# CHINA ECONOMIC UPDATE FEBRUARY 2022

Dynamic clearing – shifting the message rather than broad policy towards COVID-19

NAB Group Economics

Since the start of the COVID-19 pandemic, China has adopted one of the most stringent approaches to managing outbreaks – implementing mass testing and strict lockdowns to effectively eliminate instances of the virus. This approach has generally been described as "zero COVID". However, official messaging started to change in recent months, with the policy response now described as "dynamic clearing". Some observers anticipated a substantial shift in China's policy response to COVID-19 outbreaks – more akin to those in advanced economies – however we argue that any changes are likely to be subtle, with China currently unable to be as open.

## HOW CHINA MANAGED EARLY OUTBREAKS

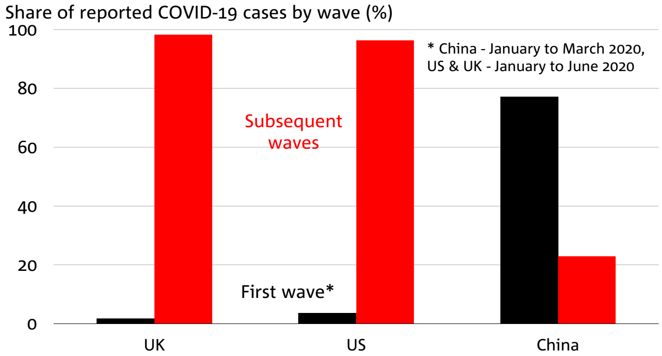
Chinese authorities had effectively controlled the initial wave of the COVID-19 pandemic by April 2020 via a range of public health policies, including strict lockdowns, rigorous contact tracing and mass testing of the public in affected areas, followed by quarantining of positive cases. In addition, transport shutdowns reduced the potential for outbreaks to spread to other population centres.

The success in controlling domestic transmission meant that subsequent COVID-19 outbreaks have been linked to international arrivals. International travel to China has been tightly restricted, with the limited number of foreign arrivals being forced to quarantine for between 14 and 21 days. When compared with the experience of other countries, these measures were relatively effective in controlling the spread of COVID-19 domestically – although outbreaks have been linked to port facilities and airports. This has meant that China has had a very different profile for cases when compared with advanced economies. Official data reported over 82000 COVID-19 cases between 20 January 2020 and 31 March 2020, followed by over 23000 cases from 1 April 2020 through to late January.

It is worth noting that lockdowns in China have come at considerable economic cost – disrupting production and distribution of goods and services both domestically and internationally, contributing to the supply chain disruptions that continue to impact global markets.

## COVID-19 WAVES BY COUNTRY

**China's public health responses have limited the scale of later COVID-19 waves**




Source: Our World in Data, NAB Economics

## RECENT RESPONSES TO OUTBREAKS

Chinese authorities changed the description of public health responses in August 2021, during a Delta variant outbreak in Nanjing – moving away from "zero COVID" to "dynamic clearing". Over time, officials have provided greater clarity around this policy shift – noting that it was impossible to prevent local transmission of COVID-19 and that they would attempt to quickly eliminate outbreaks as they emerge to prevent the virus from spreading across the country. Responsibility for managing outbreaks has also shifted, from central to local authorities – which risks less coordinated responses to future COVID-19 events.

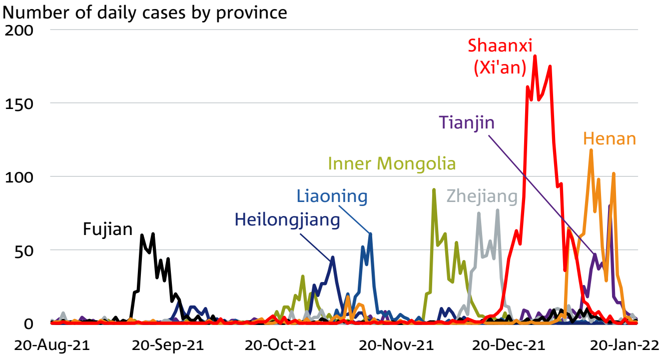
Date **February 2022** | Author **Gerard Burg** – Senior Economist – International

In late December, authorities implemented a major lockdown in Xi'an, following an outbreak of the Delta variant. According to reports, these measures were the most stringent response since the initial outbreak in Wuhan. Xi'an – the capital of Shaanxi province – has a population of around 13 million people, however, as an inland province, its industrial base has a lower export focus (beyond some semi-conductor production) than coastal provinces. After lower risk parts of the city were reopened over time, the lockdown was lifted near the end of January 2022.

The first substantial Omicron outbreak emerged in Tianjin in early January – home to the largest port in Northern China and closest major port to Beijing. Initial reports suggested that authorities implemented a partial lockdown – less severe than that introduced in Xi'an – closing schools, restricting gatherings and travel (including preventing residents from leaving the city) and locking higher risk localities. Subsequently, cases of the Omicron variant have been detected in seven provinces – including Beijing.

## RECENT COVID-19 OUTBREAKS

### Scale of outbreaks has risen with more transmissible variants




Source: CEIC, NAB Economics

This has led to some restrictions being imposed in Beijing ahead of the 2022 Winter Olympics (which commences on 5 February). The games are operating under a "closed loop" system – which is isolating athletes and officials from Beijing's wider population. Spectators at events will be limited – with no general public ticket sales being available. These measures will likely reduce, though not eliminate, the risk of Omicron spread related to the Olympics.

## IS CHINA CHANGING THE WAY IT RESPONDS TO OUTBREAKS?

Since the Omicron outbreak in Tianjin, foreign observers have increasingly questioned the sustainability of a zero COVID policy in China – particularly given the greater transmissibility of the Omicron variant. In earlier waves of COVID-19, speed was critical in bringing outbreaks under control – in identifying and quarantining active cases before they were able to spread the virus more widely. However, Omicron was able to spread outside Tianjin before the initial cases were identified – highlighting that it will be much more difficult to contain.

In addition, the risk of breakthrough infections among the vaccinated population appears significantly higher with Omicron. Over 85% of China's population has received two COVID-19 vaccinations, however the vast majority of these doses were domestically developed vaccines that have lower efficacy than mRNA vaccines developed elsewhere. According to a report from Caixin, of the 107 cases of Omicron detected in Tianjin on January 12, 103 of those had received at least two doses, including 32 who had received a booster.

The limited protection provided by current vaccines means that China is unlikely to shift away from its current approach. A study from late 2021, conducted by mathematicians from Peking University and published by the Chinese Centre for Disease Control and Prevention, suggests that China cannot afford public health settings adopted in most advanced economies. The study suggested that adopting the UK's settings as of August 2021 would result in around 275 000 COVID-19 cases a day, while using the US's settings would produce more than 630 000 cases a day – far in excess of the total cases China has reported since the start of the pandemic. Given the weaker vaccine protection, this would quickly overwhelm China's healthcare system.

## CONCLUSIONS

Rather than representing a substantial shift in policy, we argue that the change in language from "zero COVID" to "dynamic clearing" represents a subtle shift, preparing the population to accept that further outbreaks will occur and may persist longer than was the case with initial waves. Until more effective vaccinations are widespread across China, weak protection against infection means that it is likely that lockdowns will form a key part of China's COVID-19 policy response. This suggests that supply chain disruptions from these measures remain a risk in 2022.

## CONTACT THE AUTHOR

Gerard Burg

Senior Economist – International

Gerard.Burg@nab.com.au

+61 477 723 768

# Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Economics
+(61 0) 457 517 342

**Australian Economics and Commodities**

Gareth Spence
Senior Economist – Australia
+(61 0) 436 606 175

Brody Viney
Senior Economist
+(61 0) 452 673 400

Phin Ziebell
Senior Economist – Agribusiness
+(61 0) 475 940 662

**Behavioural & Industry Economics**

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Steven Wu
Economist – Behavioural & Industry Economics
+(61 0) 472 808 952

**International Economics**

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

# Global Markets Research

Ivan Colhoun
Global Head of Research
+(61 2) 9237 1836

## Important Notice