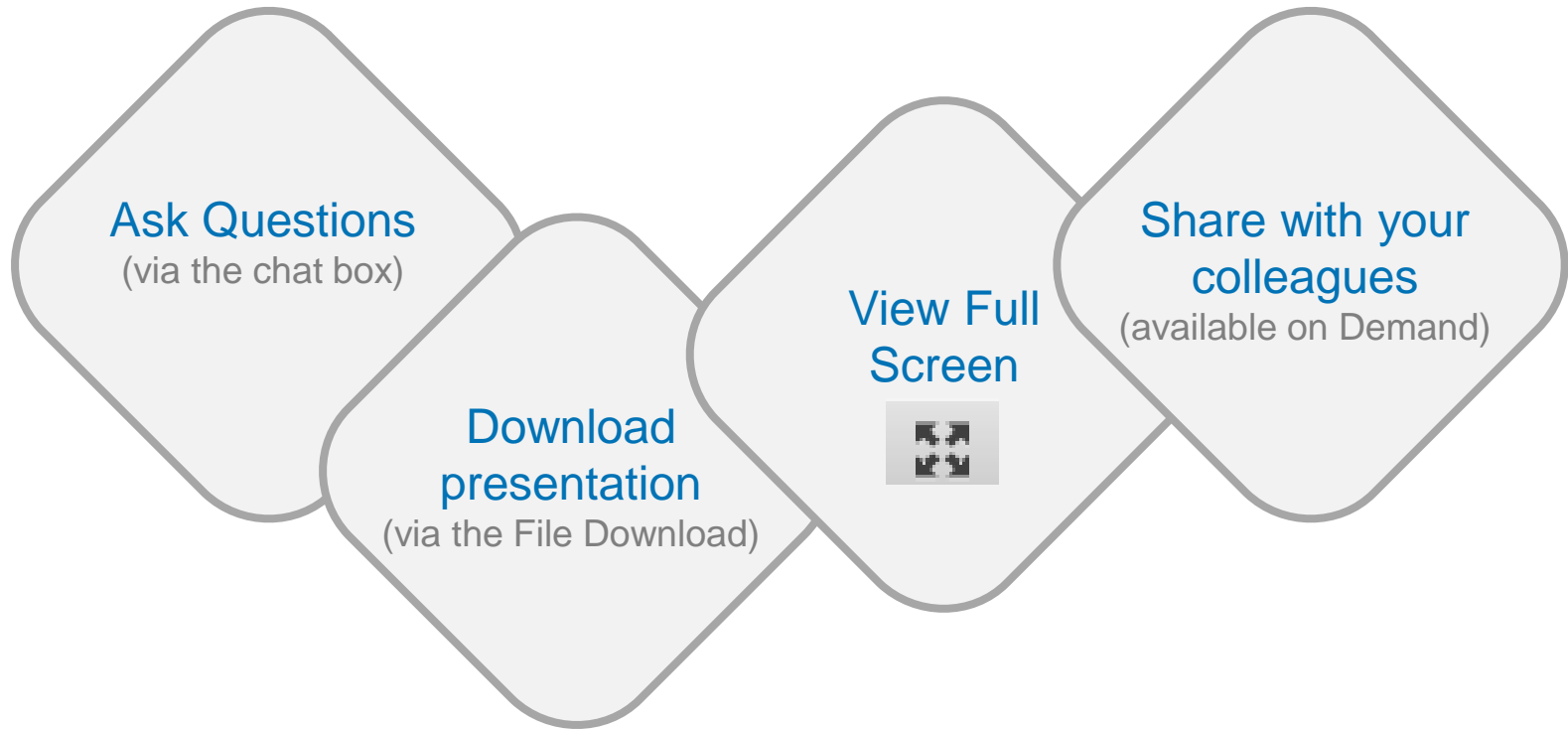


# China's "Zero COVID" Policy Stance – How Will it Evolve and How long Will it Last?

Special Webcast  
Thursday, April 7, 2022



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# China's "Zero COVID" Policy Stance - How Will it Evolve and How long Will it Last?

- China's Zero COVID policy is bearing increasing downside pressure on the Chinese economy and on the business environment. Economically, Zero COVID is undermining Chinese consumption and employment growth – two critical drivers of the China opportunity set.

## **When will China relax its “Zero COVID” policy and ease related travel restrictions? What guideposts should MNC executives be monitoring for policy cues?**

- Today we will explore the political and economic factors shaping these two key questions for multinational companies operating in China.

Focal questions for today include:

- ✓ How will Zero COVID impact talent mobility for MNC business in China?
- ✓ What guideposts should MNC executives be monitoring for policy cues?
- ✓ What are the most likely exit route for China from Zero COVID?
- ✓ What are the key challenges and issues that foreign companies in China are facing now?



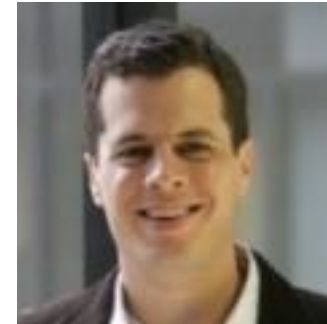
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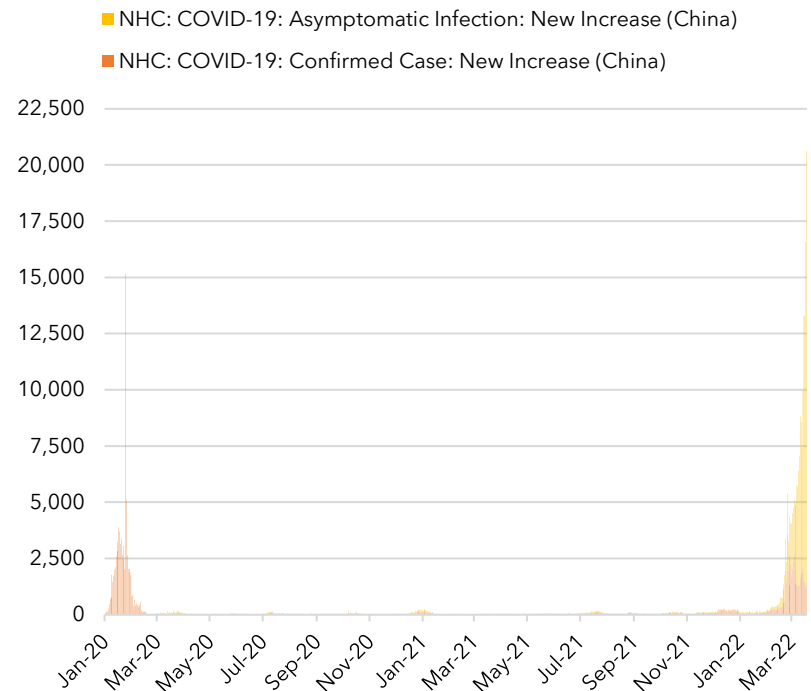


# Until recently, China has been very successful in physically containing COVID via its “Zero COVID” policy

## Key enablers include:

- ✓ Strict top-down policy directives reportedly driven from “the very top”
- ✓ Broad neighborhood-level mobilization
- ✓ High vaccination rates initially
- ✓ Strict mobility controls
- ✓ Strict tracking, tracing, and testing
- ✓ Strict lockdowns
- ✓ Broad societal support and compliance
- ✓ Strict border controls and mandated quarantines for travelers

## COVID cases and deaths in China have been minimal in comparison to most other places...



Sources: National Health Commission, CEIC, The Conference Board



# But the initial benefits of Zero COVID are being offset by increasingly visible costs

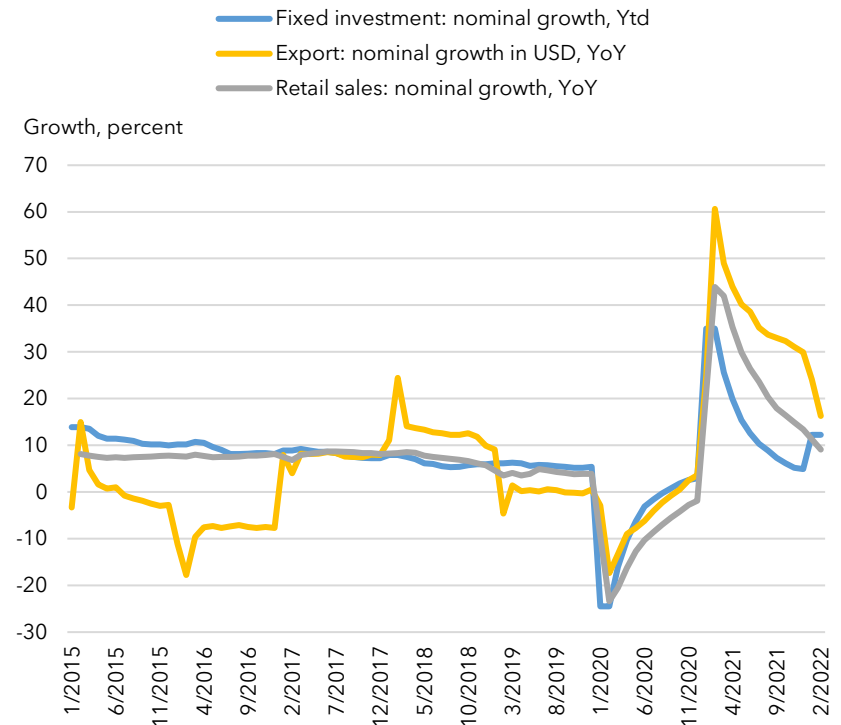
## Benefits:

- Comparatively strong industrial production and export performance
- Quick return to normal-like public and commercial life
- Low public health impacts and costs

## Costs:

- Negative impacts on SMEs and related employment creation
- Retail disruptions; persistently weak consumption growth.
- Talent and management immobility impacts on FDI

Chinese growth is slowing across the board.  
Economic stresses are increasingly pronounced...



Sources: NBS, General Administration of Customs, The Conference board



# Zero COVID impacts on the foreign business community are significant

- Travel and transport disruptions have forced more localized, less coupled China operations.
- General management immobility has created HQ-China alignment challenges.
- Talent immobility has created myriad HR challenges. Needed global expertise pools have become inaccessible.
- Low visibility on future policy environment has postponed investment.
- It is one of several factors undermining MNC investment sentiment on China – trade and geopolitical tensions, Ukraine positioning, growth slowdown...

## AmCham Shanghai and AmCham China Joint Survey on Recent COVID-19 Business Impacts – April 1, 2022

- ✓ 99% negatively impacted by recent shutdowns.
- ✓ 82% of manufacturers report slowed or reduced production.
- ✓ 86% of manufacturers report supply chains had been disrupted.
- ✓ 54% of respondents have decreased 2022 revenue projections
- ✓ 29% have delayed investments. 17% have decreased investment.
- ✓ If China's current COVID 19 restrictions remain in place for the next year, 49% of companies will reduce investment.

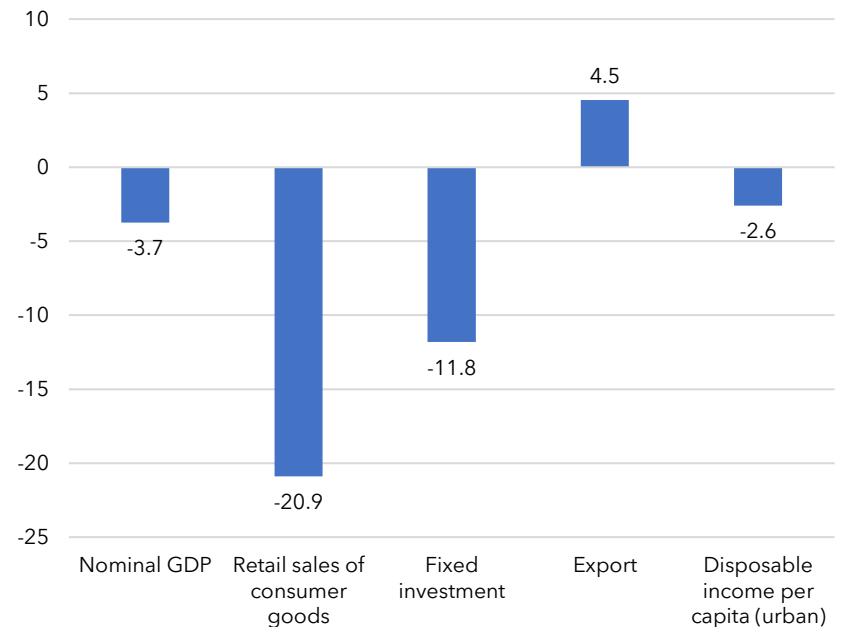


# The current Omicron outbreak raises many important questions

- How at risk is the Chinese public?
  - Chinese vaccine efficacy (Sinovac, Sinopharm)
  - Elderly vaccination levels
  - Natural immunity levels
  - Healthcare system capacity
  - Status of Chinese mRNA vaccine development
  - Virulence/morbidity of new Omicron sub-type
- Will China impose similar lockdowns as in Q1 2020?
- Will China pivot on its vaccine strategy?

Q12020 outcomes suggest what's in store if the lockdown route is pursued...

Wuhan: 2020 vs. 2019

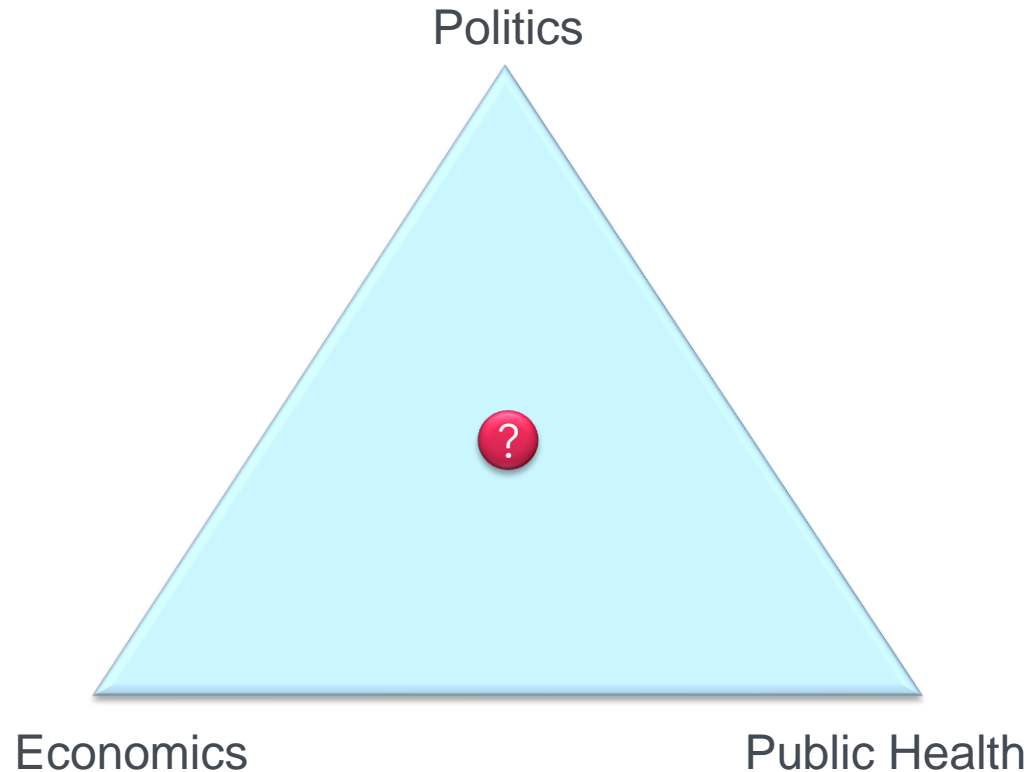


Sources: NBS, CEIC, The Conference Board





# When and how are Zero COVID containment measures likely to be relaxed?



# Key Considerations

- China's political narrative on Zero COVID success is highly cultivated and deeply entrenched.
- China's public health system is comparatively poorly suited to managing a prolonged, large-scale surge.
- The impacts of "Partial COVID" existence are well known. Therefore, the risks of relaxing Zero COVID are highly probable:
  - ✓ Fast moving and high infection and illness rates, and possibly high death rates
  - ✓ Public health system overload and resultant public dissatisfaction
  - ✓ Significant economic losses due to precautionary commercial behavior, worker illness, and regional supply disruptions (India -7.3% in 2021)
- The risks of relaxing Zero COVID are primarily sociopolitical and domestic in nature.
- The risks of maintaining Zero COVID are primarily economic and internationally facing in nature ... and also slower moving, longer-term and arguably lower probability.



# Risks of RELAXING the Zero COVID policy

**Massive surge in COVID infections, illness, and deaths** (by law of large numbers) and significant, short-term economic damage.

Second order potentialities:

- Widespread public dissatisfaction with Party leadership
- Destabilizing loss of public trust in Party credibility

**Risk of exposing the inefficacy of Chinese vaccines.**

Second order potentialities:

- Widespread public dissatisfaction with Party leadership
- Destabilizing loss of public trust in Party credibility

**Risk of exposing acute inadequacy of public health services.**

Second order potentialities:

- Widespread public dissatisfaction with local governments
- Local activism and social unrest

**Risk of short-lived but massive blow to physical retail sector** with widespread commercial disruptions and associated economic damage.

Second order potentialities:

- A compounding of current real estate sector weakness, potentially to the point of financial crisis
- Another months-long blow to small-and-medium-sized consumer businesses that puts many out of business



# Risks of MAINTAINING the Zero COVID policy

**Long-lasting economic underperformance and long-term competitiveness loss** versus more open, less restricted economic competitors.

Second order potentialities:

- Weak growth across the board and associated public welfare decline: income, opportunity, public services,...
- Income stagnation that eventually leads to public dissatisfaction

**Risk of talent flight, both expats and globally aspirational local talent.**

Second order potentialities:

- Reduced innovation capacity
- Reduced economic competitiveness

**Risk of reduced foreign investment and associated loss of its long-term benefits** – technology transfer, HR upskilling, industrial ecosystem upgrading, etc.

Second order potentialities:

- Reduced innovation capacity
- Ecosystem capability gaps

**Risk of elevating comparative attractiveness of alternative supply chain and product development locations to China.**

Second order potentialities:

- Diminishment of China as a supply base
- Reduction of FDI flows to China



# Political risk considerations point to China maintaining its Zero COVID policy indefinitely

Business should prepare for a long-haul management challenge...

The Zero COVID policy isn't likely to be relaxed or changed until early 2023...

- The political risks for the Party of public health system failure and political narrative collapse are extremely high.
- With the National Party Congress coming up in Fall, it's already a very sensitive time politically.
- Stability matters more than anything else to the government right now.
- Maintaining Zero COVID is the most stable course of action for now.

## Key Guideposts to Monitor

- Case counts
  - Locational precision of dynamic zero case targeting method
  - Morbidity level of new Omicron sub-variant
  - Progress in Sinovac/Sinopharm boosting and uptake by the elderly
  - Change in vaccine procurement policy
  - Therapeutic procurement policy
  - Progress in indigenous mRNA vaccine development
  - Progress in quarantine facility constructing
- 
- Post NPC political and economic stability conditions



# Cautiously, but authentically, continue China-for-China organizational development with full HQ-China Co consensus on balancing benefits and risks

## Key Sources of HQ-China Misalignment...

- ✓ Differing Risk Assessment
- ✓ Different Opportunity Evaluation Calculations
- ✓ Divergence, Autonomy and Control Concerns

**1. Proactively trust-build to enable requisite communications**

**2. Establish a shared "long view" on China**

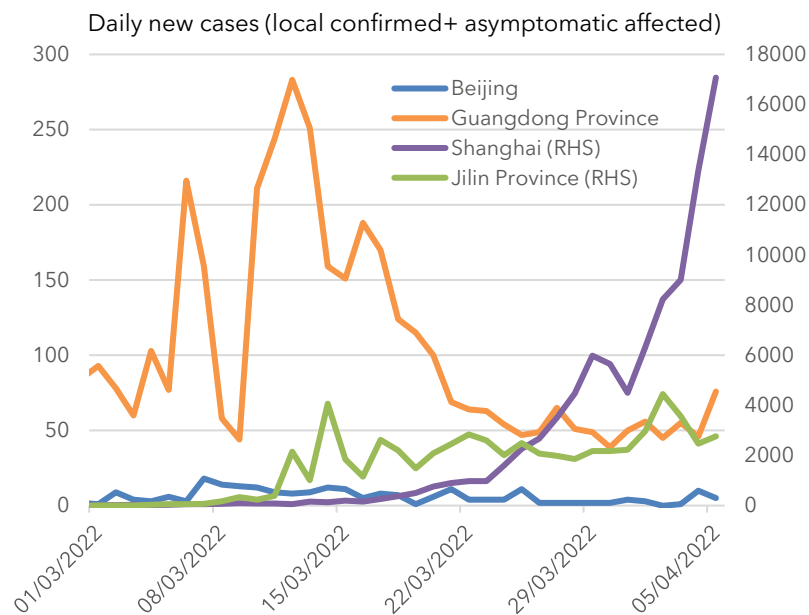
**3. Commit to a higher level of risk monitoring and cross border, cross functional coordination**



# Annex: Current COVID surge and response status

Inconsistency, disorganization, and apparent unpreparedness at the local levels is a surprise to many...

## Recent outbreaks...



Sources: National Health Commission, CEIC, The Conference Board

<b>Shanghai</b>	<ul style="list-style-type: none"> <li>Staggered, 4-day lockdowns began March 28 for city-wide testing have been extended indefinitely</li> </ul>
<b>Shenzhen (Guangdong Province)</b>	<ul style="list-style-type: none"> <li>Locked-down for one week from March 14th and reopened on March 21st with most businesses and factories back to work now</li> <li>No local new case since April from a peak of nearly 100 per day in mid March</li> </ul>
<b>Jilin Province</b>	<ul style="list-style-type: none"> <li>Sealed under lockdown and travel restrictions since March 14</li> <li>Infections peaked in mid March at 3000+ per day with clusters in the provincial capital Changchun and the city of Jilin</li> </ul>
<b>Beijing</b>	<ul style="list-style-type: none"> <li>Never implemented full lockdown but have mobility restrictions in certain areas/districts where COVID cases are found</li> <li>Fewer than 10 new cases per day since March</li> </ul>



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Upcoming webcast:

## **US- and EU-China Futures for 2022 and Beyond**

April 20, 2022, 09:00 AM CET [09:00] (Brussels), 03:00 PM SGT [15:00] (Singapore)



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