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# End of Dynamic Zero COVID for China?

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## OPTIMISING ZERO COVID

**Z**ero-COVID fatigue has begun to plague China. Frustration over China's COVID policies boiled over last week following a fire in Urumqi that killed 10 people, who were allegedly in a building that was in lockdown. This follows the recent accident in Guizhou, where 27 bus passengers were killed on their way to a quarantine facility. The protest at the Foxconn factory in Zhengzhou was also partly motivated by the COVID measures taken, in addition to more general concerns on labour conditions.

## WHY THE PROTESTS NOW?

The protests, now reportedly in some 15 cities and counting, are the first nationwide protest in decades, and spans students, small business owners and ordinary Chinese citizens.

While the new Politburo Standing Committee promised optimisation of the dynamic zero-COVID policy with a new "20 measures" programme, these measures did not represent any end to the policy itself. The decentralised implementation of the "optimised" strategy, a necessity as it is in a country the size of China, has caused much confusion and about-turns in cities that saw a rapid rise in their infection numbers—even though casualties remained very limited.

Protesters may have been encouraged by the new central government policy. They can rightfully claim that local governments are too tough in locking down to contain infection surges and are going against central government policy.

On 29 November 2022, at the first press conference after the protests, officials of the State Council task force in charge of COVID measures accused local officials for taking reckless and excessive measures in implementing lockdowns, heedless of public concerns. Beijing still

insists it would not budge from its zero-COVID policy but it is clear that the central government is shifting blame for the unrest.

Finally, the footage from the football world cup has shown Chinese citizens that the rest of the world has moved on, despite the apparent ([aborted](#)) attempts of Chinese TV to avoid footage of the hundreds of thousands of unmasked supporters gathered in Qatar.

## **THE TRUE COSTS OF COVID**

The protests come after almost three years of COVID measures. The measures were very effective in the early days, with China still retaining an admirable record of registering only some 5,000 deaths, compared to over a million in the United States. At the same time, death from other causes is up in part because people cannot get timely treatment.

A study on excess deaths during COVID published in the [Lancet in March](#) this year suggests that while China's numbers are still very low, they are some three times higher than officially reported COVID deaths. In contrast, countries such as Singapore and Korea showed *negative* excess deaths because their COVID measures also prevented death from other diseases while access to critical care remains available. Even taking this into account, China's COVID policies have been impressive in preventing casualties.

The real casualty of China's COVID policies is its economy. China's COVID policies in the early days, and similar policies elsewhere in Asia, enabled the economy to open up early. The economy started to recover from the third quarter of 2020, before any other country, barely six months after the Wuhan outbreak. Economic goals and health goals were aligned at the time.

New and more infectious COVID variants and widespread availability of effective vaccines have changed that equation for most countries, and most decided to open up, some chaotically so, but not in China. The commitment to zero COVID has, however, become far more expensive in economic terms, as the new variants required more frequent and more stringent lockdowns, which affected the economy, in particular the services sector—a sector that, far more than manufacturing, requires people to meet face to face.

The economy is also suffering from the relentless lockdowns. Cities accounting for 70% of gross domestic product (GDP) now have part of their cities classified as high or medium risk, according to HSBC, an investment bank. This number has been on the rise, even though the affected areas may be smaller under the new rules. Nomura, another bank, estimates that areas with at least partial lockdowns and travel restrictions account for more than 25% of China's GDP, as reported by the *Financial Times*.

High frequency indicators continue to confirm the weakness in the economy. The November Manufacturing Purchasing Manager's Index, a measure for economic activities, fell to 48 in November (a reading below 50 signals contraction). The services index signalled even more gloom, at 46.7 according to the National Bureau of Statistics.

It is the young that are particularly frustrated, as they are most hit by the impact of COVID measures on the economy. Youth unemployment peaked at almost 20% some months ago, and major companies, in particular consumer tech companies and e-commerce, are not hiring after the regulatory crackdown of the past years. Meanwhile, government policies continue to support infrastructure and manufacturing, while providing only modest support for consumption.

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The labour-intensive services sector has been hurting in particular. This includes many mom-and-pop shops and restaurants that provide jobs for especially migrants. With time, it also includes high value property, finance and consumer tech—sectors in which previously the rapidly rising number of university graduates found their jobs.

The class of 2022 graduates enter a very different economy, with growth reaching barely three per cent this year according to the International Monetary Fund, well below potential growth, a dive from the 6-7 per cent before the pandemic.

### REVAMPING GROWTH REQUIRES REVISING COVID POLICIES

There is little doubt that China's security apparatus can manage the current level of protests, and thus far they have shown restraint. This may change if the protests were to spread further; however, controlling the unrest will not take away the frustration, nor revamp economic growth.

Revamping growth will require more consumption. China's recovery after the first wave of COVID relied disproportionately on exports of manufactured goods and on infrastructure. Now, the world economy is cooling and local governments are wary of investing more, as the property downturn is squeezing their revenues.

In the short term, this means restoring consumer confidence, which has hit an all-time low amidst COVID measures. To restore it, recalibrating COVID policies is key.

China's authorities will need to decide whether they are ready to move faster on COVID. Shifting towards a "living with COVID" policy would do wonders for confidence, but is probably still a bridge too far at this point.

However, significant changes are feasible within the context of zero COVID. Indeed, the 20 points plan was a step towards more flexibility. Further policy calibration can still aim for "Dynamic Zero COVID", but priorities will need to change.

The first priority is vaccination. Overall vaccination rates in China are well over 90%, but vaccinating the elderly, most prone to severe COVID and death, is still substandard. The number of fully (triple) vaccinated elderly over 60 years of age has been creeping up only slowly, from 65% to 67% in the past three months—too low to safely open.

Oddly, for a country with China's governance, previous attempts to *mandate* vaccines were reversed. Beijing tried in July this year to demand for full vaccination for access to public places such as shops and restaurants, a requirement implemented in Singapore and other countries, with great success. Beijing, however, dropped the policy after two days.

Shanghai did better after its brutal lockdown earlier in the year. According to [Liqian Ren](#), a market analyst, Shanghai implemented a vaccination drive that increased vaccination rate for 60yr+ from about 60% to 90%. Still, for the 80yr+ rate of ~65% is as much as it could get without vaccine mandate. It did try a few times to mandate vaccination, but without much success.

Some have argued that the PCR testing industry has effectively lobbied against opening up; however, even if this is ever true, these interests are certainly changing as many local governments are no longer willing to pay their bills!

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Others say that the Chinese vaccines are less effective, but [research](#) suggests that three shots of Sinovac are as effective as mRNA vaccines. Regrettably, China may be a victim of its past success, as many elderly see little need for vaccination with “zero COVID” being heralded as the result of superior Chinese governance. Perhaps the rising number of cases (40,000 nationally at the time of writing) may inspire the elderly to seek vaccination.

Interestingly, the aforementioned 29 November press conference focused on vaccination, aside from implementing the 20 measures programme more thoroughly.

A second is to reconsider the policy of isolating COVID cases in special facilities. Countries such as Singapore phased out isolation early on as home isolation was seen to be as effective, much less disruptive for the individual, and far less of a burden for the health system. Guangdong province took the lead in announcing changes to local COVID policy, allowing some close contacts of COVID cases to quarantine at home rather than in state facilities.

A third is a shift of resources away from testing and containment towards vaccination and support for those in home isolation. Performative policies such as testing fish and clams on the market, and walling off buildings and streets have no scientific basis, and the people engaged in this can be much better employed elsewhere, including for vaccination, and for supporting people in home isolation.

## COMMUNICATIONS IS KEY

A final, and perhaps most important change, is a change in communication. First, local leaders should be clear on whether the tolerance level of the centre is within the context of new policies, notwithstanding which they will simply revert to lockdowns and restrictions to protect their career.

Communication to China’s citizens is as important, not least to signal a perspective for a better future, once a more flexible policy is showing success. Communication on reduced risk from new variants and the urgent need for vaccination remain critical, as is the message to stay home with minor symptoms, rather than clogging up the health system.

The message seems, indeed, to be turning. Vice-Premier Sun Chunlan, who has played a prominent role in COVID policies including the lockdown of Shanghai, on 30 November appeared in a public [discussion](#) with health experts. Her message differed from the past: “With the weakening of the pathogenicity of Omicron virus, the popularization of vaccination and the accumulation of prevention and control experience, China is facing a new situation and new tasks in epidemic prevention and control”.

In some provinces, the message has already changed. In Zhejiang, the province Xi Jinping headed for five years, the provincial propaganda WeChat account said “people first is not COVID control first”. And in Guangzhou, a major city in the southern province of Guangdong, the authorities announced on 30 November that they would shift policies to less PCR tests, more home quarantine and more elderly vaccination. These local shifts are no exit from zero COVID yet, but certainly is an easing out of it. As Michael Hirson from 22VRresearch, a research firm, put it: “China’s strategy is shifting from Zero-COVID to Very Low COVID”.

China has the state capacity to pursue this alternative path. It requires political skills to pull it off, though, and a tolerance for more COVID casualties to save the economy. The protests may

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well be the nudge the authorities needed, as they suggest that China has the choice between an orderly and a disorderly exit from Zero COVID.

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