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PRESS RELEASE

Swiss companies see a light after Shanghai lockdown

- *China has announced various stimulus measures which are expected to include reductions on VAT, car taxes as well as personal and enterprise income tax combined with infrastructure projects and the doubling of loan quotas for SMEs.*
- *The Swiss Centers in China anticipate further progress for reopening business activities in the coming days, while international logistics are expected to remain challenging.*
- *Swiss companies struggle with the situation in Shanghai – but also find creative ways to keep their businesses running. Some enterprises, amongst them the turning company **LX Precision**, let their employees sleep and live at the facility to keep the production going.*
- *The premium coffee machine brand **Jura**, the tool manufacturer **Fraisa** and the chocolate manufacturer **Läderach** report about supply chain problems and future perspectives.*
- *In a recent survey by the European Chamber of Commerce in China, **78% of respondents stated that China is a less attractive investment destination as a result of its more stringent COVID-19 restrictions.***

Shanghai (May 31, 2022) – Doing business in Shanghai has never been harder than in the recent two months. “Manufacturing, retail, and hospitality companies faced and still face big challenges: on one hand their employees are in a strict lockdown. Additionally, they often lack components and materials because of a severely disrupted supply chain. Warehouses are closed, e-commerce is hampered“, reports Nicolas Musy, Delegate of the Board of Swiss Centers in China, a platform that lowers the market entry barriers into Asia for Swiss companies.

With an announced reopening for June 1st in Shanghai, the Prime Minister has held a video meeting with over 100'000 officials across the country to re-launch the economy – a positive signal also for the many Swiss enterprises in Shanghai. The measures are expected to include 6-months exemptions on personal income tax as well as on enterprise income tax, tax reduction on cars under 1.6-liter, a 1-3% VAT reduction, large-scale infrastructure projects, the doubling of loan quotas for SMEs and some local reduction of restrictions on apartment purchases. “These measures will not mean that the business activity will immediately catch up to pre-omicron levels. Many unskilled people have lost their jobs; starting salaries for university graduates are 20% lower than a year ago. But these programs will boost consumption, and the second half of 2022 can still be reasonably good“, analyzes Mr. Musy.





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Offices turned into dormitories

During the lockdown weeks, doing business was still possible with extra efforts, explains Musy. “Some Swiss companies have enabled a part of their workforce to move to the facilities in anticipation of the strict lockdown and kept the production running.” One of these companies is LX Precision, a 100% Swiss-invested turning enterprise in Shanghai. “Before the lockdown, 100 of our 160 blue collar workers have moved to our facility and sleep there. We have transformed our offices into dormitories, we offer food and showers”, explains Dominique Lauener, Chairman of the Board of LX Precision. In this way, the enterprise was able to achieve 70-80% of its normal production output during the worse part of the lockdown. Mr. Lauener: “We have returned to 100% production capacity last week.” Of course, the set up was not easy, recounts Mr. Lauener: “We were lucky that enough workers volunteered. They get additional income. As a company, we take responsibility to avoid a Covid outbreak. We implemented a 48-hour quarantine for everyone who enters the factory, as well as a PCR test and daily self-tests.”

Challenges and progress

Lisa Dai, Head of Jura China, sees progress: “In May it got better day by day, with our Taicang warehouse and logistics operations restarting. In April we experienced the worst situation when the warehouses were closed, and e-commerce came to a complete halt.” The premium coffee machine brand shifted its focus from offline to online events, but still expects a business decrease of 40% in China in 2022. Ms. Dai: “But we have confidence in the Chinese market, and we will continue to invest.”

The leading tool manufacturer Fraisa had stressful weeks as well: “Some of our customers did not stop their production, therefore we had pressure to deliver tools despite the challenging logistics and import situation. We managed to import through Shanghai airport on a weekly basis and were able to keep our warehouse running with two employees in a closed loop environment”, explains Joe Liu, General Manager of Fraisa China. “The office staff worked from home and the daily operation ran without big problems.” With Shanghai on the verge of reopening, the remaining challenges are supply chain and logistics issues. Mr. Liu: “The market suffers in mid-term but will recover in the long run.”

The Swiss chocolate manufacturer Läderach suffered the economic effects of the zero-Covid policy and the Shanghai lockdown. Danny Qi, General Manager of Läderach China: “The lockdown impacted both our retail and online business hugely. Our Shanghai warehouse was closed. For two months we got no sales and had to write off chocolate worth millions of RMB due to short shelf life.” Not surprisingly, Mr. Qi expects a strong sales decrease in 2022 because of zero-Covid. “Despite the challenges, I am still optimistic about the China market in the long term.”

Negative impact on European companies

The Swiss experiences are in line with the results of a recent survey by the European Chamber of Commerce in China. Three quarters of respondents reported that the COVID-19 containment measures have negatively impacted their operations, most acutely on logistics and warehousing as well as on business travel and the ability to conduct face-to-face meetings. More than a quarter of European businesses reported headcount decreases





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because of China's COVID-19 policies. 60% of respondents have decreased their 2022 revenue forecasts, and 78% felt that China is a less attractive investment destination as a result of its more stringent COVID-19 restrictions. 23% of respondents are now considering shifting current or planned investments out of China to other markets.

End of Lock-down

"In the Swiss Center Shanghai Free Trade Zone facility, we are helping our member companies to get on the 'whitelist', to apply for resuming operations if the company is ready to make 'closed-loop operations', and to set up different zones and engaging regular PCR testing of the employees", comments Mr. Zhen Xiao, CEO of the Swiss Centers Group. "We are expecting the end of lock-down from June 1st, which means less hurdles to resume business operations, but there will still be measures like frequent PCR testing and people density control. Logistics will remain very challenging as there is still limited capacity and a long waiting list at the port and customs."



Picture legend: Nicolas Musy, Delegate of the Board of Swiss Centers in China

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Picture legend: Zhen Xiao, CEO of the Swiss Centers Group

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About Swiss Centers Group

Founded in 2000 as a non-profit Sino-Swiss public-private partnership, the Swiss Centers are by far the largest cluster of Swiss companies in Asia.

Swiss Centers **practical solutions supported the businesses of over 400 companies** in China – both SMEs and large enterprises. Among others, the Swiss Centers experts have established 50 production companies and more than 50 commercial offices for Swiss companies in both industrial and consumer goods. In cooperation with the Swiss diplomatic representations in China, Swiss Centers also conducts surveys that provide the most detailed expertise available on the situation of Swiss companies in China, and at the same time promotes the **Swiss Made brand** and Switzerland as a country for **quality, innovation and industrial leadership**.

With locations strategically situated on China's dynamic East Coast (Shanghai and Tianjin), **Swiss Centers provide:**

- Instant physical **office space** as well as **ready-to-use workshops, showrooms and warehouses**;
- **Trade and supply chain management**, including product registration, import/export, transport, warehouse and distribution.
- **Relations with local Chinese authorities** and connections to **Swiss government and institutions** in China;
- Support for secure technology transfer and **intellectual property protection**;
- Access to **professional services** tailored to SMEs in all aspects of setting up and developing business in China (legal, tax, accounting, recruitment, HR management, IT, marketing).

For more information and some **reference cases**, kindly visit www.swisscenters.org

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