

/ LOCAL INSIGHT

CHINA'S POST COVID ERA

China, home to 1.3 billion people, the world's second-largest economy, and the largest exporter of goods has **shut down** its border since early 2020. In the wake of the epidemic, China adhered to a general policy of dynamic clearing and established various measures to **prevent imports** from **abroad** and **prevent a resurgence from within**. These measures were designed to ensure that enterprises and employees are protected from global epidemics. Its limited possibility of travel, zero-covid policy, and strict action to limit the impact and speed of COVID-19 virus has caused a serious imbalance in the world's socioeconomic status.

The Omicron epidemic caused an outbreak of the disease in several areas of Shanghai in March 2022 leading to a complete shutdown of the city. The districts were sealed and a control program was put in place in April in order to meet the requirements of dynamic clearing and control of the Omicron. With the increasing complexity and uncertainty, **economic development was highly impacted**.

Some major impacts include:

1. Halt on industrial production and export activity will enhance the already happening global supply disruption.
2. China's importance to the global supply chain gap caused a ripple effect impacting the global economy.
3. Due to a sharp drop in China's retail and industrial production, shortage, and difficulty in procuring a broad range of consumer products and supply chain issues will lead to inflation in the global economy.
4. Decline in domestic consumer activity has cast a long shadow over China's economic goals for 2022.



Shanghai epidemic prevention and control press conference announced that from June 1, Shanghai would gradually **resume work and production in an all-around way**. According to Shanghai's deployment, work has resumed gradually, and the city's production and life has returned to normal. As of June 1st, 2022, Shanghai has started to **reopen its business** and service activities in phases. Chinese authorities are optimistic about the economy bouncing back and have issued several policies to help businesses get back on track.

Situation as of today (24/05/2022):

- According to a survey done by the European Chamber of Commerce in China:
 - **60%** of respondents have decreased their 2022 revenue forecasts.
 - **78%** of respondents feel that China is a **less attractive investment** destination as a result of its more stringent COVID-19 restrictions.
 - **23%** of respondents are considering **shifting** their investments to new markets.
 - **92%** of respondents confirmed that their **supply chain** has been heavily impacted.

- According to a survey done by German Chamber of Commerce in China:
 - **73%** of the respondents' business operations are in areas under full or partial lockdown, especially in Shanghai (98%), Jiangsu (69%) and Beijing (59%).
 - **28%** of the surveyed companies' foreign employees have plans to leave China due to COVID-19 policies.
 - **10%** of the surveyed companies' foreign employees plan to leave China before expiration of their contract.
 - **18%** of the surveyed companies' foreign employees plans to leave China with expiration of their contract.

POLICY SUPPORT

The General Office of the State Council issued the «Opinions on Promoting the Stability and Quality Improvement of Foreign Trade», proposing 13 policy measures prioritizing:

1. Ensure the stability of production and circulation in the field of foreign trade.
2. Increase fiscal, taxation, and financial support for foreign trade enterprises.
3. Further help foreign trade enterprises to seize orders and expand markets.
4. Stabilize the foreign trade industrial chain and supply chain.

From the recent policy deployment, policy orientation will focus on **protecting market entities**, employment, and **people's livelihood**, that is, «keep the green hills and win the future».

ALTIOS' MARKET SURVEY OF CURRENT SITUATION

At present Altios has over 80 hosted employees in China for companies from various industries. During this period of uncertainty, we decided to **connect with our clients** to understand the condition from their point of view.

These are the finding:

1. International investors are fully confident in China's long-term economic prospects, choosing to continue increasing their holdings of yuan-denominated assets.
2. Companies are balancing their revenue streams by investing in different regions of China rather than only focusing on 1st tier cities.
3. Companies are focusing their efforts on developing new strategies that are sustainable for China markets in collaboration with experts such as ALTIOS, who specializes in this area.

4. Human assets are of much higher value than it has ever been before.

However, one of the major setbacks seen by China is the loss of its expats'. Around one-third of foreign employees plan to leave, with 10% aiming to do so before their current employment contract ends. Most of the foreigners living and working in China have decided to say goodbye to the country for now due to its extreme policies of Zero-covid and Travel ban. This loss in China's talent will be a driving force to move the government to issue more sustainable travel policies for the international communities. In order to prevent this loss, the government has relaxed the policies for the settlement of talents and the policies for foreigners' visa processing.

INTERVIEWS WITH EXPERTS:

We interviewed multiple clients and here are some of the opinions on the current situation:

Shanghai	Business Activity	Activity impact	Recovery timeline	Current strategy	New strategy	China a priority market	Personal impact
Client 1	Motorcycle helmets	High	6 months to 1 year	Momentary slow down	Investment in new marketing plan	Still a priority market	In Lockdown
Client 2	Luxury packaging (local production)	Really high	6 months to 1 year	Frozen investments now	"Wait and see" in the coming 6 months	"Wait and see" in the coming 6 months	Will relocate to Europe definitely
Client 3	F&B (local production)	Limited	6 months	Momentary slow down	Unchanged for the moment	Still a priority market	Temporary relocated in France until August 2022
Client 4	Trading	Moderate	6 months to 1 year	Unchanged for the moment	Unchanged for the moment	Still a priority market	In Lockdown
Client 5	Luxury candles (imported)	High	6 months	Momentary slow down	New online store + booth in Hainan in 2022 + New recruitment	Still a priority market	In Lockdown

FUTURE OF FOREIGN INVESTMENT IN CHINA

After extensive restrictions, one of the major questions still to be considered the ballast stone of emerging market and keep up its success domino effect.

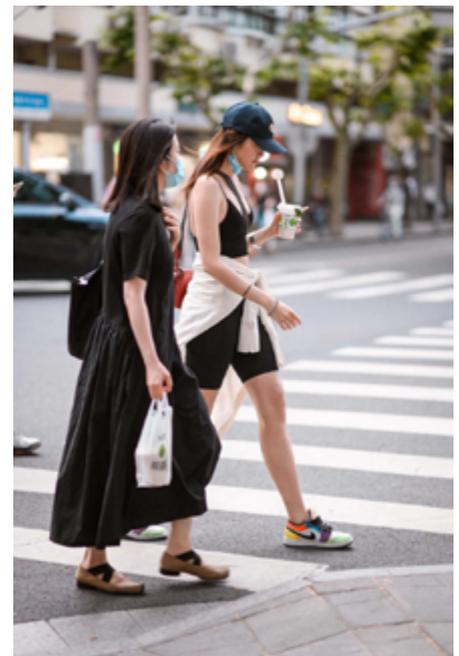
China being the 2nd largest economy, its political stability, lucrative policies for investment, acceptance of foreign companies in various sectors, 1.3 billion people, strong currency, cheap labor, and technological advancement are the major factors companies evaluate when choosing to invest in China.

According to the 14th Five-year plan (2021-25), China aimed to improve the level of opening up to the outside world to facilitate trade and investment. Even with many risks including pandemic, inflation, and supply chain disruption the domestic policies and economic situation is pointing towards stability and a rapid bounce back after October 2022 keeping the interest of foreign investors looking to reduce volatility for asset allocation.

Major reasons for China's attractiveness:

1. Investment Opportunities: China's global surplus of investment capital makes its developing market attractive to individual investors, institutional investors, and financial institutions.

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2. **Regulatory Stability:** Government incentives, such as tax credits, grants, low-cost loans, and other financial assistance, encourage investment in commercial and entrepreneurial activities in China. Providing incentives like these can ultimately increase the profitability of businesses and enable them to achieve success sooner.
3. **Chinese Macroeconomic Factors:** China's enormous population makes it attractive to foreign investors who wish to invest in high-end industries, such as Healthcare, Luxury goods, F&B, Clean-Tech & Hi-Tech engineering.
4. **Economy & Trade:** Policies that promote exports, such as free trade agreements, contribute to the growth of foreign direct investment in China, especially for enterprises that hold substantial market share outside the Chinese market.

FDI into China's economy is a crucial factor in enabling sustainable development and competitiveness in the global Market place.

EXPERT TALKS

Here is what Altios China's experts have to say about the situation:



**Geoffrey BONNEL -
Inbound Consulting Team Manager at ALTIOS China**

How has Altios China adapted to this situation and helped its customers?

«After two months of strict confinement, Shanghai has started to open on June 01st impacting positively all key activities. Companies are now focusing on reactivating their supply chain and accelerating their sales to catch up with their original objectives. At ALTIOS, we have implemented new services and plans to support our clients in catching up with the situation and accelerating business activities. According to us, the success of the business acceleration will be related to reducing distance with their partners, the market, and the demand.»

We strongly believe at Altios that to succeed in China, companies must be willing to localize their decision-making and strategy creation in China. Therefore, we are now proposing new solutions to better help our clients by managing their local staff and acting as delegated management to co-generate strategy, enhance commercial actions, and reach KPIs. Our main objective is to help our clients to localize their strategy and commercial activities without the need to open an office in the first place. Finally, we are also acting as an intermediary between our clients and their local partners, especially when they are lacking a local presence. We are organizing short visits and auditing of the partners to better identify opportunities and difficulties they are facing.»



**Zoe ZHU -
VP Advisory & Development in Greater China at ALTIOS**

What is your strategy for the future development of Altios in China?

«Altios China has been supporting our customers during the covid/lockdown period. We proposed to upgrade our payroll hosting service, with more involvement in the business & activities of our clients in China, either for business development or for sourcing/supply chain management in China. Our clients will have their dedicated consultant managed directly by a skilled management team of BD/HR/Finance within Altios China.»

After multiple interviews with Clients we have obtained a conclusion that Companies are looking forward to China's opening up. Foreign businesses have spent the past 20 years building business activities and relations with China which is of high value to them. During this period, foreign businesses will pause and reconsider China's operating strategy. After all, China still has a large consumer market.

To explore your growth opportunity in China, feel free to contact us:

Zoe ZHU

VP Advisory & Business development - China

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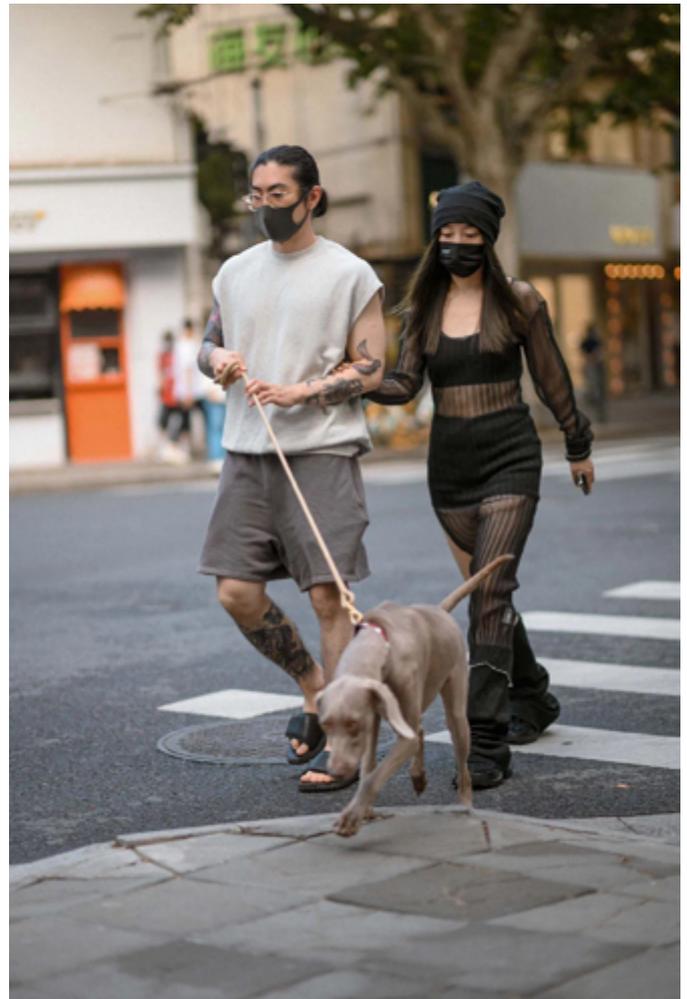
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