



CICC REPORT

3RD ISSUE

**Current and Forecasted Impact of the
COVID Restrictions on the Italian Business
Community in China**



Camera di Commercio Italiana in Cina
中国意大利商会
China-Italy Chamber of Commerce

2022 EDITION



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1 EXECUTIVE SUMMARY

Up until the beginning of 2022, China had developed and carried out effective COVID-19 control measures. Rapid lockdowns, quarantines, mass testing, and travel restrictions have helped to keep COVID outbreaks under control. However, during the last months, China has found itself in the midst of the worst outbreak of COVID-19 since 2020.

In an effort to gauge the impact the pandemic control measures enforced by the Chinese Government have had on the Italian business community across China, the China-Italy Chamber of Commerce has launched three subsequent surveys. The first one ran from 16th to 22nd March, followed by a second one from 15th to 21st April 2022 and a third one, which was conducted from 6th to 13th July.

The series of these three surveys made it possible to monitor and photograph the impact that six months of restrictions and hardships have had, and will continue to have, on the future of the Italian companies' business in China.

Overall, what emerged as the most significant challenge in continuing doing business in China is the degree of **uncertainty** that all this has created.

Comparing the first survey we ran in March, with the second one in April, and this third one in July, we noticed a parabolic **change in sentiment**. March mostly optimistic about resuming work and production in the short term. April gloomy and pessimistic with Shanghai in full lockdown. Now, in July 2022, things have clearly improved, although still many hurdles lay ahead.

- 58% of responding companies are no longer in lockdown;
- 28% reopened at the end of May;
- 17% by the end of June;
- 78% of responding companies have resumed production at full capacity;
- 66% have mostly resumed normal business activities.

Although the **situation** appears **less negative**, the business has not returned to normality by a wide margin, as some pandemic effects will take a long time to cure.

Throughout the three surveys, the **main problems** which emerged are:

- **mobility**, international and domestic;
- **supply chain** disruption: 70% of the respondents indicate this to be their top challenge;

- **increase in procurement costs** of 30% to over 50% for more than half of the companies;
- **production delays** - 54% facing delays from two weeks to more than one month;
- **Italian expats leaving China** - over 28% of Italian employees decided to leave China.

In the aftermath of the lockdown and recent restrictions, the **main actions** that our companies are considering taking can be summarised as follows:

- **review working conditions** (58% of respondents);
- **diversification of the supply chain** (38%);
- **use of policies to reduce costs** (27%);
- **change the business model** (25%);
- **reduction of the workforce** (over 20%) are among the most used countermeasures.

Looking at the future, the Italian business community's confidence in doing business in China has been put through a serious test, as the impact of China's pandemic policies has strongly affected the general sentiment of the Italian entrepreneurs.

In fact, **24% of Italian companies are still not able to clearly foresee when that will happen.**

The **overall financial forecast** is also worrying:

- more than one third of Italian companies has experienced a **decrease in revenue** in the second quarter (Q2) of up to 30% YoY;
- The forecasts for the **turnover** in 2022 continue to be rather **pessimistic**: 60% foresee a negative impact on 2022 with a reduction of at least 20%;
- The predicted **profit** is even **worse**. More than half of Italian companies expect profit to be hit hard in 2022, with a decrease of more than 50%.

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 **diminishing China's attractiveness as a destination for investment.**

25% of the companies are unsure whether to continue investing.

This being said, **China continues to remain, for 42% of Italian companies, a country where to invest in.** But the uncertain ones are growing larger (48% of them) and a minority have already decided to leave China.

Although the difficulties that travel restrictions have had on companies' abilities to attract and retain international talent, the position of Italian companies appears quite clear: **72% have decided not to replace foreigners with local talents.**

Despite all the challenges highlighted by our 3 surveys, **46% of Italian companies seemingly remain committed to the Chinese market**, which continues to be the most important market, and are prepared to weather the storm, for now.

But for how long? The **Chinese market** is still quite important, but it **has lost** a considerable amount of **allure** for many Italian companies.

A proof is that, for 16% of the Italian companies **China has never been a priority or it is no longer a priority.**

The number of those who prefer **other ASEAN markets** or are considering downsizing is gradually increasing.

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INTRODUCTION AND METHODOLOGY

From July 6th to 13th, 2022 the **China-Italy Chamber of Commerce (CICC)** conducted the **survey** *"Current and Forecasted Impact of the COVID Restrictions on the Italian Business Community in China"*. It is this year's third issue of our investigation among CICC Members, aimed at assessing the business sentiment of Italian companies operating in China.

Through this survey, it is our intention to continue to carefully monitor the situation and to evaluate any supporting actions for our companies. It is essential for us to assess **our companies' positioning in the Chinese market** following the more or less severe lockdowns in recent months, as well as highlighting our **companies' strategic plans for the future**.

At the time the survey was launched we had an active membership base of over **727 companies**, of which **40% responded**, indicating the great attention the Italian business community is giving to the evolution of the pandemic in China. Its results, together with the two previous surveys conducted in March and April, are a truthful indication of the challenges that the Italian business community is facing in this first half of 2022.

The survey comprises 33 questions, grouped under the following 3 sections: **"Respondents Profile"**, which focuses on obtaining information

regarding respondents' positioning in terms of size, location, number of foreign employees, etc.

"The current impact of the Covid-19 restrictions", which aims at ascertaining the current overall impact on the respondents' businesses, in the aftermath of the recent COVID-19 lockdowns, with a special focus on the supply chain disruptions.

"Outlook and sentiment of businesses", it enquires which impact the recent restrictions will have on the financial state of Italian companies, and on their future decisions.

This section analyses the current forecasts that the Italian business community in China makes in case the dynamic zero-COVID policy were to remain in force for the short (6 months) as well as the longer-term (until end of 2023). It evaluates in terms of revenue and profit the business sentiment on investments and on the ability to attract and retain skilled foreign talent.

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. The report was addressed only to the members of China-Italy Chamber of Commerce.

3 RESPONDENTS PROFILE

The survey represents the views of Italian businesses operating across the country, in a variety of industries.

Almost 40% of the registered Members participated in this survey (285 enterprises, with a slight increase from the second edition conducted in April (+10%).

The large majority of the respondents are based in the **Yangtze River Delta** (67%, of which 37% Shanghai, 25% Jiangsu and 5% Zhejiang), followed by 15% in **North China**, 15% **South**, and 3% **South-West**.

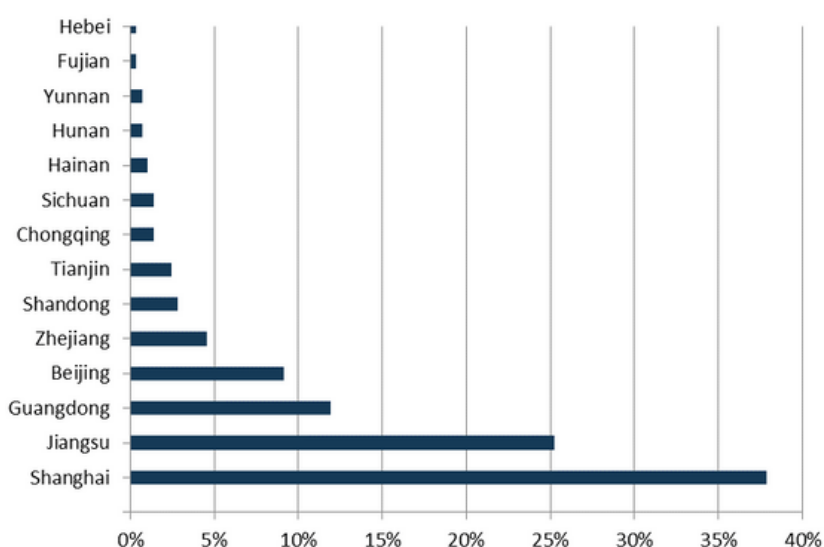
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Almost 40% of CICC Members make their voice heard.

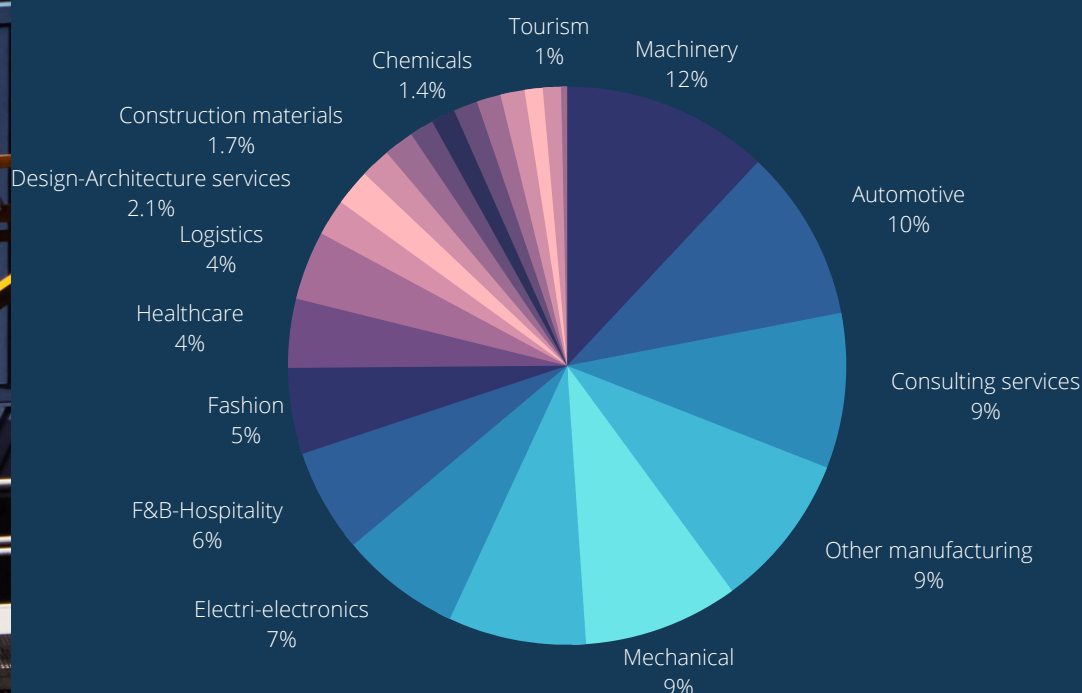
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Geographical Location



More than 40% of the companies being part of the survey belong to the **manufacturing sector** (of which 12% Machinery, 10% Automotive, 9% other Manufacturing and 9% Mechanical), followed by Consulting Companies, Import and Export, Food & Beverage, and Fashion Industry.



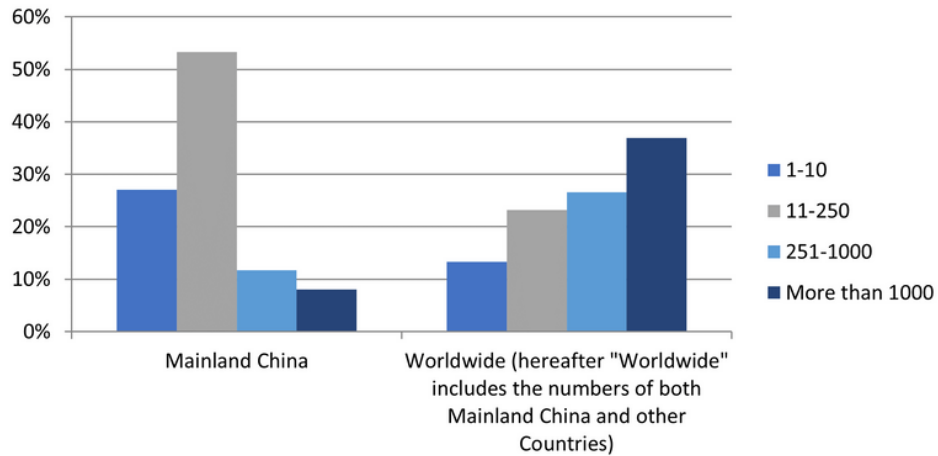
This is a valid representation of the overall composition of the CICC members, adding value and importance to the outcome of the survey.

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Our companies are
for the most part
SMEs.
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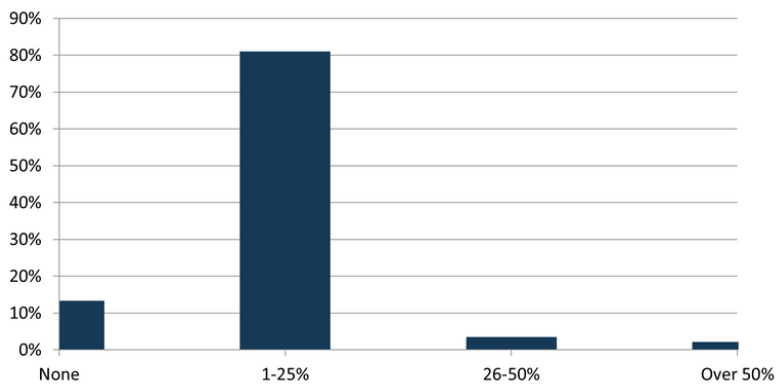
Small and Medium-sized Enterprises make up to 57% of total respondents, followed by 27% of Micro Enterprises.



How many employees does your company have in the following territories?



How many foreign employees compose the workforce of your company in China?

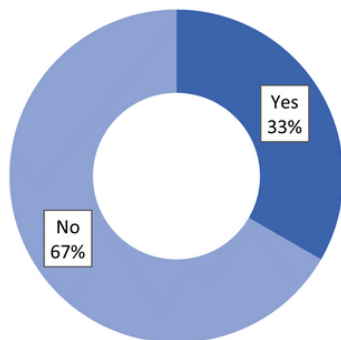


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More than 81% of companies have a maximum of 25% foreign staff in China.

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Does your company have a Research & Development (R&D) center in China?



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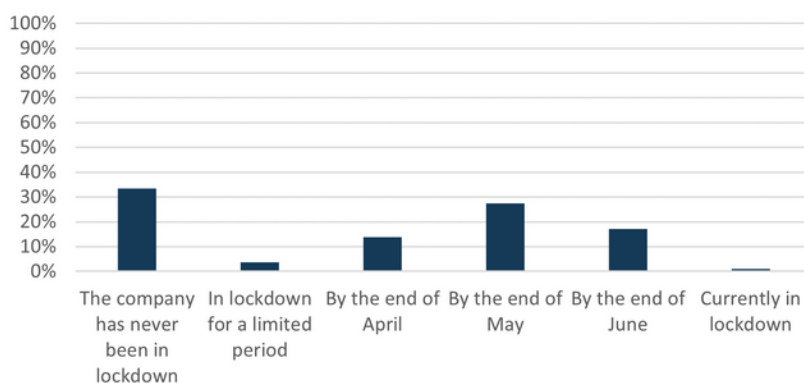
Only 33% of respondent companies have R&D centers in China.

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4 CURRENT IMPACT OF COVID-19 RESTRICTIONS

If in the second survey over 61% have of the participating companies were in total or partial Lockdown, with over 76% of employees in total or partial Lockdown, this third survey photographs a clear improvement, in the situation, where over 58% of companies are no longer in lockdown (of which 28% reopened at the end of May and 17% by the end of June) and 34% declare that they have never been in lockdown.

When did your company come out of the lockdown?



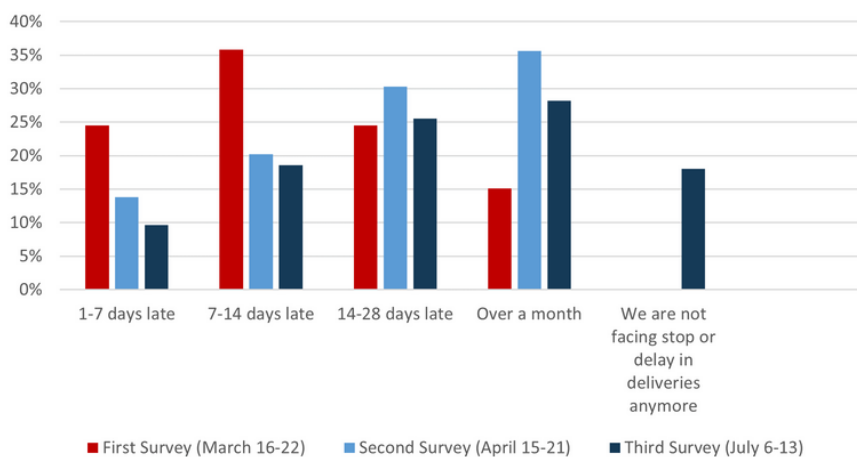
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58% of companies no longer in lockdown: 28% reopened by end of May, 17% by end of June, and 34% declare they have never been in lockdown.

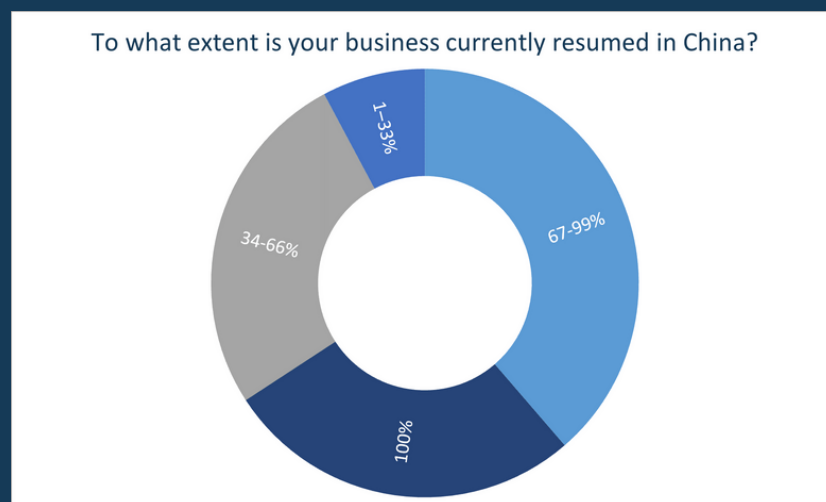
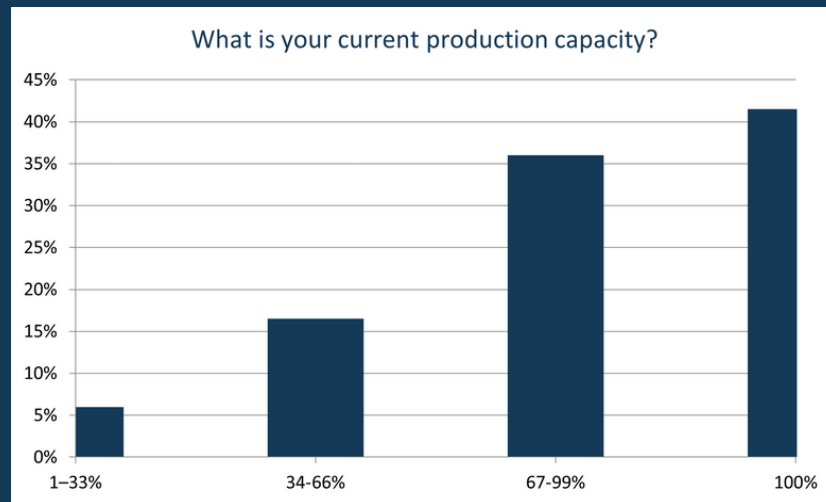
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Production delays continue to exist, although the situation has improved markedly since the second survey. If 13% declare that they no longer have any delays, 54% still have delays of at least two weeks, of which more than 28% are delays that exceed one month (compared to 36% in the previous survey).

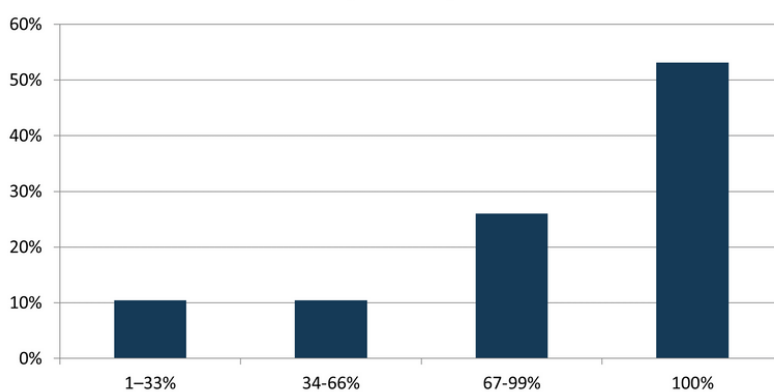
Impact on Production



Production capacity: 78% of our companies have resumed production at full capacity and 66% have mostly resumed normal business activities.



What percentage of your physical stores have reopened?
(for retail)



78% of our companies resumed production at full capacity; and 66% have mostly resumed normal business activities.

Looking at retail companies, over half of all the shops have reopened.



The main difficulties in doing business continue to be almost the same. In line with the second survey, one of the most felt problems declared by more than 40% of our respondents is the **mobility**.

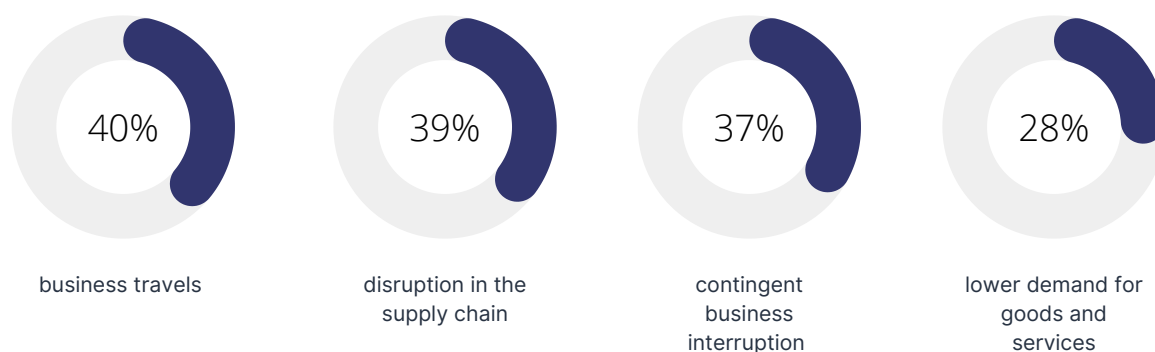
The three main negative effects of COVID containment policies that have been currently affecting your business in China



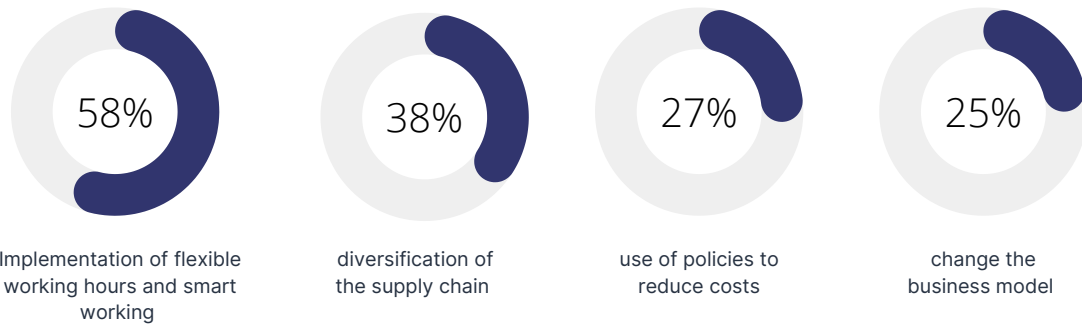
Sudden quarantines, roadblocks, obsessive testings make business travels inside and outside China very difficult. Equally important is the problem of the fragmentation of the supply chain with consequent reduction or complete stop of production.

There is a strong contingent interruption of business with a decrease in demand for goods and services.

Main difficulties in conducting business

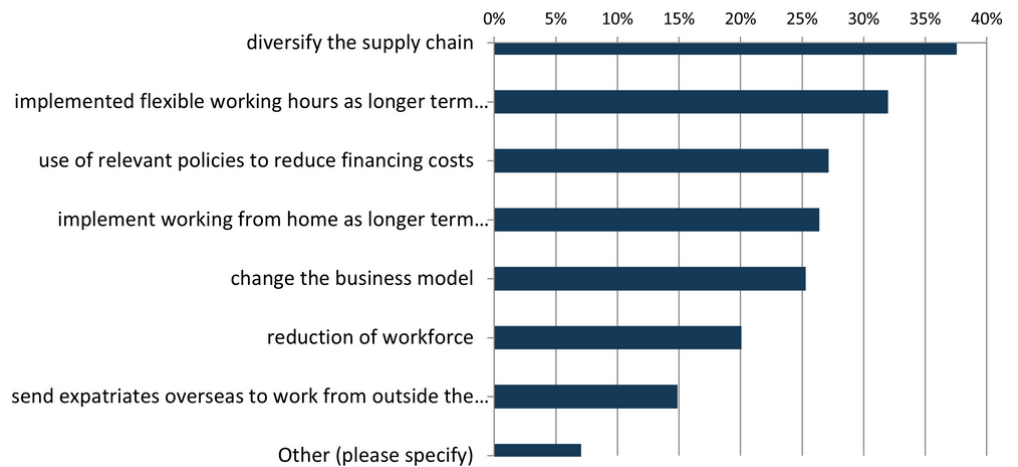


Most used countermeasures



While some are still considering which path to choose, other companies are trying to adapt to the changing environment by, for example, acquiring a greater stock of raw material, or renegotiating contracts with more conservative clauses that can limit damage to the business in case of future outbreaks.

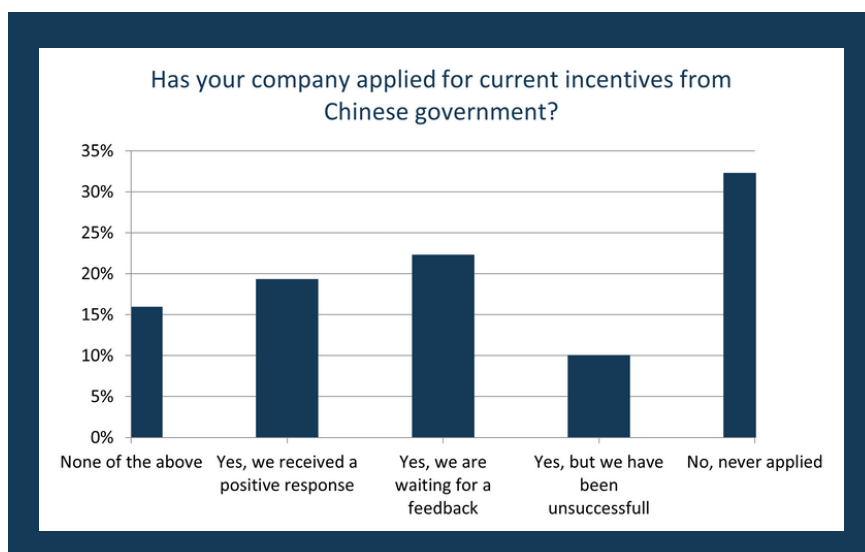
What actions is your Company considering taking in the aftermath of the lockdown/ recent restrictions?



15% are sending expatriates overseas, temporarily or permanently.

Cost-cutting is the watchword.

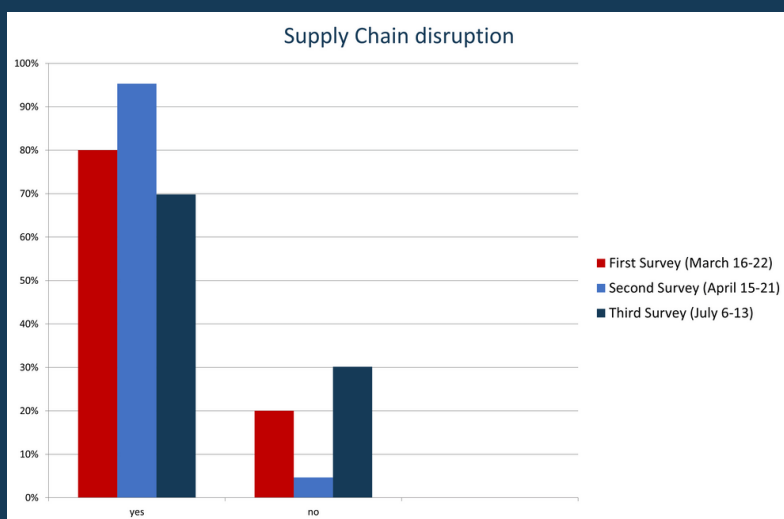
Over half of our companies are trying to access government-issued incentives to support businesses - of these over 19% have applied successfully, while about 22% are waiting for a feedback.



Over half of our companies are accessing Chinese government incentives to support businesses.

FOCUS ON THE SUPPLY CHAIN

The key problem continues to be LOGISTICS, but our companies are slowly starting to see the light. 70% of respondents state that they continue to have their supply chains completely or partly disrupted. The fragmentation is still present, but the situation has significantly improved compared to April 2022 (25% fewer have severe supply chain problems compared to the second survey) and looks even rosier than in March.



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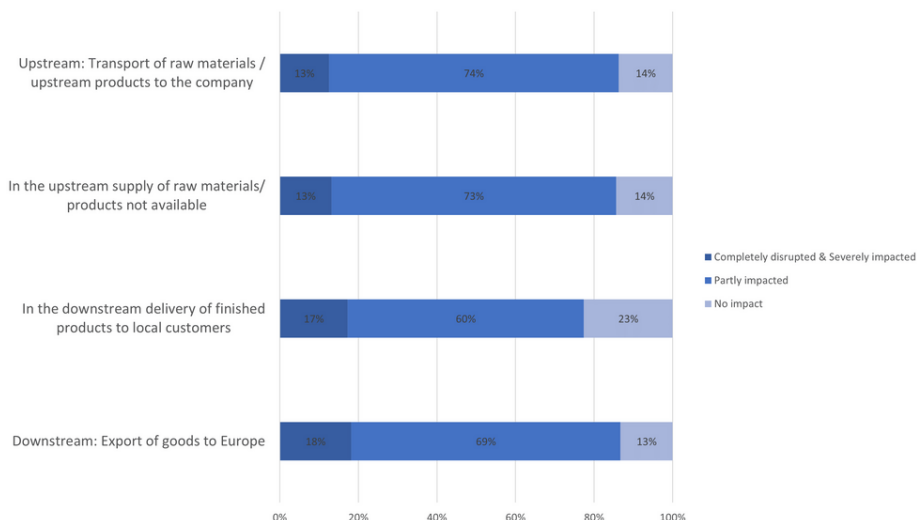
70% of respondents continue to have their supply chains completely or partly disrupted.

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However, **almost 48% report a complete disruption or severe impact** on the **upstream delivery** (procurement of raw materials, unavailable products and transport of products to the factory). For the downstream supply chain operations **half of the respondents reported that export of goods to Europe is severely impacted**.

Where are these disruptions occurred? And how strong they are?



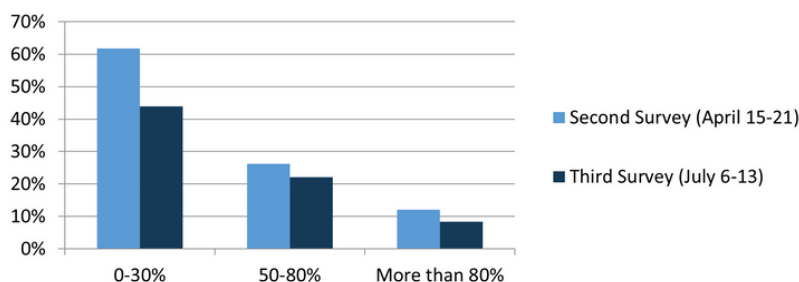


Among the main difficulties revealed relating to the supply chain, as many as 179 companies report an increase in costs, followed by deteriorating transit time and lower capacity. The most affected mode by far continues to be the Sea-freight, followed by Air-freight, and the Train being the least impacted.



For 60% of Italian companies, procurement costs have increased by up to 30%, but for 40% above 50%. Comparing the data from the second and third surveys, it is clear that the rise in transport prices has not really improved since April, (12% declare an increase in transport prices that exceed 80%!).

How much has the incidence of costs related to the supply chain increased? (In/out China, especially to and from Italy)

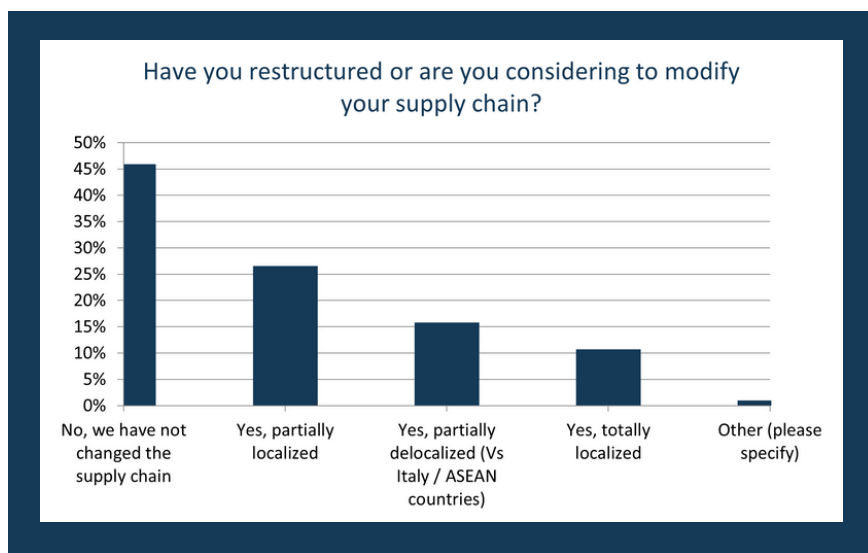


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Transport prices since April are still high: for most companies, procurement costs have increased by up to 30%, with peaks over 50% for over one third of the responding companies.

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Among the actions taken by respondent companies affected by the difficulties related to the supply chain, well over 53% declare that they have reacted by restructuring their supply chain or are considering modifying it. Of these, 27% have partially delocalized, 16% have partially delocalized preferring other countries or ASEAN countries, while 11% have totally localized the supply chain.



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53% are restructuring their supply chain:

some fully localizing (11%) while others (27%) delocalizing to other countries, mostly ASEAN.

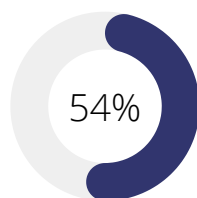
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5 OUTLOOK AND SENTIMENT OF BUSINESSES

The sentiment about a return to normality is not uniform, but from the data that emerge it is evident that the critical situation linked, above all, to the restrictive policies in Shanghai, has gradually eased.

In the survey conducted in April, our companies were sailing in uncertainty and were much more pessimistic than in the first months of 2022: about 46% thought they would return to work at full capacity by the end of June at the latest (28% more optimists thought by the end of May). However, two months later, this third survey reveals that things did not go exactly as hoped.

Over 54% have already returned to normality; of these, however, 30% admit that although they have returned to work at full capacity, it is not the same in terms of sales. The other half of the respondents are still quite far from their business as usual, and 24% are still not able to foresee any clear date they will be.



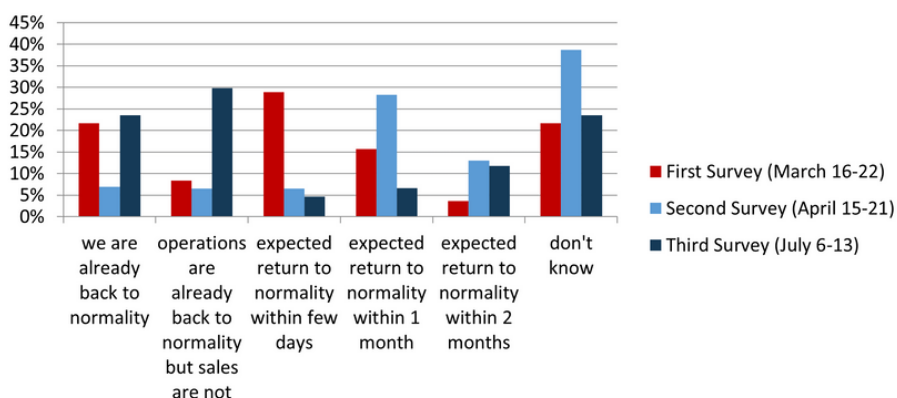
Over 54% have returned to normal production, but 30% admit that sales are not on the same pattern.



Although the business risk is not at its 2020 level, the uncertainty about the future remains.

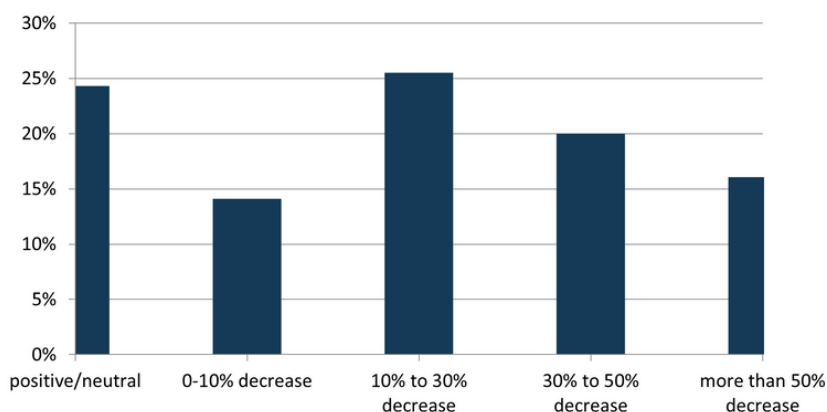


When does your company anticipate the situation and your operations will return to normality?



The revenue impact of the 3 months of the second quarter (Q2) is very significant: about 36% has undergone a decrease of up to 30% compared to 2021, 36% of our companies exceeds a decrease of over 30% (of which 16 % admits that revenues have fallen to - 50% compared to the previous year).

To what extent was your revenue impacted in Q2 (April-June) 2022 compared to last year?

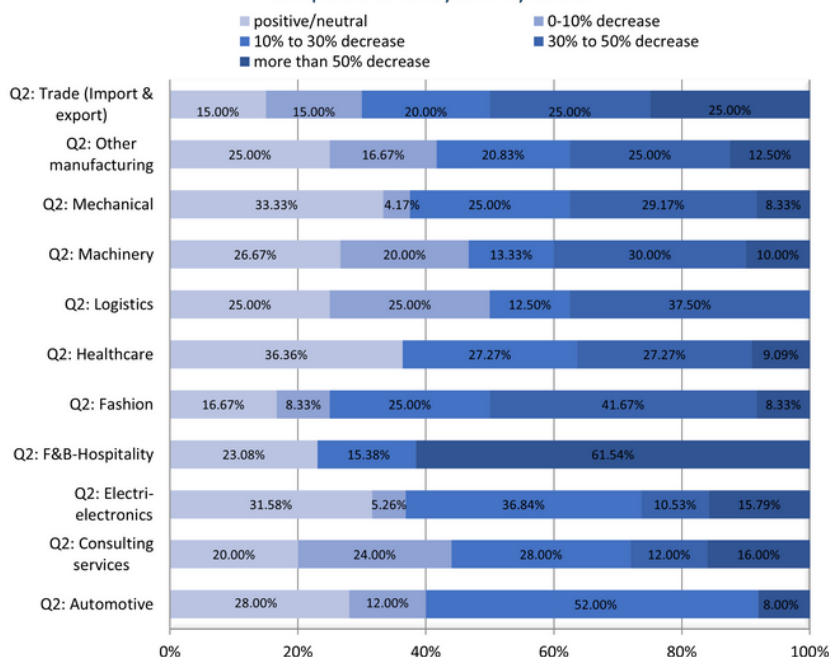


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The Q2 revenue scenario is alarming: more than 36% of Italian companies has undergone a decrease in revenue of up to 30% YoY; and 16% had a decrease of more than 50%. Hospitality and trade companies are the sectors that suffered the most.

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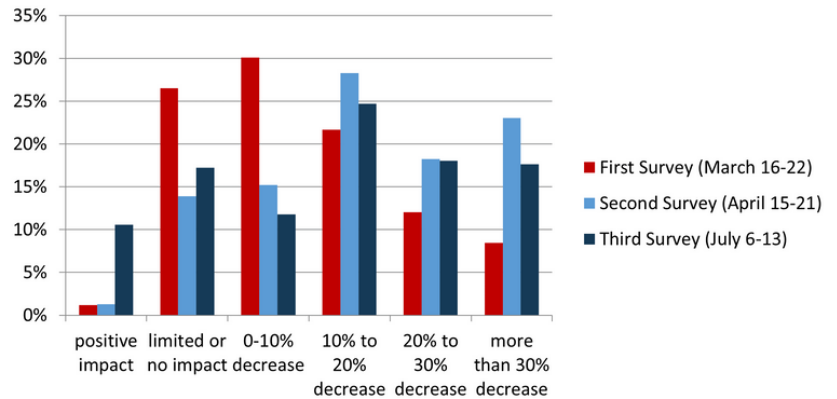
To what extent was your revenue impacted in Q2 (April-June) 2022 compared to last year? By Sector



Looking in detail at the most represented sectors, food and beverage and hospitality suffered the most in Q2 with a decrease of over 50% in revenue compared to the previous year, followed by the trading companies. Half of the fashion companies have seen a decrease of up to 50%. For 13 out of 25 companies operating in the automotive sector, revenues have fallen by up to 30%. On the other hand, a third of the mechanical, machinery and healthcare companies declare that they have not been affected in terms of revenue.

As a result of these first 6 months of the year, the forecasts for revenue for 2022 continue to be rather pessimistic: from 70% of the last survey conducted in April, the percentage of respondents who foresees a negative impact on 2022 with a reduction of at least 20% drops to 60% , where 18% declare that it will be even higher than 30%.

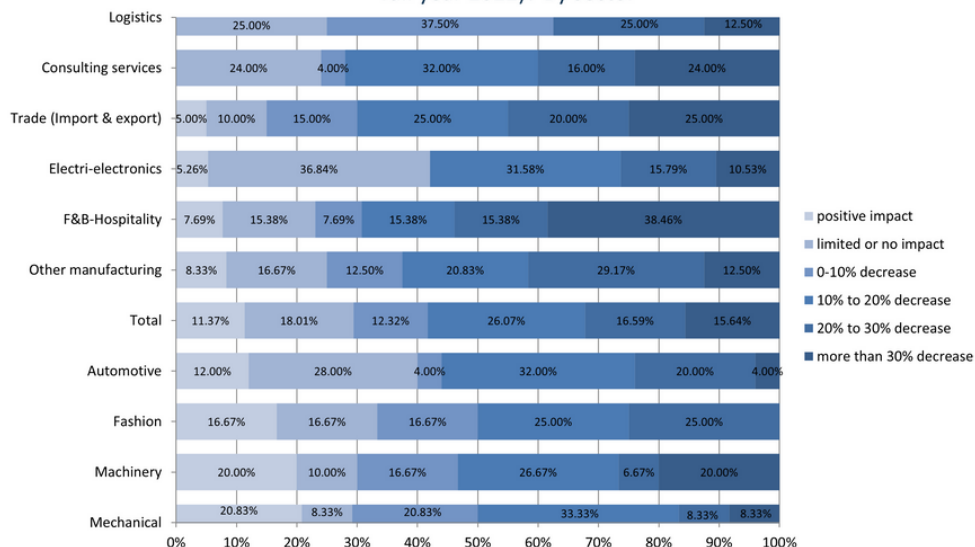
Which impact do you foresee on your revenues in Mainland China (for the full year 2022)?



To have the most pessimistic forecasts in terms of revenue for the year 2022 is the hospitality and food and beverage sector: almost 39% expect a decrease in revenue exceeding 30%. Following 45% of our trade companies and 40% of consulting companies expect a decrease of at least 30%.

Bucking, 36% of healthcare companies do not expect to be negatively impacted, of these more than 27% expect a positive impact on revenue in 2022. Electronics also has positive expectations.

Which impact do you foresee on your revenues in Mainland China (for the full year 2022)? By sector



The business sentiment relating to the order intake in Mainland China for 2022 is not positive: about 63% of our companies expect a negative impact on orders of at least 20%, of these, nearly 22% expect a decline that exceed 30%.

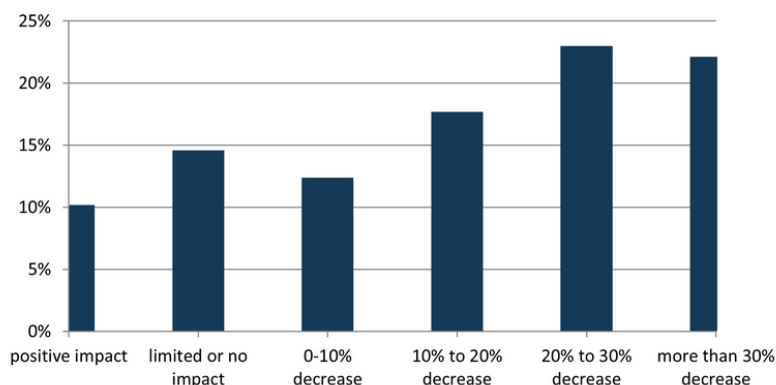


The forecasts for the revenues and order intake in 2022 continue to be rather pessimistic: 60% foresee a negative impact on the turnover in 2022 with a reduction of at least 20%, where 18% declare that it will be even higher than 30%.

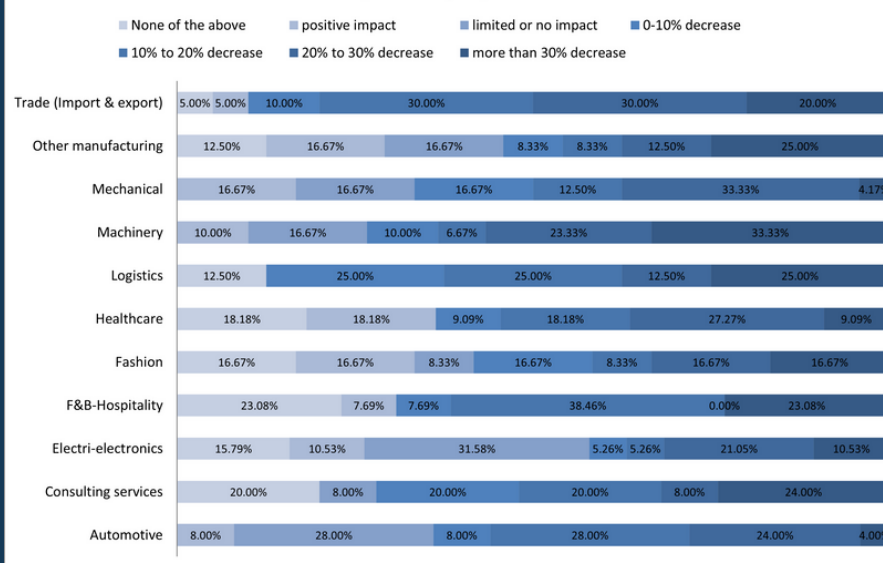
Even worse is the forecast for the order intake.



Which impact do you foresee on your Order Intake in Mainland China (for the full year 2022)?



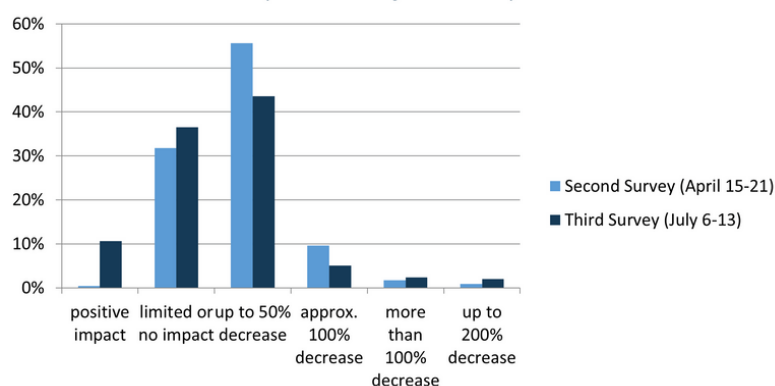
Which impact do you foresee on your Order Intake in Mainland China (for the full year 2022)? By sector



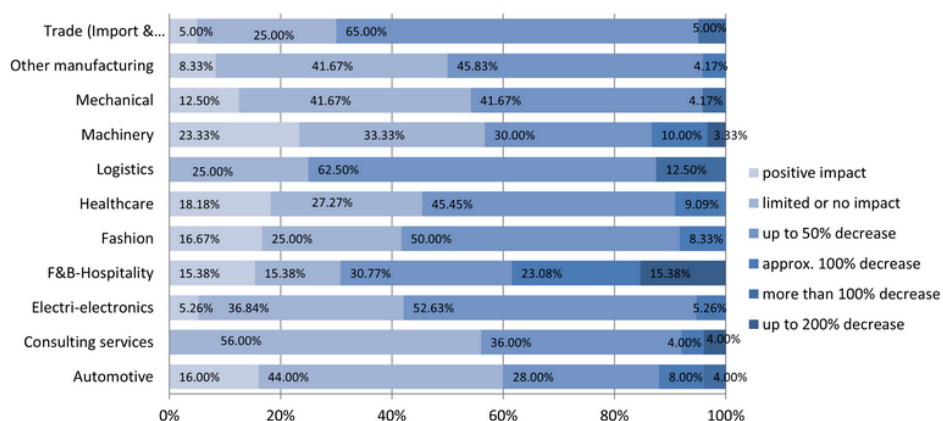
Analyzing in detail the sectors of the respondent companies, it is noted that 57% of machinery companies expect a strong impact on order intake in 2022 of at least 30% (of these, 33% think that it will exceed 30%). Following, in terms of negative forecasts, the logistics and manufacturing companies.

The forecast in terms of annual profit is a little more positive than in April: From almost 68% the percentage of Italian companies that expect a decrease in profit of more than 50%, falls to about 53%.

Which impact do you foresee on your budgeted profit (for the full year 2022)?



Which impact do you foresee on your budgeted profit (for the full year 2022)? By sectors

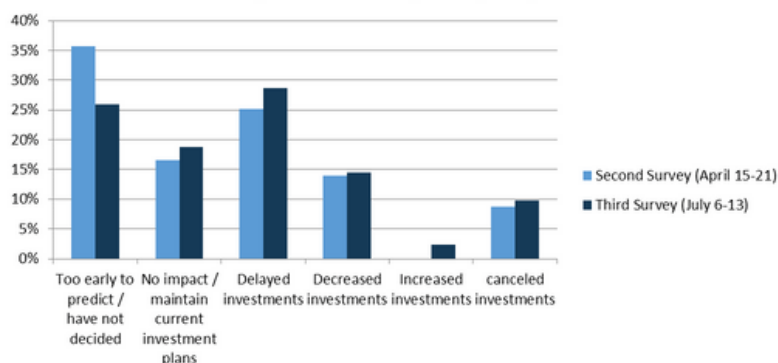


More than half Italian companies expect profit to be hit with a decrease of more than 50%. The business sentiment improves for the other 47% which declare a marginal impact on profit in 2022.

COVID-19 measures have made China a less attractive destination for investment.

The trend towards a cautious approach in reviewing investment plans is consolidating, with a decrease of undecided in investment exchange rates (from 36% to 25%). In the last two months, the number of companies that have preferred to delay investments has increased (almost 29%), 14% has already reduced them, and almost 10% cancelled.

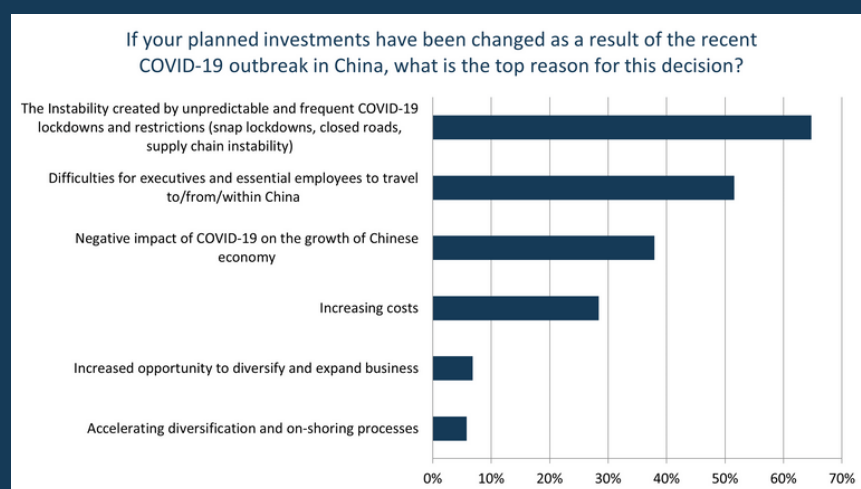
What impact has the recent COVID-19 outbreak in China had on your investment plans? (2022)



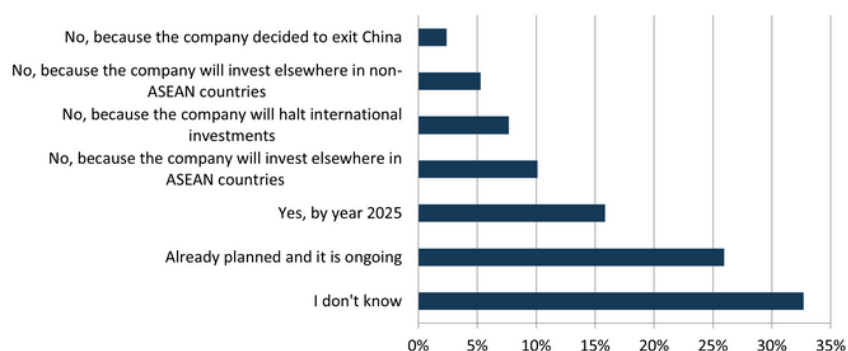


The reasons that push Italian companies to decrease or cancel investments in China currently are basically the following 4:

- The Instability created by unpredictable and frequent COVID-19 lockdowns and restrictions (snap lockdowns, closed roads, supply chain instability)
- Difficulties for executives and essential employees to travel to / from / within China
- Negative impact of COVID-19 on the growth of Chinese economy
- Increasing costs



Is your company planning to further invest (e.g. open new plants, new offices, launch new products, etc.) in China in the medium term?



Looking at future investments in the medium term, despite all the contingent difficulties, China continues to remain a country in which to invest for various companies. About 42% of our companies have ongoing investments or in any case intend to make investments by 2025.

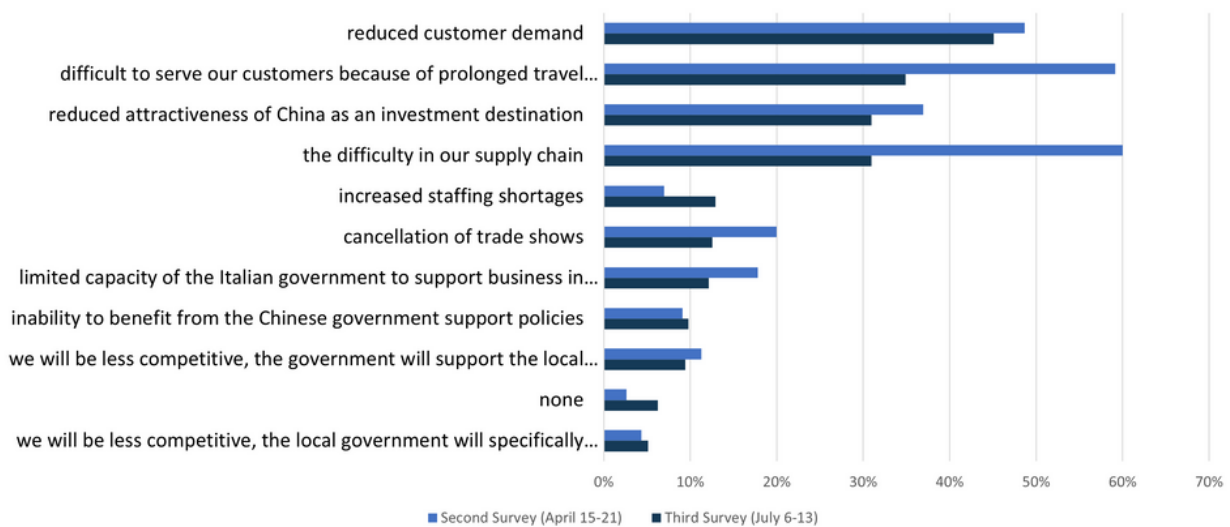
The remaining 58% is made up, however, of a good portion of uncertain companies that do not yet have a clear idea of the strategy they will adopt in China in the next few years (32.7%) and by about 1/4 of companies that have instead decided to leave China, preferring for example others ASEAN countries (for 10%).

Looking ahead, it is not surprising that concerns in the short term (next 6 months) are fundamentally related to the reduced customer demand, difficulty in serving customers and fulfilling orders because of the prolonged travel limitations and difficulties due to the fragmented supply chain, and increasing distrust of China as an investment country.

A sharp increase compared to the survey conducted in April is the staffing shortage.

In fact, through the comments of our companies, the fear of future stringent restrictions emerges, despite the fact that the current situation has returned to “normal” compared to April. The growth in costs and instability due to stringent policies and consequent blocks on people and business disruption are also increasing a detachment from HQ and communication difficulties.

What are your Company's main concerns from the outbreak over the next six months?

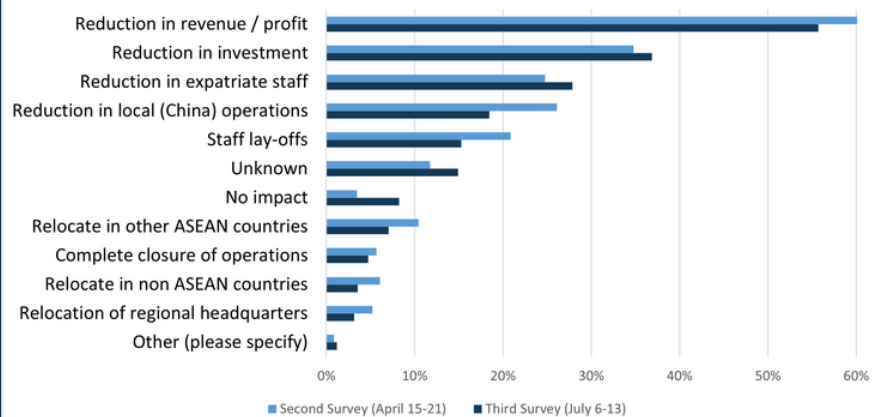


When considering how the resumption of the recent COVID restrictions over the next year would impact the business of Italian companies, the key word is decrease:

- of revenue / profit for about 56%
- of investments for 37%
- of foreign staff for 28%
- up to an irreversible contraction of the business with the reduction of operations in China for about 19%.

Compared to the survey conducted in April, there is an increase in business sentiment towards a decrease in investments and staff.

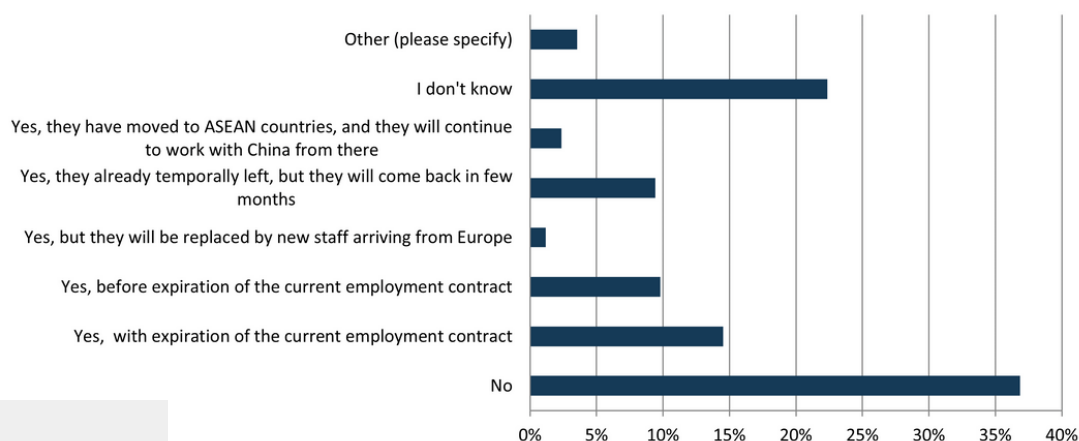
If the COVID-19 restrictions resume and remain in place for the next year, what impact would that have on your company?



In the longer-term and in line with the previous survey, our companies reported a large, noticeable impact on attraction or retention of foreign talents, based on China's approach to zero COVID.

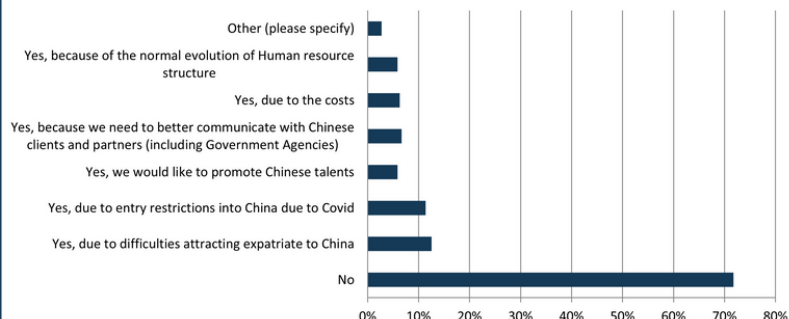
To date, about 30% of Italian and foreign personnel have not left China, while 23% are undecided on what to do. However, it should be noted that an even higher 37% have already decided to leave China; of these, only 9% temporarily, 15% have decided to leave when the contract expires, about 10% before the contract expires, and in a small percentage there are those who have decided to be relocated and work still for their Chinese-registered company, but from an ASEAN country.

Do you know if foreign employees in your company are planning to permanently leave China due to the current COVID-19 policies?



The impact on foreign talents is very strong: over 28% of Italian employees have already decided to leave China.

Is your company replacing expatriates with local talents? If yes, why?

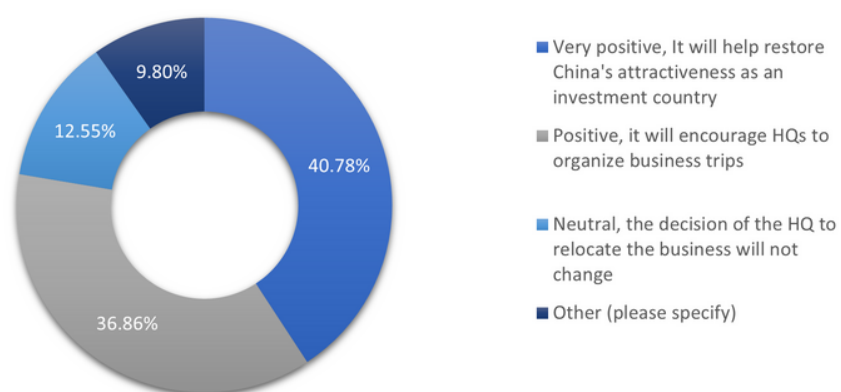


Despite the current difficulty in attracting and retaining foreign employees, the position of Italian companies appears quite clear: 72% have decided not to replace foreigners with local talents.



Italian companies have positively appreciated the opening of flights via third countries and the reduction of the quarantine as it will help restore China's attractiveness as an investment country.

What do you think is the impact of opening flights via third Countries and reducing quarantine days?

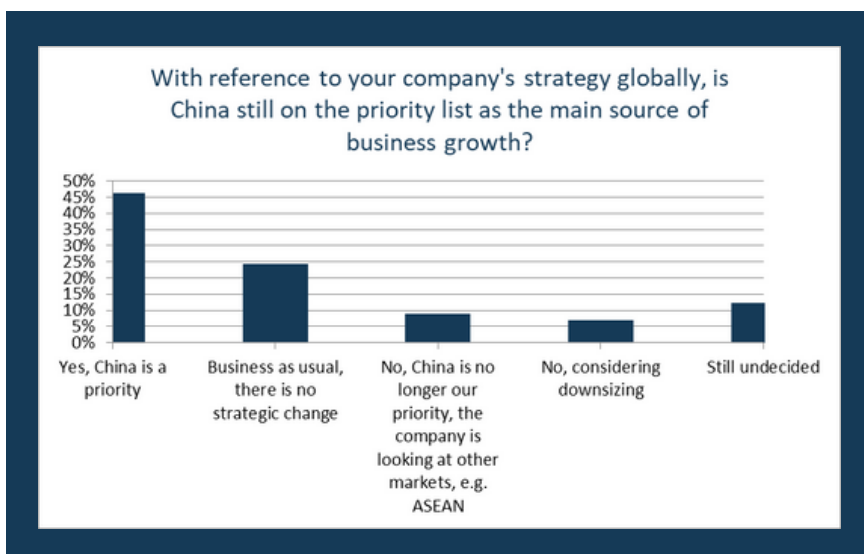


At the same time, over 22% is more neutral, if not negative: for about 13% these good news, albeit positive, will not change the decision of the HQ to relocate the business, while the remaining one declares that despite being a step forward, it is not enough.

Doing business in China for Italian entrepreneurs will continue to be challenging for the cost of tickets and problematic for the test and quarantine procedure.

Finally, we asked our companies if China is still on the priority list as the main source of business growth. Despite all the difficulties highlighted by our three surveys, the Chinese market continues to be the most important market for as many as 46% of our companies. 24% of companies did not plan any strategic change. However, for 16% of Italian companies, China has never been a priority or it is no longer a priority, and they are looking to other ASEAN markets or are considering downsizing.

Last but not least, over 12% say they are undecided about the future of the business in China.



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ABOUT THE CHINA-ITALY CHAMBER OF COMMERCE

The China-Italy Chamber of Commerce (CICC) is the only business organisation recognised by both the Italian Government (Ministry of Economic Development, MiSE) and People's Republic of China (Ministry of Civil Affairs, MoCA) that aims to boost the internationalisation of Italian business and to promote the "Made in Italy" in the P.R.C.

Established in 1991, CICC has now offices in **Beijing** (North), **Shanghai** (East), **Suzhou** (East), **Guangzhou** (South), **Shenzhen** (South), **Chongqing** (Southwest) and **Chengdu** (Southwest).

CICC Members represent the Italian business community in the P.R.C. At the same time, CICC welcomes to its network Chinese companies through the channel "Friends of CICC", boosting connectivity among the Sino-Italian business community.

The CICC offers informative, training and business networking opportunities and represents an advocacy platform for companies to share topics of common interest. To companies interested in strengthening their business in China, we offer consultancy, assistance and marketing services.

In cooperation with our members, we have established Working Groups covering those sectors considered as the most important and strategic for Italian companies in China. The Working Groups gather representatives of companies operating in the same sector or located in the same geographical area, aiming to share information, resources and ideas, organize relevant sectorial activities, build sectorial expertise within the CICC in order to voice SMEs' needs.

The CICC is a member of Assocamerestero, the Association of Italian Chambers of Commerce Abroad, a network of 81 Chambers in 58 Countries.

Furthermore, we are the leading consortium partner of phase III of the EU SME Centre.

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