



# IMPACT OF COVID-19 ON BRITISH TRADE WITH CHINA

## EXECUTIVE SUMMARY

It is clear that the outbreak of COVID-19 and the controls imposed in response by the Chinese authorities have had significant impact on trade flows between the UK and China. The question is: how sizeable has this been? To gain a better understanding, the China-Britain Business Council conducted a comprehensive survey of UK companies engaged in both the export and import sector. The survey was conducted between 26th February and 3rd March and received 262 responses.

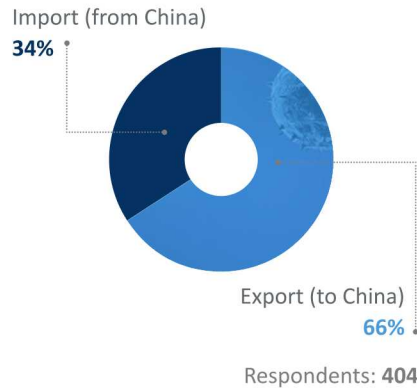
- 1. Only 23% of respondents have a negative view about the long term prospects for China's economy and most expect it to recover in the remaining months of 2020.** Short-term sentiment is different, however: 60% of respondents have negative expectations for the next three months.
- 2. Small- and medium-sized enterprises are the most worried market segment.** Firms operating in the education sector formed the largest group of survey respondents, suggesting they are among the biggest sufferers.
- 3. Businesses that import from China are more likely to make changes to their business model, such as shifting their supply chains.** Only 3% of exporters plan to shift their long-term focus away from China, but nearly one-third of importers are planning to look for new suppliers outside of China.
- 4. Two-fifths of survey respondents reported cash flow challenges.** Fixed costs and unpaid receivables are particular problems for UK companies. 56% say they would in principle welcome support from the government.
- 5. Importers are suffering from reduced logistics capacity more than exporters.** 62% of importers reported problems with freight deliveries compared to only 27% of exporters facing similar issues.
- 6. Legal issues and customs clearances are still relatively minor problems, but importers are struggling with transport bottlenecks.** Over two-thirds of respondents (67%) reported no legal issues. Only 11% of exporters have faced problems with Chinese customs services.

# PARTICIPANT PROFILE

## Trade

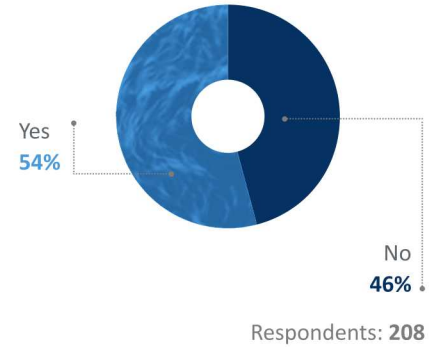
The majority of the respondents, 164 ( 68%), are exporting to China, whereas 78 respondents (32%) are importing Chinese goods into the UK. More than half of these businesses (54%) have a subsidiary in China.

### What sort of trade does your business have with China?



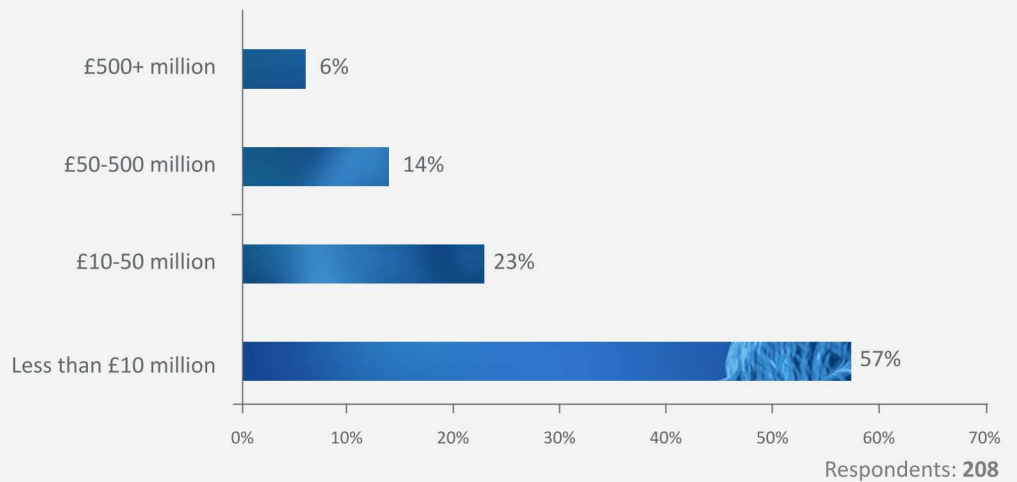
## China Presence

### Does your company have a presence in China?



## Annual Turnover

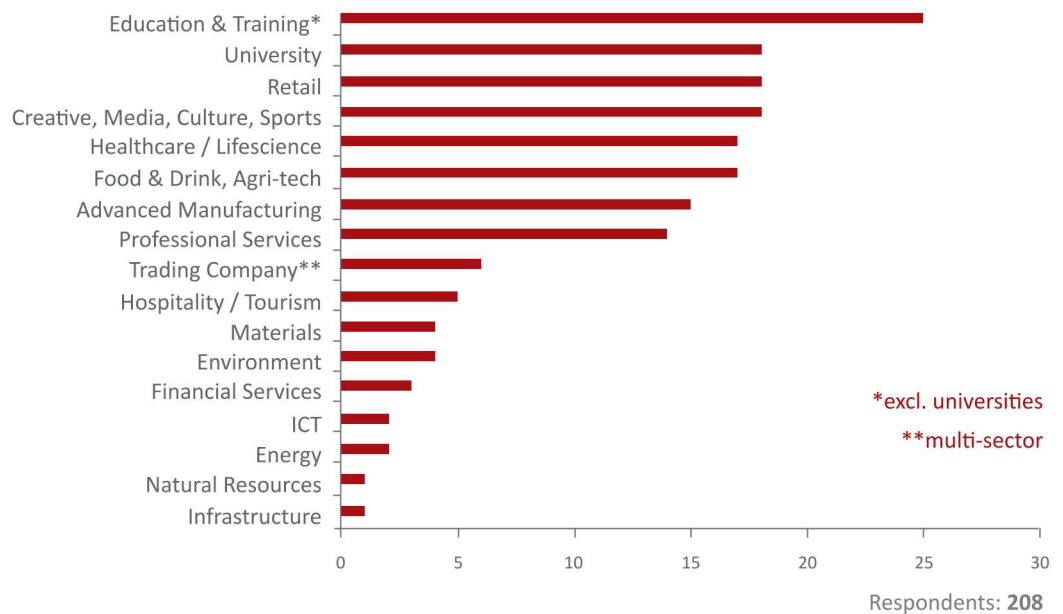
The majority of survey respondents were SMEs, with 57% having an annual turnover of less than £10 million. Only 6% of respondents have a turnover of more than £500 million per year.



## Sectors

Although the survey was addressed to all sectors of the UK economy, the distribution clearly reflects the level of exposure by UK business to the economic impact of COVID-19.

For example, primary and secondary educational institutions, along with training institutes, formed the single largest group, followed by universities. Together these accounted for 18% of all respondents.



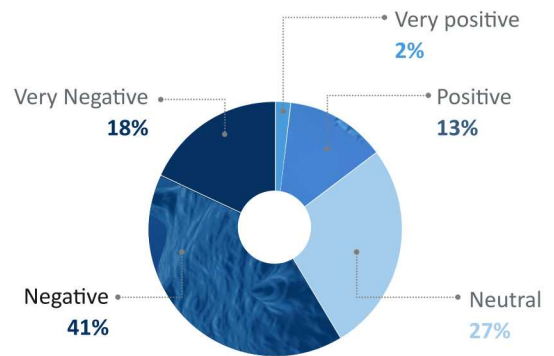
Consumer oriented businesses, such as retail (7.5%), creative industries (7.5%), healthcare (7%), food & drinks (7%), and manufacturing (6%) companies constituted the bulk of the survey's respondents. Only a few long term-focused services and businesses, such as energy and infrastructure companies, participated in the survey.

# FORECAST

## 3 month Forecast

Most respondents have a negative view on the current economic situation. A third expects a drop in their Chinese sales and 59% judge the economic outlook for the next three months to be negative or strongly negative. Only 15% evaluate it as positive or strongly positive.

What is your company's short-term (3 month) outlook for exports to China?

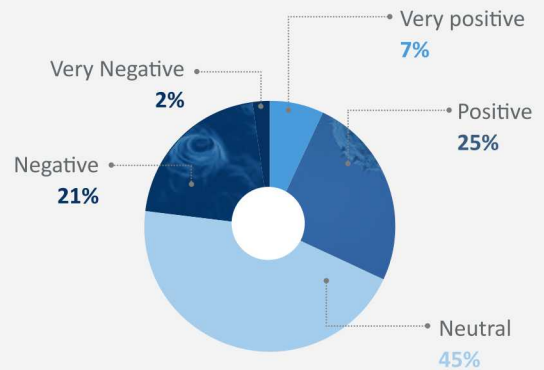


Respondents: 165

## 2020 Forecast

Even so only 23% of respondents believe that the downturn will drag on for the rest of 2020, whereas 32% remain optimistic over their annual forecast. More importantly, only 3% of firms surveyed plan to shift their focus permanently away from China.

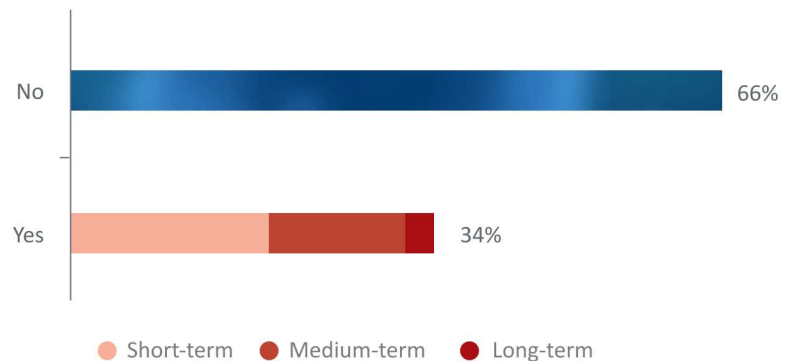
What is your company's outlook for exports to China for 2020 (full year)?



Respondents: 164

## Effect on business focus

Are you considering switching your focus away from China to other markets?



Respondents: 164

# FORECAST

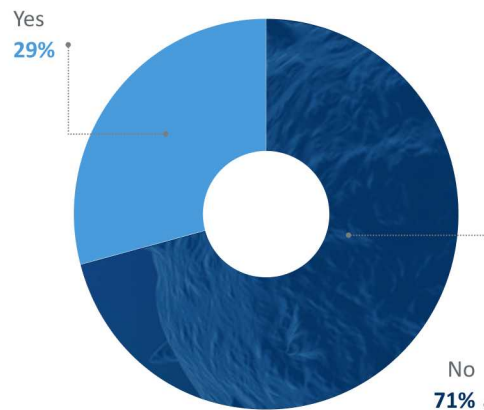
## Suppliers (for Importers)

UK importers are more concerned and most have experienced problems with their suppliers in China. A third of has reported problems communicating with their Chinese partners during the crisis, while over 60% are suffering from delays due to workplace closures and lack of workers. A third of respondents are considering alternative supply sources outside China, with India, Turkey and the EU the principal target locations.

### Are you considering changing suppliers as a result of COVID-19?

One third of UK importers are planning to diversify their supplier base.

The most frequently mentioned alternatives are India, Turkey, the EU, and the UK.

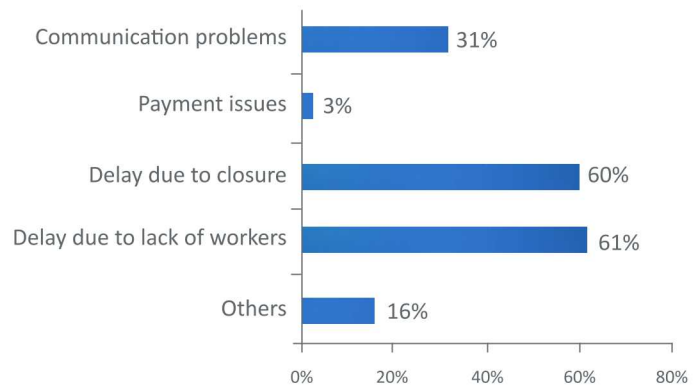


Respondents: 75

### Are you experiencing any difficulties with suppliers in China as a result of COVID-19?

Shipments have been slowed or halted by quarantine measures and travel restrictions

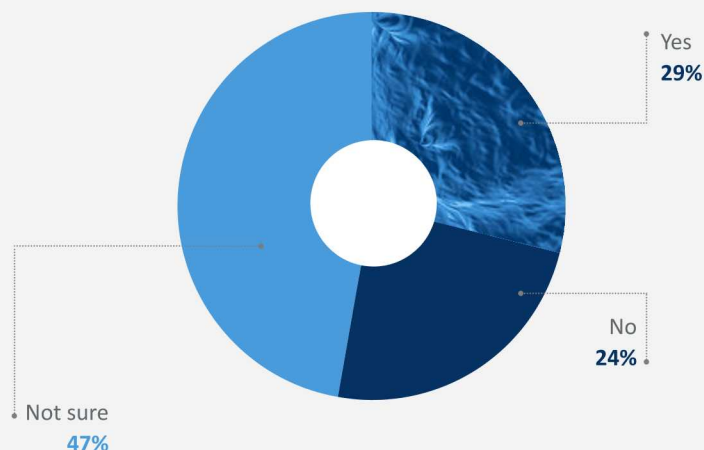
Some importers suffer from the disruption in up-stream supply chains



Respondents: 72

## Chinese Customer Reaction

### Are your Chinese partners planning to reduce their purchases of your products as a result of COVID-19?



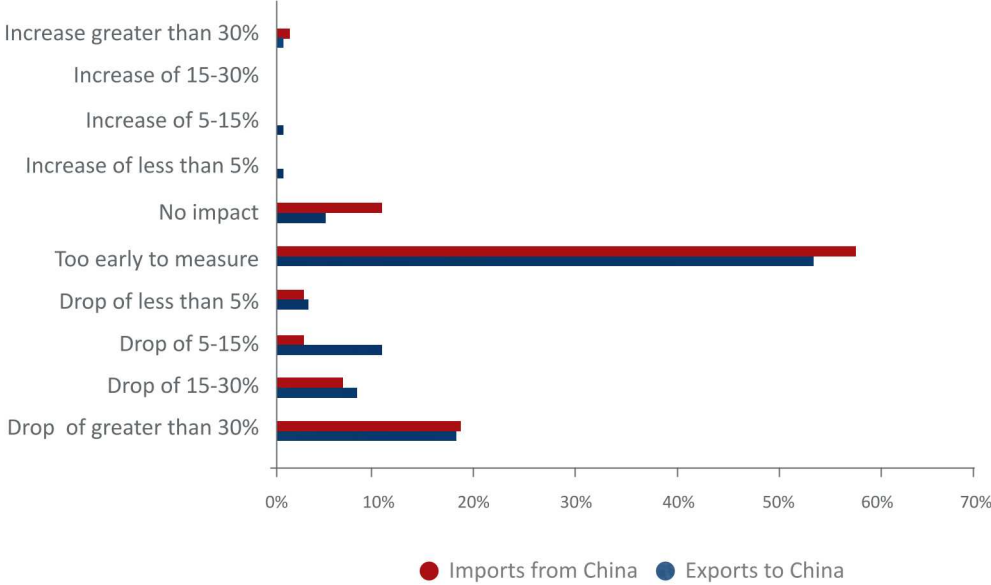
Respondents: 162

# REVENUE AND LIQUIDITY

## Effect on Revenue

Both importers and exporters expect a drop in revenue. 37% of all respondents expect their income from China to drop this year, with 18% expecting a decline of more than 30% in 2020.

**Has COVID-19 had any impact on your company's revenue?**



## Cash Flow

Cash flow problems are a general concern for businesses operating in China. Two-fifths of the surveyed UK businesses reported cash flow challenges. Fixed costs, unpaid receivables and requests for early payments to suppliers are of particular concern. 56% of exporters would in principle welcome some government financial assistance.

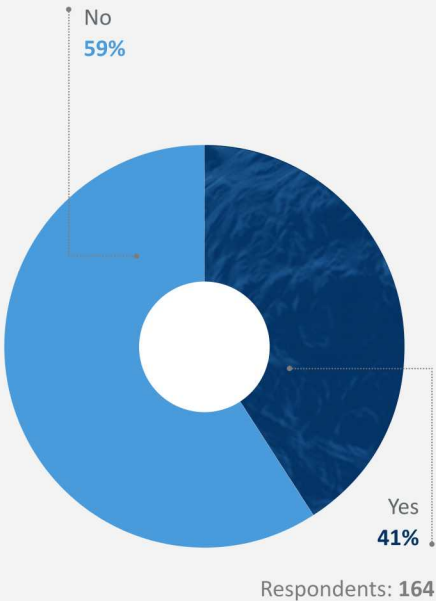
**Has COVID-19 impacted on your company's cash flow?**

Many business struggle with fixed costs (salaries, rent, etc.) and unpaid receivables.

Some Chinese business have asked for early payments to solve their cash flow problems.

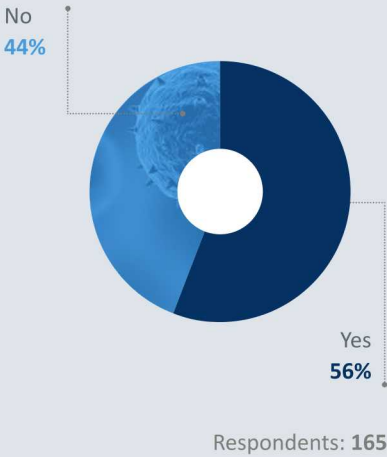
Banks have also reduced operations, thus slowing down the processing of payment orders.

Overall uncertainty is depressing consumer spending.



## Financial support

**If financial support such as export finance was available to companies experiencing difficulties as a result of COVID-19 would you find it helpful?**

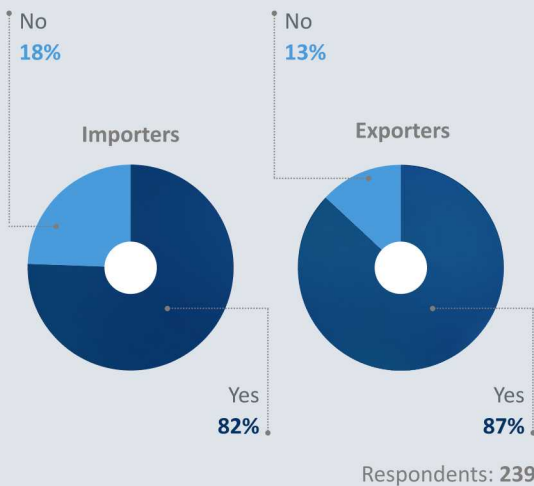


# CHALLENGES

## Effect on Revenue

Travel restrictions pose the biggest challenge to UK businesses. 82% of importers and 87% of exporters have had to cancel visits or meetings due to COVID-19. Moreover, one third also reported problems with contacting business partners and clients in China.

**Have staff at your company cancelled or delayed plans to visit China as a result of COVID-19?**



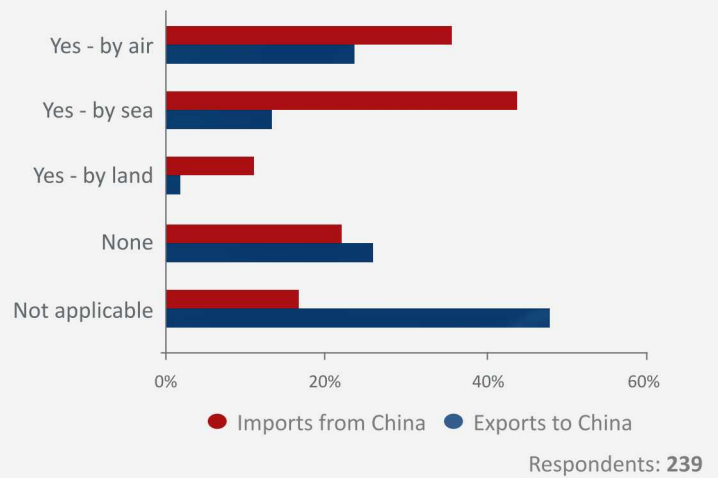
## Logistics

Besides travel, disruptions in transport and logistic networks have caused delays, especially for importers. 62% of importers reported problems with freight delivery compared to only 27% of exporters facing similar issues. Maritime shipments and air freight are particularly affected, while only 5% of the respondents have experienced delays on land routes.

**Is your company experiencing problems sending shipments by air, land or sea to China as a result of COVID-19?**

A third of the respondents has not faced any logistics issues.

Among those affected, importers appear to suffer more than exporters.



## Legal Problems

Perhaps surprisingly, legal and customs clearances are still only a minor issue for UK companies. Over two-thirds of respondents (67%) reported no legal issues and only 11% of exporters have faced problems with Chinese customs services.

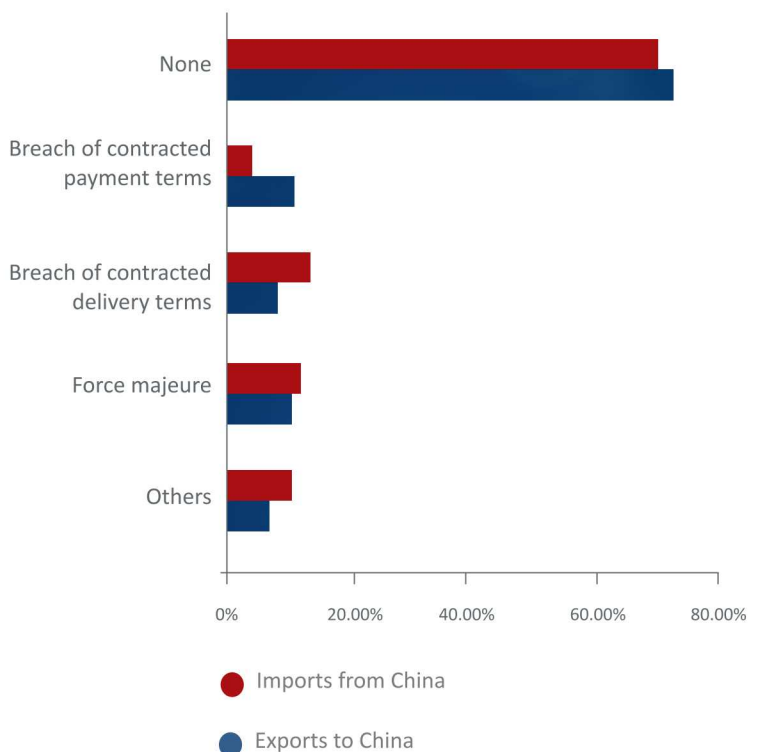
Among those of you who have faced reported legal challenges, 11% are dealing with claims of force majeure, 10% with failed deliveries and 9% with payment issues. As might be expected, importers are suffering more from breaches of delivery terms (14%), whereas exporters are struggling to collect payments (11%).

**Is your company experiencing any of the following legal issues with partners in China as a result of COVID-19?**

Majority of surveyed businesses does not face legal problems

Some businesses face delays in concluding contracts or unable to conclude shipping agreements.

Several companies had to annul hiring and sourcing agreements.



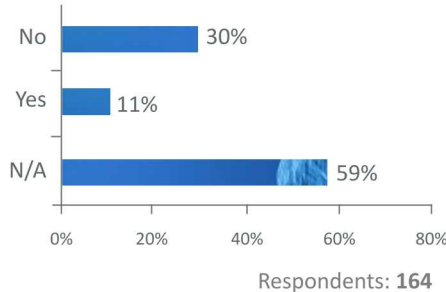
Respondents: 234

# CHALLENGES

## Customs

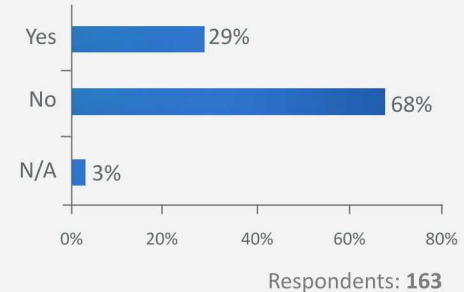
Are you experiencing any problems with customs in China as a result of COVID-19?

Closures and serious delays in clearance are the main problems.  
Import restrictions on some goods make shipments impossible.  
Travel restrictions prevent visits to ports and bonded areas.  
Strict health requirements and lack of workers and equipment further slow transport.



## Contacting Partners

Are you having problems contacting your partners in China?



# GOVERNMENT RESPONSE

## Impact of UK Policies

UK businesses have been affected by government response in both the UK and China. In the UK, businesses are most concerned about onerous visa and travel restrictions, while also complaining about an initial lack of guidance and information.

Are there any UK Government policies negatively affecting your exports to China as a result of COVID-19?

- Visa requirements and travel restrictions
- Logistics (freight limits, access to ports/warehouses)
- Insufficient guidance and information
- Language test requirements for Chinese students coming to the UK

Respondents: 74

## Impact of PRC Policies

In China, the biggest concerns are around the country's lockdown policies, which have led to the closure of factories, schools, and government agencies. Selective import bans and capital controls were also mentioned as problems.

Are there any Chinese Government policies negatively affecting your exports to China as a result of COVID-19?

- Travel and Transport Restrictions
- Closure of Schools and Universities
- Capital Controls
- Import Bans
- Work restrictions
- Cancellation of international events
- Administrative delays due to prevention efforts

Respondents: 86

# CHINA-BRITAIN BUSINESS COUNCIL

CBBC is the leading organisation helping UK companies develop and grow their business with China, and Chinese companies expand and invest in the UK. For more than 65 years we have offered unrivalled experience and insight into the ever changing opportunities for growth between the UK and China.

**Our Experience:** We have an established track record and are uniquely positioned to provide clear, impartial advice to help companies thrive in the rapidly evolving Chinese market.

**Our Network:** Our China network has extensive coverage both regionally and sectorally with offices in 13 locations, and a team of experienced in-market specialists dedicated to guiding British companies towards commercial success in China.

**Our Insights:** Providing you with the latest local market intelligence and contacts is at the heart of any successful market entry or expansion strategy. Our objective is to help you make informed decisions to help your business grow in China.

## Contact Information

### London

Email: [enquiries@cbbc.org](mailto:enquiries@cbbc.org)

Tel: +44 (0) 20 7802 2000

### Beijing

Email: [enquiries@cbbc.org.cn](mailto:enquiries@cbbc.org.cn)

Tel: +86 (0) 10 8525 1111

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