

COVID update: Maintaining the rhetoric while loosening at the margins

Although COVID case counts continue to be elevated in China, local containment measures have become less draconian since the end of the Shanghai lockdown in June.

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Key takeaways

- A series of policy announcements over the past two months paint a picture of an evolving zero-COVID policy regime. Easing is only happening at the margins, but harsh city-wide lockdowns seem less likely.
- The leadership continues to rigorously espouse a zero-tolerance approach to COVID containment, and Xi Jinping has not relented in his support of zero-COVID, but there is now political space for more nuance in how local governments pursue the objective.
- This shift has come about thanks to an explicit acknowledgment by the top leaders that previous zero-COVID policies had hurt the economy. Until recently, discussing the tradeoff between COVID control and economic activity was taboo. Now that the tradeoff is out in the open, decision-makers are subtly trying to find a balance.
- That said, any policy loosening can and will be snapped back at a moment's notice if a local outbreak gets out of control.
- Further significant changes to the overall COVID policy framework are extremely unlikely until the leadership is well clear of the 20th Party Congress this fall.

Easing off the breaks a little

China's COVID containment challenges have not gone away. After the high-profile outbreaks in Shanghai and Beijing peaked and then stabilized in May and June, case counts in China spiked again in July. Thousands of new infections have emerged across dozens of localities, and the highly contagious Omicron BA.5 subvariant has been spreading.

Nonetheless, China's zero-COVID policy appears to be getting a slight makeover.

While the overarching and inflexible political goal of zero tolerance remains in place, the routes localities can take to achieve this appear to be expanding and loosening a bit. Despite the currently elevated case counts, the risk of debilitating city-wide lockdowns is slightly less than earlier this year. China is by no means relaxing its overall stance on pandemic prevention, but we are cautiously optimistic that future outbreaks will incite less severe and less economically disruptive countermeasures – at least up to a point.

Central and local government bodies slow-dripped a series of announcements across June and July, painting a picture of a policy in evolution.

Significant changes include shortened quarantine times for both international arrivals and close contacts of COVID-19 cases:

- Quarantine times for overseas arrivals and domestic close contacts have been reduced from 14 days of centralized quarantine and seven days of at-home monitoring to seven and three days, respectively
- Control measures for secondary contacts have been reduced from seven days of centralized quarantine to seven days at home
- Additionally, the Ministry of Industry and Information technology (MIIT) cut down the traceable travel history in its digital travel pass system from 14 to seven days
- Beijing has relaxed restrictions on domestic inbound travel to the municipality – previously, people could not travel to Beijing from an area that had reported a COVID case in the previous 14 days; that threshold has been lowered to seven days
- Xi'an, where the first BA.5 Omicron subvariant cases were discovered in China, only imposed a seven-day soft lockdown to contain an outbreak, without confining people to their homes. Dine-in services resumed just five days in
- Starting in June, the State Council's Joint Prevention and Control Mechanism began naming and shaming local governments for overreacting to COVID risks, especially when their containment measures slowed logistics
- On July 8, the Civil Aviation Administration (CAAC) officials announced that nasal samples from inbound international passengers would no longer be collected, and it canceled onboard COVID-19 inspections for "low-risk" flights
- That same day, customs officials announced they would no longer collect blood samples from inbound passengers

Another indirect policy relaxation occurred earlier this summer, too, when the central government announced that regular COVID testing costs would be covered by local budgets (the central government still covers the costs when testing is ramped up during a significant outbreak). Many cash-strapped localities have dramatically scaled down testing frequency and mandates since.

Reading between the lines of COVID control rhetoric

If you only scanned the headlines, you'd think Xi Jinping and co haven't budged on their approach to zero-COVID. For example, earlier this summer on an inspection tour to Wuhan – the epicenter of the initial COVID outbreak that sparked the global pandemic – Xi stated that:

“We would rather temporarily affect economic development, to not harm the lives and health of the people, [and] especially to properly protect the elderly and children”

“Overall, our prevention measures are the most economical and effective”

In other words, the draconian measures the world witnessed in H1 2022 and the resultant heavy hit to the economy were necessary and justified, at least according to China's leader. Therefore, Xi seemed to say, officials should not hesitate to shut the economy down again if another large-scale outbreak hits.

Furthermore, at the quarterly Politburo meeting on the economy in July, the Party's senior-most 25 members made it clear to local officials that the political considerations around COVID control should trump economic calculations. The Politburo told officials at all levels to view the tradeoff between economic development and COVID control “from a political angle, and make a political calculation.”

At the same time, Party leaders at the meeting encouraged fellow cadres to overlook the short-term effects of COVID lockdowns and instead:

“View the relationship between epidemic prevention and control and socio-economic development holistically, systematically, and from a long-term perspective”

“When an outbreak occurs, we must immediately and strictly prevent and control it”

These announcements did not seem to bode well for a relaxation in COVID control policies. However, the phrasing actually represented a significant shift. For the first time, we heard an explicit – and public – acknowledgment by officials that COVID controls have hurt economic growth. While that is obvious to most observers, the fact that these admissions came from the most authoritative voices in China's Party-state apparatus was striking.

Despite the call for prioritizing COVID control over economic growth, Xi's acknowledgment that a tradeoff does indeed exist between the

two provided political cover for technocrats to adjust COVID control measures at the margins. Since then, governments at all levels have been tweaking their zero-COVID strategies to make them more sensible.

Before this shift, Chinese authorities had long argued that maintaining the zero-COVID policy was a pre-condition for sustainable and robust economic performance – not a tradeoff. After Xi's statement, however, the messaging quickly shifted. Explaining a policy change aimed at removing certain local COVID-related travel restrictions, the Chinese Center for Disease Control and Prevention's chief epidemiologist, Wu Zunyou, said outright the adjustment was intended to free up the movement of people and stabilize the economy.

Following the science as well

Another reason China's COVID policies are evolving is that scientific evidence shows that the new BA.5 subvariant typically has a shorter incubation period than previous COVID-19 variants and so requires less time to detect. Shorter quarantine periods are therefore now justifiable from a technical standpoint. These types of policy changes represent incremental steps toward a more sensible COVID approach.

Additionally, by separating border policies from domestic zero-COVID policy, authorities are perhaps heeding calls by foreign corporations, associations, and governments to adopt a more reasonable approach to international business travel restrictions. We believe border controls could be further eased throughout the remaining months of 2022. However, any loosening will likely be trialed on a pilot basis, just as shortened quarantines for inbound travelers were tested in seven cities for more than a month before the nationwide rollout.

Despite these encouraging adjustments, companies should remain prepared for COVID-related lockdowns and other restrictions to disrupt business operations, supply chains, and executive travel for the remainder of the year. COVID restrictions are still only easing on the margins, and harsher lockdowns could quickly return if localities fail to implement the looser controls effectively.

Policymakers and technocrats can tactically adjust the zero-COVID playbook, but a strategic shift in the zero-COVID policy would require a political decision from the top. And the fact remains that China's leadership will not tolerate the uncertainties associated with abandoning the zero-COVID policy until they are well past the 20th Party Congress – likely to occur in late October.