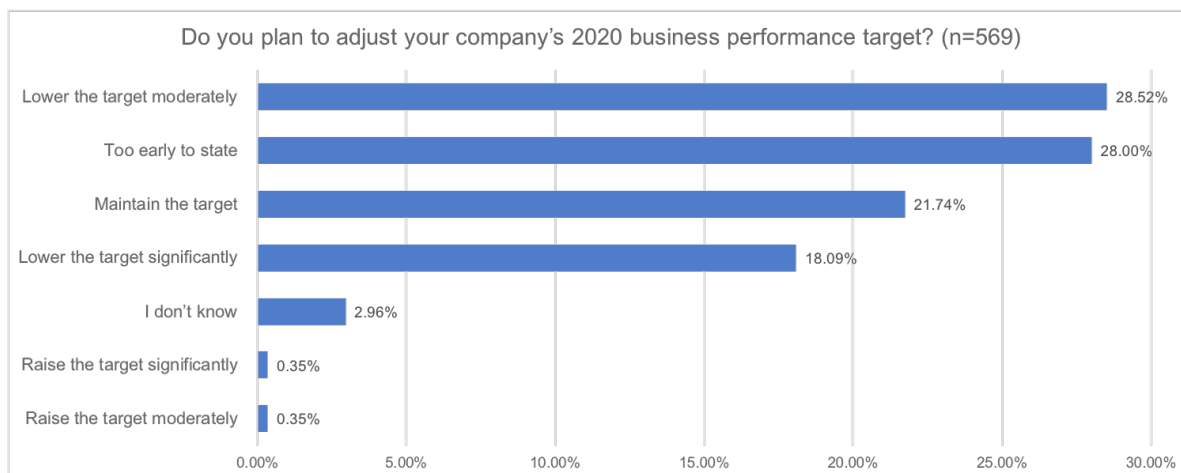


Companies saw different effects based on their respective industries. A mere 17% of business service companies, for example, report staff shortages, reflecting the relative ease with which they can still operate with staff working remotely in a way that machinery companies (72% of which cited staff shortages) cannot. However, half of business service providers cite cash flow challenges, compared to just over a third of companies in the automotive sector. Business service providers tend to be smaller enterprises, and may not be able to cope with heavily diminished cash flow as well as large automakers, which also have the advantage of easier access to financing to alleviate such issues.



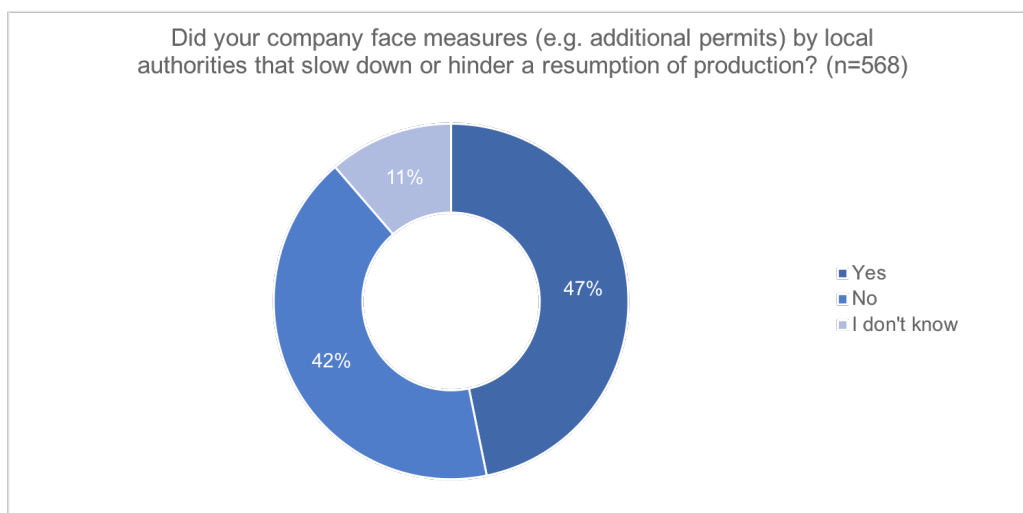
The current ecosystem is one in which even if a company can open its doors again, it may not have the supplies, demand, logistics or talent necessary to get business moving. This has driven down business sentiment, with 44% experiencing uncertainty and being unable to confidently make business and investment decisions. Revenue projections are widely impacted for the worse: a quarter anticipate a revenue decrease of more than 20% in the first half of the year; another quarter expect a drop of 10–20%; and a fifth project a dip of less than 10%. The remaining quarter believes that it is too early to accurately forecast the impact. A significant proportion of respondents in business services, consumer goods and services, and electronics industries forecast the worst revenue drops,

reflecting a considerable decrease in demand for both business-to-business services and business-to-consumer goods and services.



A near majority of companies expect to lower their 2020 business targets, an indication of just how severe the impact of the COVID-19 outbreak has been. However, just over a fifth plan to maintain their current targets. These companies are likely in a position where they believe they can recover lost business throughout the year as they project a spike in demand as the economy comes back online, showing that for some, the outbreak has merely postponed planned activities rather than eliminated opportunities entirely. Therefore, finding a way to identify the enterprises that will struggle to make such recoveries, and providing them with commensurate support, would be of great value to the economy in the long run.

Persistent restrictions on the movement of goods and people impede return to normal



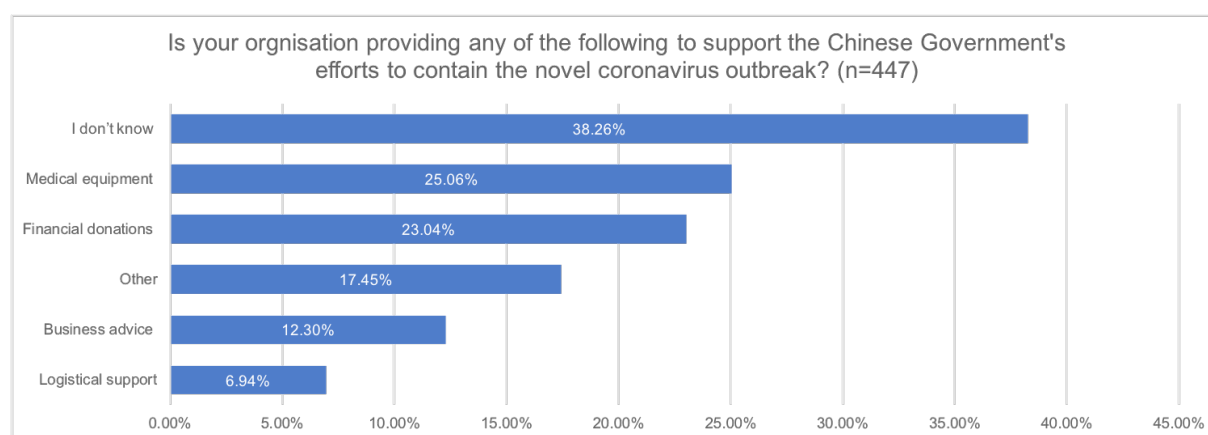
Unpredictability has paralysed efforts to get back to work as companies encounter myriad restrictions that vary both across geographies and at different levels of government, and are often subject to abrupt change. Many companies are required to obtain approvals before restarting operations, but requirements can vary from day to day. Meanwhile, many employees remain stranded where they spent the Chinese New Year holiday and are struggling to return to work due to a set of differing quarantine measures, with seemingly every jurisdiction acting on its own rules. Similar issues exist for those that were abroad during the holidays, who on their return have had to deal with mixed messages, unclear rules and differing interpretations.

Coordination among authorities and support for those most affected is called for

The ad hoc measures applied to stop the spread of COVID-19 were a useful stopgap. Now that official numbers indicate some degree of stability in China, refining these approaches and applying consistency across broader jurisdictions is critical to bringing the Chinese economy back online. It may be necessary to continue implementing special measures in the most affected areas, but the patchwork set of rules across stable regions is in dire need of standardisation.

Many companies, both local and foreign alike, also need appropriate support after two months of faltered cash flows. Tax relief, short-term credit extensions, waived toll fees, cheap state-owned storage, lowered utility rates and reduced administrative fees can all help ease the burdens born by the business community. Special outreach should also be extended to the small and medium-sized enterprises (SMEs) that are most at risk of going under.

European companies play their role in fighting COVID-19



The majority of respondents report that they are pitching in with efforts to contain the spread of COVID-19. Support has been provided most often in the form of medical equipment or financial donations. However, other companies have been able to offer their expertise and logistical support to maximise the efficiency of containment efforts.

Long-term sentiment may never be the same

Between the US-China trade war and the COVID-19 outbreak, many European companies have put diversification at the top of their agendas, as they fear they have become over-reliant on China. This should be a wake-up call for China to decisively broaden its reform and opening-up agenda, to increase the allure of its market. Bold and early steps can help to anchor business sentiment from drifting further, but there needs to be a steady procession of concrete actions to prevent confidence from diminishing further.

“The COVID-19 outbreak will have taught many companies a lesson on market predictability, and could cause some to now move away from a single source to diversify in China or the wider region,” said Jörg Wuttke, president of the European Union Chamber of Commerce in China. “However, China tends to flourish in challenging times – it opened its market in 1978 and 1992, and signed up to the WTO in the midst of the Asian financial crisis. We hope that China will take the opportunity presented by the current situation to again embrace foreign investment and engagement, and get the economy back on track.”



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