

Responding to COVID-19

Supporting Chinese businesses with overseas operations

COVID-19 update

With unprecedented determination and effort, China has stabilised the status of COVID-19 outbreak in the past month. While battling against COVID-19, the Chinese government has been providing support to businesses through many policies and measures. It is encouraging to see that businesses are gradually resuming operations. At the same time, COVID-19 is spreading around the globe with confirmed cases reported in more and more countries and some are experiencing an outbreak. On 28 February 2020, the World Health Organization (WHO) increased the risk assessment of COVID-19 to “very high” at the global level.

The global spread of COVID-19 presents challenges for Chinese companies with outbound investments and operations, particularly in regions and countries severely affected by the disease. What should business leaders be considering in light of COVID-19? PwC China offers areas of support to corporates to manage uncertainties, risks and operational issues in relation to cross-border activities.

How to manage the crisis

1. **Develop an action plan** – identify and quantify potential issues, assess resources that are available to the business and develop an action plan for your people, operations, finances and provide a framework, strategic guidance and specific actions to get through the crisis
2. **Gather the right team** – to support your action plan, create a strong, cross-functional crisis team to drive a holistic approach. The response will demand high-level sponsorship to provide a framework and strategic guidance
3. **Communicate** – determine your external communication strategy and approach. Don't forget to communicate internally as well – your employees are your strongest asset
4. **Focus on reliable data** – during a crisis, a lot of data is needed for informed decision making...and fast. Establishing facts accurately is a priority. Strong data also reinforces a central element of crisis planning – exploring different scenarios and how they could affect the business in the short, medium and long term

How PwC China can help

Employment Law and HR support

Challenges

- Getting overseas workplaces ready for facing COVID-19
- Overseas employment related challenges due to disruption of business and operation
- Being a responsible and reliable employer for assisting staff in facing and handling personal safety threats and incidents in other territories

Our support

- Monitor and follow the specific overseas country and local government guidance/requirements in relation to workplace hygiene and clean measures and standards
- Clarify minimum statutory requirement in concerned territories leveraging PwC global employment legal service network
- Maintain regular communications with overseas country's trade union and assist with collective negotiation on social benefits via PwC overseas employment attorneys
- Advise on “employer liability” and “duty of care” obligations according to the laws of particular overseas country, develop duty of care standards and explore channels to prevent safety incidents

Global Mobility support

Challenges

- Travel interruptions – Traveling from China to overseas postponed or cancelled while outbound employees in overseas also affected by the local travel restrictions in their current locations
- Compliance issues – Unexpected personal tax implications and other local compliance requirements (e.g. visa and social security taxes, etc.) due to outbound employees and business travellers' extension of stay overseas
- Internal coordination – Potential gaps between the China headquarters and host-country companies for outbound arrangement and cost allocation, etc. due to changing situations. Lower level of resources and support in the special period

Our support

- Advice on impacts arising from mobility, immigration, personal tax and social security etc. with corresponding home and host compliance support
- Emergency support (e.g. visa expiry/renewal/extension, etc.) around the world leveraging immigration expertise within PwC global network
- Instant review of a company's global mobility policy/protocol to identify the gaps and suggest for improvements to manage outbound activities during the special period
- Support with PwC technology (e.g. myMobility, myCalendar, etc.) to track the whereabouts of the outbound employees and business travellers to manage the potential tax and regulatory exposures to the China headquarters, its overseas affiliates or its outbound employees

Business strategy support

Challenges

- A high degree of uncertainty and market dynamics brought by the epidemic outbreak
- Unexpected disruptions to the business and shifts in business model (e.g. from physical to digital)
- Significant changes in sales and customer demand
- Significant decrease in (longer term) economic growth in certain regions and markets

Our support

- Revisit the medium and longer-term strategy, consider how competitors are reacting and what the longer term market conditions may look like
- Strategic review of business resilience and how to handle large scale systemic changes (e.g. disruption from technology, epidemics, political events)
- Redefine the company's desired end-state once and re-position strategically to determine where to invest to facilitate accelerated growth (e.g. markets, divestments), work out scenario's to analyse the financial and operational implications
- Review M&A strategy to identify potential acquisitions, divestitures, partnerships and other opportunities, perform due diligence with a distressed M&A mindset (i.e. focus on the cash and business interruptions)

Operational support

Challenges

- Supply chain disruptions – sourcing, production and logistical interruptions from factory closures, delay in return of workforce, cargo flight suspensions, delays to sourcing goods from affected regions and lack of delivery staff
- Inventory shortages – there may not be sufficient stock to cover the affected period due to supply chain disruptions
- Unusual demand - demand in certain sectors may decrease (e.g. travel, leisure) while others may experience a surge (e.g. healthcare), some may experience a shift to a different channel (e.g. e-commerce)

Our support

- Identify and support mitigation of supply chain disruption/cancellations caused by delays and transport suspensions from suppliers within China - determine truly critical components - including exposure your tier 1/2 suppliers have and start communicating with them
- Revisit supply chain model and consider short term changes e.g. alternative suppliers, production planning to reflect factory closures/delays to workforce returning
- Optimisation and stabilise your medium to long-term supply chain model to minimise risk of exposure and impacts from disruption (e.g. diversification, omni-channel solutions by shifting to online, network optimisation) to ensure future resilience
- Review short to medium term demand planning which may see unusual spikes in demand

Financial support

Challenges

- Cash shortages due to changing consumer demand and restriction in movement of people and goods. In the longer-term, it may result in closures
- Cash restraints could lead to suspension of interest payments to lenders causing suspension of credit facilities
- Disruption and changes in supply chain may impact working capital
- Looming debt maturities as capital repayments become due, prompting need to reschedule repayments or consider alternative financing sources
- Government investment diverting to healthcare and pharmaceuticals, may be followed by a tightening in 2021

Our support

- Review business plan and update KPI's to provide a realistic basis to critically assess the necessary actions, analyse the liquidity of the business and forecast actual cash position to mitigate likely shortages from falling sales to different scenarios
- Critically review debt service obligations to identify potential events of default (e.g. missed interest payments), assess likely consequences and suggest mitigating strategies
- Review insurance policies to assess potential recoveries for business interruption and clarify coverage as the situation develops
- Consider if the business qualifies for financial relief initiatives recently implemented by relevant governments

Technology support

Challenges

- An unexpected surge in demand of network capacity and Virtual Private Network (VPN) from flexible work arrangements may put unprecedented pressure on an organisation's IT infrastructure and network
- Lack of visibility of business issues and workforce related problems impacting decision making abilities due to insufficient or unreliable data
- Acceleration in technology enabled transformation of legacy industries e.g. automation to save manpower, AI to eliminate unnecessary human interactions

Our support

- Review and assess the current IT disaster recovery plan, support implementation (e.g. collection of data) and analyse data/tools to assess immediate business impacts
- Assess the company has the right technologies in place to support the workforce remotely with stable network connectivity and for a longer-term sustainable business model
- Analyse the impact of demand in working remotely and the current IT system capability and capacity, recommend quick-win solutions (e.g. work collaboration, workflow management and ERP solutions)
- Evaluate business data analytics, support automation of data/reports and establishment of business intelligence systems

Global business and tax management support

Challenges

- China headquarters to have real time access to overseas business operation, including overseas financial and tax update and cash flow status to facilitate its decision making process during global spread of COVID-19
- Multinational companies to have clear and flexible channels to move fund and resources from one part of the world to another
- Overseas local compliance teams to be fully aware of any applicable financial and tax incentives made available by the local government and make best use of such benefit to assist the group to fight under such difficult business environment

Our support

- Advise and summarise key financial and tax incentives applicable to certain industries and businesses in overseas countries
- Build up global digital tax reporting and management tool to enable real-time monitoring of tax function around the world including reduction of compliance risk and enhancement of global tax efficiency
- Develop a professional tax support protocol by leveraging PwC global network and technology product to ensure local team to have knowledge of any tax update and new incentives in overseas countries
- Streamline and optimize the whole value chain and advise on global tax efficient business model and assist in designing and establishing global or regional treasury centre to facilitate the free movement of residual cash overseas

Legal support

Challenges

- Identification of commercial contracts with potential failure of performance
- Implications and decision making on measures for unduly performed contracts and dispute as well as legal actions against counterparties where the negotiation fails
- Insights in the laws of unfamiliar jurisdictions and strategies to tackle new trade regulatory challenges in relation to changing sources of supply into new countries, as the regional supply chains are squeezed by the epidemic outbreak

Our support

- Help overseas subsidiaries of Chinese companies, in particular relevant international engineering contractors, identify the applicable law in the contract, perform "force majeure" clause/frustration application analysis and ensure performance of "force majeure" clause with qualified notice to the opposing party and necessary actions taken to mitigate the loss
- Assist with formulation of holistic response strategies for contracts with likely failure of performance as well as litigation strategies to initiate a lawsuit or arbitration when necessary
- Advise and help with necessary and timely actions in case of contract non-performance including document preparation, evidence collection and preservation, negotiation and preparation for legal actions, etc.
- Legal and trade regulatory advice on alternative sources of supply, covering local import and export restrictions, free trade agreement benefits, tariff impacts, and trade remedy risks

Policy initiatives and Customs support

Challenges

- Need from overseas management team to timely monitor the evolving policies and measures in China
- Need for special policies to support Chinese companies with outbound investment and operations, such as treatment of foreign sourced income/loss
- Increasing needs from overseas subsidiaries in getting support from China for global sourcing of medical goods and importation into the countries affected by the COVID-19
- Understanding of local Customs supervision and formalities in different countries on medical goods importation

Our support

- Seek domestic policy support to Chinese companies investing abroad via communication with relevant authorities
- Monitor supportive financial and tax policies in China and provide a summary with key policies at both state level and provincial level with regular update (scan the QR Code for the latest weekly update as of 04 March, 2020, in Chinese only)
- Support the importation of medical goods into different regions and countries outside China by leveraging PwC global World Trade Management network
- Advice on solutions from Customs perspective for supply chain interruption due to COVID-19 spread to mitigate the impact and minimize the cost to the companies



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