

RESEARCH NOTE

The Future of Covid Zero in China After the Shanghai Lockdown: No Fundamental Change Before October

APRIL 7, 2022

Executive Summary

China has had remarkable success with its Covid Zero strategy, but questions are increasingly being raised

After Hong Kong, Shanghai was forced to lock down in an attempt to curb BA.2

For the first time, there is visible resistance to the new and wide-ranging restrictions

No change in official messaging even in the face of growing economic pain

Longer delivery times and higher transport costs are already having a domino effect on global transport and supply chain logistics

Conditions for a shift in policy not right before the 20th National Congress scheduled for October

Background and Analysis

China has had remarkable success containing the pandemic before the current outbreak and lockdowns. Since the end of 2019, mainland China has reported just under 5,000 deaths. Official figures certainly underestimate the real toll of the pandemic, but there are no doubts that both infections and deaths have been much lower than the global average and dramatically lower than in Europe or the United States

These results were achieved by adopting a policy aimed at eliminating new infections through the use of social restrictions and digital tools, **a policy known as Covid Zero**. With most other countries now lifting their restrictions, China finds itself facing the worst outbreaks of the last two years, and **questions on whether Covid Zero can be maintained are increasingly being raised**. China reported more than 20,000 COVID-19 cases on April 6, the highest daily tally given since the start of the pandemic.

There has already been a significant change. **In August last year, Chinese authorities introduced a new version of Covid Zero: dynamic clearing**. The concept means that eliminating Covid once and for all is no longer possible, but authorities are still committed to bringing the number of cases back to zero every time new infections are detected. More recently, China has been slowly tweaking the policy

through measures such as the “closed-loop” system, previously applied during the Winter Olympics—which completely separated participants from the rest of the population and is now being applied to factory workers.

Against many predictions, **China successfully controlled the highly transmissible Omicron variant during the Beijing Winter Olympics** in February. That success reinforced the conviction that new variants have not fundamentally changed the logic of containment. Hong Kong failed to contain the BA.2 Omicron variant, but for many in China that only shows the political culture in Hong Kong differs from that in the mainland. The influential commentator Ren Yi took this line in his blog, even suggesting that Hong Kong should be allowed to move away from Covid Zero.¹

Only 50.7 percent of people over the age of 80 in China are fully vaccinated. According to the Chinese National Health Commission, people aged above 60 accounted for 65 percent of the severe COVID cases in China and 65 percent of the severely ill seniors were not vaccinated.² China will have to wait until vaccination among the elderly reaches much higher levels before lifting restrictions. Were the BA.2 variant to run out of control in the mainland, the consequences could be catastrophic. An analytics firm in London has suggested that more than one million people in mainland China could die during an Omicron wave. This almost certainly underestimates the risks.

On March 28, Shanghai began sealing off its 25 million residents, with half the city locked down for four days, followed by the other half. But before the current East-West full shutdown, there were already parts of the city under lockdown. The city adopted a series of measures, such as tax relief or

loan support for small businesses, aimed at countering the economic impact of the lockdown. **At the end of March, some 62 million people in China were in lockdown.** Only 28 flights took off and landed on March 29 at the Pudong airport in Shanghai, which handled 892 flights on a typical day in 2021. On April 3, thousands of medics arrived in Shanghai by high-speed trains departing from provincial-level regions such as Tianjin, Hubei, Shandong, and Jiangxi.

The conversations we had in recent days with Shanghai residents reveal Covid Zero is now under massive strain. **For the first time, there is a measurable resistance to the cumbersome restriction measures.** Errors in planning and communication are now met with anger and incomprehension. The city of Shanghai was forced to admit errors and excessive complacency. At the source of the failure, as confirmed to us by several well-placed sources in China, are the close travel links between Hong Kong and Shanghai.

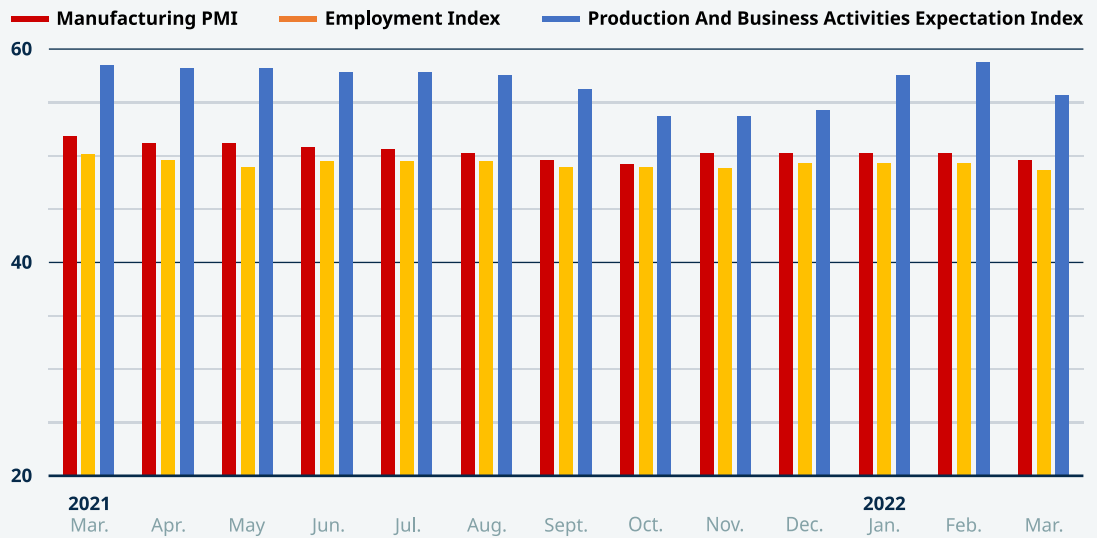
Key Issues

IDEOLOGY OF COVID ZERO

On March 17, at the Standing Committee meeting of the CCP Central Committee Political Bureau—held to arrange for “better and more stringent epidemic control”—President Xi Jinping reiterated the need for “perseverance” and “prevention” to defeat the highly contagious Omicron variant of Covid-19. An article by Zhong Sheng recently published in the People’s Daily accuses critics of China’s Zero Covid policy of being driven by “ulterior political goals.”³ Earlier, a pro-Beijing member of the Hong Kong Legislative Council, while dismissing the idea of “living with Covid,” argued that criticizing the Covid Zero policy was a violation of the national security law. Us-

In March 2022, China's official NBS Manufacturing PMI declined to below 50, for the first time since October 2021, indicating the adverse impact of covid outbreaks on factory activity. The Employment and Production and Business Activities Expectation Index also declined.

Source: National Bureau of Statistics of China



ing the rallying call of “**people first, life first**” and “**perseverance is victory,**” the CCP’s efforts are directed towards ensuring maximum cooperation and minimum resistance from the public as they continue with their strict Covid restriction measures. Ren Yi recently wrote that “China’s ultimate goal is to become the only country in human society that truly avoids massive loss of human lives due to COVID-19.”⁴

ECONOMIC PAIN

High food prices and acute shortages of food emerged in Changchun, the capital city of Jilin when the whole province went into full lockdown. Earlier, when Shenzhen went into partial lockdown, some companies such as Apple supplier Foxconn, Toyota, and Volkswagen announced a temporary suspension of operations. While some have resumed work, China’s industrial working class had to face new hardships, even being forced to spend nights sleeping on factory floors, due to mobility restrictions, while others struggle to find jobs. According to official data, the Purchasing Manager Index of China’s manufacturing index for March was **down 0.7 percentage points** from February to 49.5 percent, indicating a decline in manufacturing production, while the

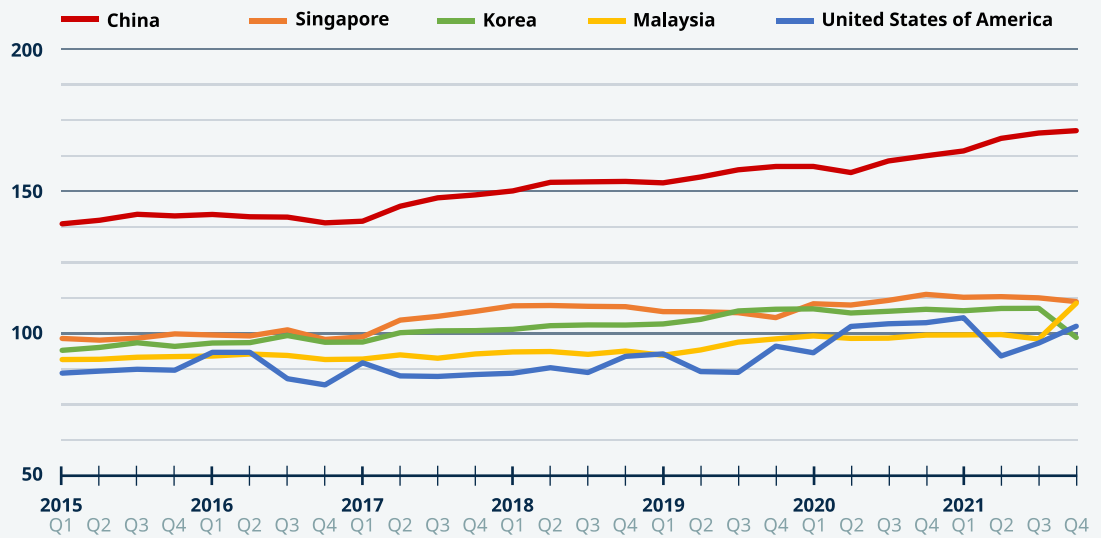
employment subindex was **down by 0.8 percentage points** at 47.3 percent indicating a decline in employment and the business activity index was also down to 54.6 percent, **a 5.9 percentage-point decline** from the previous month. Meanwhile, the prices of 24 products out of the 50 “kinds of important means of production” (as identified by the National Bureau of Statistics of China) increased in mid-March, compared with early March. Zheng Michael Song, an economist at the Chinese University of Hong Kong, estimates that Covid restrictions could already be costing China \$46 billion a month in lost economic output.

GLOBAL SHIPPING

Vigorous tests and quarantine requirements are making truckers wary of entering Shanghai, delaying crucial exports of mechanical, electrical, and pharmaceutical products from the world’s busiest container facility. Denmark-based global shipping company Maersk has warned that the Shanghai lockdown will cause transport delays and increase transportation costs.⁵ This adds further pressure on the already high ocean freight rates across all major trade lanes, notably the Shanghai-Los Angeles freight rate which is 108% higher in

The graph shows the linear shipping connectivity index — which captures how well countries are connected to global shipping networks — of the top 5 countries (as of Q4 March 2022) indicating China’s lead in maritime connectivity.

Source: United Nations Conference on Trade and Development, Liner shipping connectivity index, quarterly



March 2022, compared to a year ago.⁶ China holds a near-monopolistic position on the profitable sea lanes between Asia-Europe and Asia-US, with several of China’s container ports ranked amongst the most connected in the world. Due to China’s dominance over the commercial maritime sector, longer delivery times and higher transport costs are already having a domino effect on global transport and supply chain logistics. The Global Times quoted researchers at the Shanghai International Shipping Institute saying that port efficiency was expected to decline and that the level of congestion “is relatively serious.”⁷

What’s Next

The current policy will not be easily adjusted. Chinese authorities have staked their credibility and legitimacy on containing new outbreaks of Covid-19. **Shifting away from “Covid Zero” is a decision that can be taken only once. There is no going**

back. That means the policy will be adjusted only when there is absolute certainty the risks have become much lower.

One factor complicating the picture is the possibility of new variants. As long as that possibility remains, and more dangerous variants can emerge, Chinese authorities will remain cautious. **Progress on vaccinating the elderly or approving the more effective mRNA vaccines remains slow,** further decreasing the chances that the policy could be changed all of a sudden.

As the CCP gears up for its most important political event of the decade, the 20th National Congress scheduled for October, sharp changes in policy are not to be expected, and much less on Covid-19, where the risks of policy errors remain very high. General Secretary Xi is expected to be re-elected for a precedent-breaking third term in the National Congress. **Thereafter, authorities will reopen the “Covid zero” file, but not before.**

1 https://mp.weixin.qq.com/s?__biz=MzA3MDIzODIwMg==&mid=2458093335&idx=1&sn=1f0cb24170675e90a8b3b6d45f64058e&chksm=8848cd82bf3f4494d586ff77b-7715d887e52e031ffb8e343adcf202c69750cfdb30f75d95291&cur_album_id=1318946130343919617&scene=189#wechat_redirect 2 <https://www.globaltimes.cn/page/202203/1254939.shtml> 3 http://paper.people.com.cn/rmrb/html/2022-03/28/nw.D110000renmrb_20220328_7-03.htm 4 <https://gingerriver.substack.com/p/why-shanghai-sticks-with-zero-covid?s=r> 5 <https://www.maersk.com/news/articles/2022/03/14/covid-19-updates-greater-china-area> 6 <https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry> 7 <https://www.globaltimes.cn/page/202203/1257017.shtml>