

BRITISH BUSINESS IN CHINA

CONFLICT IN UKRAINE: INITIAL IMPACT REPORT





INTRODUCTION

On the 24th of February, Russian troops invaded Ukraine, and over the last 2 weeks we have witnessed the extraordinary and heart-breaking scenes. The US, UK, and Europe quickly responded to the invasion with wide-ranging sanctions targeting Russian businesses and individuals. China has also responded, but this response has seemed conflicted: torn between maintaining its strategic partnership with Russia, taking a strong stance in support of territorial integrity, and defending China's own economic interests, as well as considering the benefits of aligning with the West on this issue.

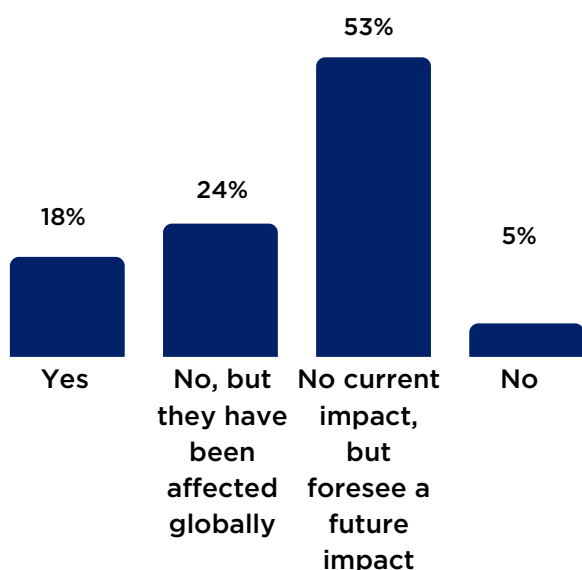
We are aware that Russia's dependence on China has dramatically grown in recent years, with bilateral trade reaching an all-time high of \$150bn in 2021. So, when the narrative (from many) was that Russia will turn even more towards China to insulate the economy from Western sanctions, for us sitting here in China, we have speculated what the implications for businesses will be.

As the voice of British business in China, the British Chamber of Commerce in China conducted a pulse survey to understand the impact and potential economic implications. This survey was conducted on Thursday 10th to Friday 11th of March. This cannot be categorised as truly representative of all British businesses (35 responses), but despite a small sample size, the data provides a useful snapshot of British companies' experiences and responses.

KEY FINDINGS

Despite the unprecedented speed and ferocity of international sanctions, the initial impact here in China is mixed, with a 'wait and see' attitude being adopted by most businesses.

Have your business operations in China been affected by the current crisis?



Our main takeaway is that the uncertainty of the situation has led to disruptions in investment decisions, suggesting that British businesses are concerned about further deterioration of the geopolitical situation, although there has not been any immediate impact for most respondents. Businesses anticipate the possible impact of supply chain disruptions and rising energy costs (which recently hit a 10-year high in China).

One fifth of companies report that their local activity has been affected by sanctions (18%). All responded that their investment decisions had been impacted, with some reporting restrictions on business activity due to sanctions and an increase in regulatory risk. However, opinion was split on the effect of sanctions on China's attractiveness as an investment destination, with no clear majority.





SANCTIONS

The UK, EU, and the US have introduced new sanctions against Russia and Belarus in response to the invasion of Ukraine by Russia. Sanctions have expanded in scope since 2014 to include wider trade and asset restrictions.

What type of sanctions have been introduced?



Ancillary restrictions

e.g. restrictions on infrastructure services



Asset freezes

Freezes on any resources of individuals/corporations



Energy restrictions

e.g. restrictions on oil/gas imports, energy investment



(Regional) Trade restrictions

e.g. restrictions on supply of goods, services, and investment to certain regions



Financial restrictions

e.g. ban from SWIFT, restricted bank operations

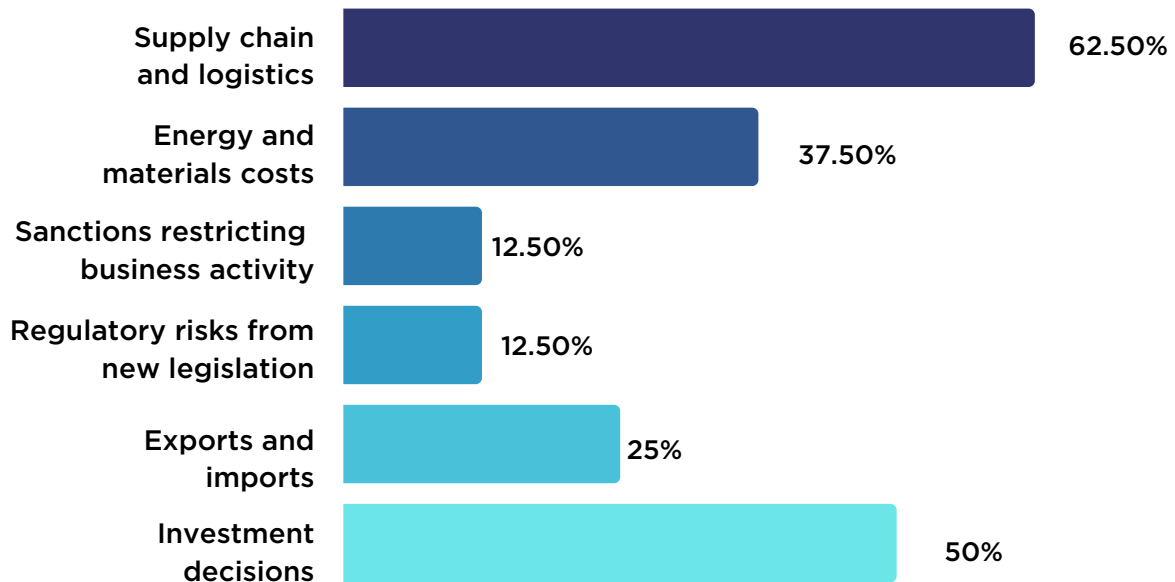


Transport restrictions

e.g. ban on aviation, shipping access and goods

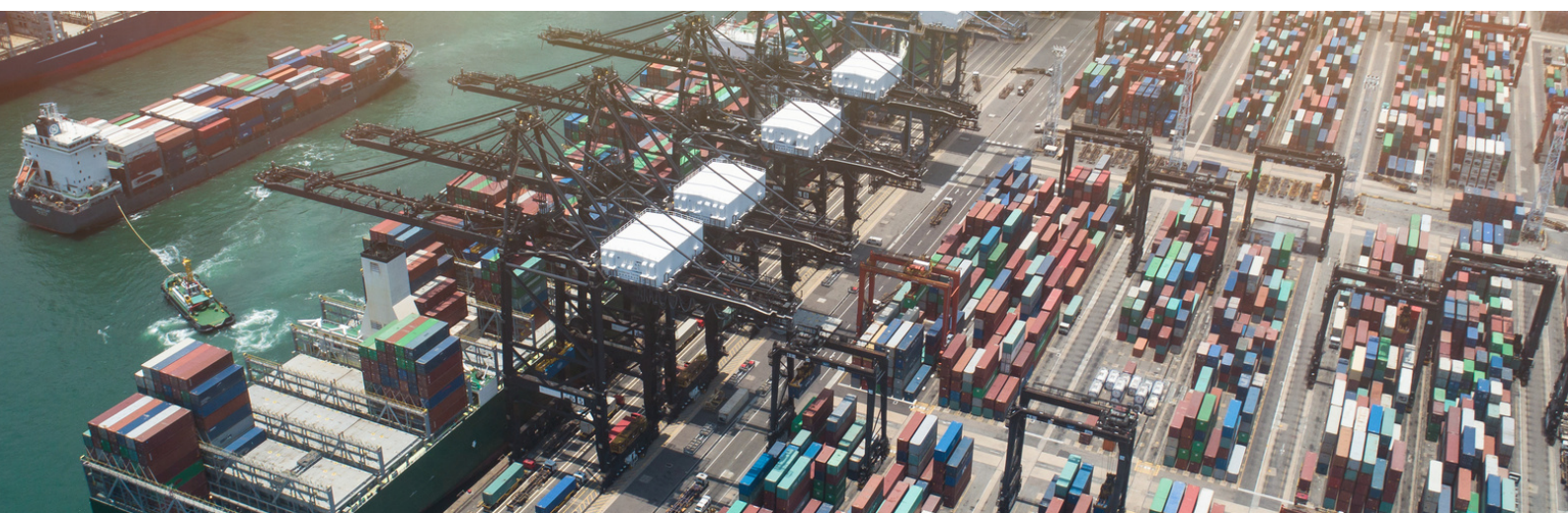
Over half (53%) of respondents reported that sanctions currently had no impact on their operations but they anticipated future impact.

Which of your operations in China have been/will be affected?

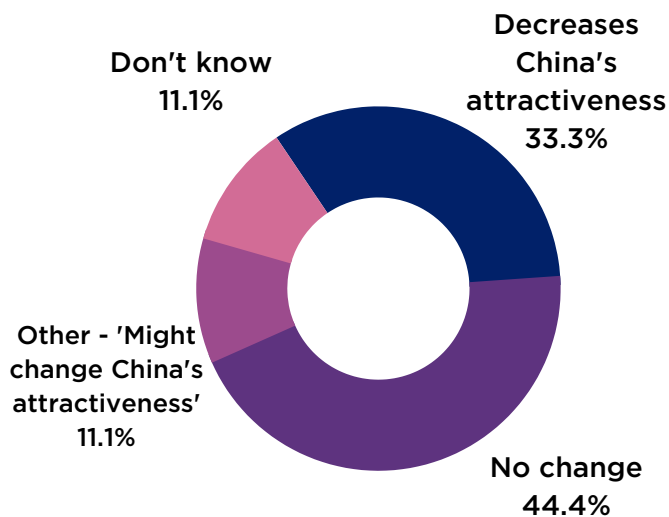


Of these respondents who anticipated a future impact on their operations, supply chain issues were the most commonly predicted business disruption, with potential impacts on companies in sectors from manufacturing to consumer goods and retail.

Energy costs and import/export issues were also mentioned by a number of businesses in civil engineering and construction, manufacturing, and IT and telecommunications. 50% of this group mentioned that investment decisions had been disrupted, reflecting a cautious attitude about possible developments in the geopolitical situation.



Does the current crisis increase or decrease China's attractiveness as an investment destination for your business as opposed to the Western markets?



For those respondents whose global operations (excluding China) have been affected (24%), supply chain issues and rising energy/materials costs were the most reported issues. However, these businesses were less pessimistic about the effects of the war in Ukraine on the attractiveness of the China market, with the majority reporting no change.

However, 33% reported that the current conflict has had a negative impact.

It is our hope that this initial survey sheds preliminary light on the potential issues, as it finds that companies remain resilient and committed to the China market in the immediate reaction to the war in Ukraine, despite political and economic disruptions.

It remains to be seen whether China may play a larger role in this conflict - if so, its action may influence global events as well as further repercussions to business here in China.



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