

CHINA ECONOMY

Many factory workers in Shanghai can't get back to work, even after Covid controls ease

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KEY POINTS

Shanghai, China's largest city, has struggled to contain a Covid outbreak and began large-scale lockdowns in late March.

In the last week, authorities announced a whitelist of 666 companies that would get priority for resumption of work.

Foreign business organizations said the list is a step in the right direction, but it's difficult to get more than half of workers to factories due to lockdown restrictions.



VIDEO 02:19**Shanghai's logistical issues are preventing workers from returning to factories**

BEIJING — Foreign businesses are struggling to bring workers back to factories after weeks of lockdowns in Shanghai, as the country battles its worst Covid outbreak since the pandemic began.

Nearly a month since Covid restrictions began in earnest in Shanghai, U.S. and European businesses say that less than half of their employees are able to return to work.

Since March, mainland China has imposed travel restrictions and stay-home orders in economic hubs from the southern city of Shenzhen to the northern province of Jilin. The extent of Covid controls has varied by region.

Lockdowns in the southeastern metropolis of Shanghai, which began at scale in late March, have been among the most disruptive — to daily life, and to foreign businesses and their supply chains. [The city accounts for about 3.8% of China's GDP but is home to the world's busiest port.](#)

Last Friday, China's Ministry of Industry and Information Technology announced it sent a team to Shanghai. The ministry called for prioritizing resumption of work at 666 major businesses in industries such as chips, biopharma and auto and equipment manufacturing.

“Many companies still face the challenges of labor shortages and logistical difficulties.

—Bettina Schoen-Behanzin

EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

A “significant” number of members of the European Union Chamber of Commerce in China are on the whitelist, particularly in sectors of manufacturing, chemicals and autos, said Bettina Schoen-Behanzin, the chamber's vice president and Shanghai chair.

But “many companies still face the challenges of labor shortages and logistical difficulties,” she told CNBC in a statement, estimating that less than 30% of members' workforce are eligible to return to work due to lockdowns.



and contact is limited to people with valid negative virus tests — what’s known locally as “closed-loop management.”

“Some estimate that with the re-opening whitelist, the requirements to achieve closed-loop status may not be attainable, or maybe can only recall 30-40% of staff back to manufacturing facilities,” Matthew Margulies, senior vice president of China operations for the US-China Business Council, said in an email.

The difficulty of getting workers into factories means companies cannot easily bring in new staff for other shifts, foreign business organizations said.



VIDEO 09:57

Why China shows no sign of backing away from its ‘zero-Covid’ strategy

Before the list was released, some companies in Shanghai and other regions subject to Covid lockdowns were able to maintain minimal operations under the closed-loop protocols.

When companies try to bring in new workers, it will usually “fail with the local communities who don’t want to let people out,” said Johan Annell, partner at Asia Perspective, a consulting firm that works primarily with Northern European companies operating in East and Southeast Asia.

“ The only good thing about the current situation is it’s so



companies that it will not last too long.

—Johan Annell

PARTNER, ASIA PERSPECTIVE

Another challenge for workers who do get permission to leave their apartments is Covid-related restrictions on travel, at which point the process of returning to work “usually fails,” he said.

Transport restrictions can also affect delivery of parts.

There’s a “fear among truck drivers, if you risk a 14-day quarantine going to that factory maybe you skip that delivery and do something else,” Annell said.

For a business to be able to operate at 30% capacity in a week or so is “a really good outcome,” he added.

“The only good thing about the current situation is it’s so obviously unsustainable for the economy and all the companies that it will not last too long,” he said. “I would not expect the situation to be nearly as bad as now when we come to the second half of May or June.”

Road freight plunges

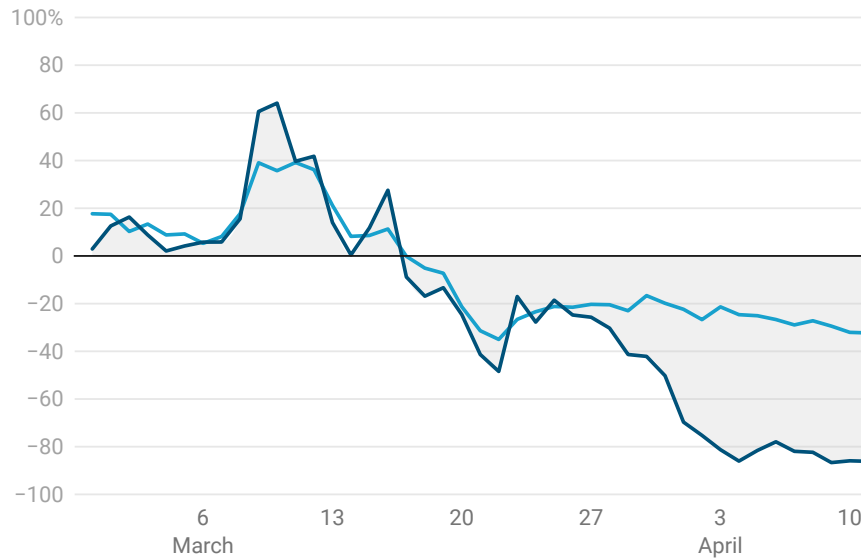
Local restrictions vary from province to province, and can range from blanket travel bans to virus test requirements for drivers.

The differing measures have taken an uneven toll on businesses, whether foreign or Chinese.

A measure of China’s road freight transport turnover fell by 27.2% nationwide from April 1 to 17 from a year ago, Nomura’s chief China economist Ting Lu pointed out in a report Wednesday.

year

(Feb. 28 - April 20, 2022)



For Shanghai, that same transport measure plunged by 82.6% over the same time period, the report said.

China's central government has more than once called on local authorities to support transportation services and remove constraints, such as making drivers wait for virus test results before they could move on.

Last week, Huawei Consumer Business Group CEO Richard Yu warned in a WeChat post — akin to a Facebook update — that if work and production in Shanghai cannot resume by May, all the industrial and tech companies with supply chain ties to the region will need to stop production, especially automobiles.

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[Analysts call Tesla a 'must own' and 'core holding' following blowout first-quarter earnings](#)

[Cathie Wood's Ark Invest sees Tesla stock soaring over 350% by 2026, touts Elon Musk's robotaxis](#)

Huawei confirmed the contents of Yu's post from his personal account, which was first reported by Chinese media. Yu's post came around the same time the government announced the

whitelist



that the problems were only “temporary,” and that authorities would improve the whitelist system.

“On the one hand, we think the government does understand how important Shanghai is. On the other hand, 600 manufacturing companies — it’s a good first step but there are thousands of manufacturing companies in Shanghai that are shut down,” Michael Hart, Beijing-based president of the American Chamber of Commerce in China, said in a phone interview Wednesday.

“We had some of our companies in northern China contact us, their key suppliers in Shanghai are not among those allowed to restart,” Hart said.

What companies are saying

Foreign businesses in China have reported varying states of returning to work. Shanghai still reports new daily Covid cases of around 20,000, with and without symptoms.

[Tesla](#)’s Shanghai factory was “back up and running” as of Wednesday, according to CEO [Elon Musk](#)’s comments during a quarterly earnings call, per a StreetAccount transcript. “They really had significant challenges due to the Covid shutdowns and nonetheless have been able to output a tremendous number of high-quality vehicles.”



VIDEO 02:05

China’s Covid lockdowns are adding insult to injury in supply chains: Consultancy



most of its China manufacturing sites were operating normally or under closed-loop management, those in Shanghai remained shut.

“Our manufacturing sites in Shanghai will resume production as soon as we receive government approval and when our colleagues are allowed to leave from community health management,” the company said. “We are assessing supply chain logistics challenges and are seeking alternative routes and systems to transport products and materials to meet our customers’ needs.”

As of Monday, [Volkswagen](#) said it was evaluating how feasible it was to resume production at its plant in Anting on the outskirts of Shanghai, while its factories in the northern city of Changchun in Jilin province “have gradually resumed production.”

German chemicals giant [BASF](#) said Wednesday that its sites in Shanghai have operated under local management restrictions since late March, with some producing at reduced levels.

“There have been individual raw material supply issues, logistic disruptions and labor shortages, that are impacting our operation and business,” the company said, noting that most of its production sites in China remain in operation.

Correction: This story has been updated to address an editing error and accurately reflect that U.S. and European businesses say less than half their factory employees have been able to return to work.

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