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China's Faltering "Zero COVID" Policy:

Politics in Command, Economy in Reverse

By Jeremy Mark and Michael Schuman

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Cover: A worker in a protective suit stands behind barriers sealing off a residential area under lockdown, following the coronavirus disease (COVID-19) outbreak in Shanghai, China March 29, 2022. REUTERS/Aly Song

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The Atlantic Council's **Global China Hub** researches and devises allied solutions to three of the greatest challenges posed by China's rise: 1) China's growing influence on countries, global institutions, and democratic values; 2) the global ramifications of political and economic change in Xi Jinping's China; and 3) China's drive to dominate emerging technologies and consequences for individual rights and privacy.

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Introduction

After COVID-19 emerged in Wuhan two years ago, it spread rapidly around the world, infecting hundreds of millions and taking over six million lives.[1] After subduing the initial outbreak, China shut its door to the pandemic by imposing a strict regime of residential lockdowns and business shutdowns, quarantines, mass testing, and stringent border controls.

The response—which Beijing calls "dynamic clearing" (动态清零),[2] but is widely known as zero COVID—succeeded in keeping the virus at bay for nearly two years. It is a policy that Chinese president Xi Jinping and his minions have used to fortify China's aspirations to global leadership and to solidify Xi's unchallenged political position atop the Chinese Communist Party. The policy's initial effectiveness—after the initial Wuhan outbreak killed several thousand Chinese citizens[3]—provided a wellspring of propaganda for Beijing to declare the superiority of its policies and political system as competitors, most notably the United States, struggled at times to contain the disease.

Yet the emergence of highly infectious coronavirus variants—first Delta beginning in late 2021, and then Omicron in March and April—has strained the zero-COVID policy past the breaking point. Outbreaks spread across the nation in March, leading local governments to impose lockdowns affecting the twenty-five million inhabitants of Shanghai, the economic powerhouse of Shenzhen, and provinces from Hainan in the south to Jilin in the northeast.[4]

The outbreaks have raised the very real possibility that the zero-focused approach can no longer contain the pandemic. There are even reports that a new, homegrown strain of Omicron has emerged.[5]

The rationale for the zero-COVID policy was anchored, in part, in the reality of China's ill-equipped public health system. The country has 2.7 nurses per one thousand people, well below the average of 11.5 in the advanced economies, and only 4.4 intensive care beds per one hundred thousand people versus 25.8 in the United States and 33.9 in

1 "WHO Coronavirus (COVID-19) Dashboard," World Health Organization (website), https://covid19.who.int.

2 State Council of the Peoples Republic of China (PRC) "动态清零" 和 "零感染" 有何不同——国务院联防联控机制发布会针对疫情防控社会关注答疑解惑 ("What Is the Difference between 'Dynamic Clearing' and 'Zero Infection'—Press Conference of the Joint Prevention and Control Mechanism of the State Council Answers Questions and Answers for Social Concerns About Epidemic Prevention and Control"), December 12, 2021, http://www.gov.cn/xinwen/2021-12/12/content_5660202.htm.

3 State Council, "What Is the Difference"; "Covid-19 Deaths in Wuhan Seem Far Higher than the Official Account," *Economist*, May 30, 2021, https://www.economist.com/graphic-detail/2021/05/30/covid-19-deaths-in-wuhan-seem-far-higher-than-the-official-count.

4 For Delta outbreaks, see Shuli Ren, "Covid Zero in China Is a Fantasy. It's Now All about 'Dynamic Clearing,' " Bloomberg, January 11, 2022, https://www.bloomberg.com/opinion/articles/2022-01-11/covid-zero-is-no-longer-a-real-goal-in-china-it-s-time-for-dynamic-clearing?sref=E0nAM78N; Alexandra Stevenson, "China's Lockdown Shows Stubborn Resolve on Zero-Covid," *New York Times*, January 6, 2022, https://www.nytimes.com/2022/01/06/world/asia/china-xian-lockdown-covid.html; for March 2022 outbreaks, see "China's Covid Lockdowns Could Threaten Half of Economy," Bloomberg, March 14, 2022, https://www.bloomberg.com/news/articles/2022-03-14/china-s-covid-lockdowns-could-threaten-half-of-economy?sref=E0nAM78N; and "Entire Shanghai Placed under Lockdown, " Bloomberg, April 1, 2022, https://www.bloomberg.com/news/articles/2022-04-02/entire-shanghai-placed-under-lockdown-as-covid-cases-surge?sref=E0nAM78N.

5 "China Finds New Virus Subtype as Daily Cases Exceed 13,000," Bloomberg, April 2, 2022, https://www.bloomberg.com/news/articles/2022-04-03/china-adds-over-13-000-covid-cases-as-shanghai-outbreak-widens?sref=E0nAM78N.

Germany.[6] By early January 2022, nearly 2.9 billion doses of Chinese-produced COVID-19 vaccines had been given to the country's 1.4 billion people, and another 1.41 billion doses sold or donated abroad as of March 21, 2022.[7] Yet those vaccines, based on an inactive form of the virus, have become generally less effective as the COVID-19 virus has evolved. Tests have showed that the two Chinese vaccines offered only limited protection against variants.[8]

So far, Beijing has resisted making use of the foreign-made mRNA vaccines that have proven so effective. Instead, it has pinned its hopes on developing China's own version of the shots—a biomedical achievement that has proved difficult to replicate.[9]

Nonetheless, the zero-COVID policy allowed China to return to normal life for many months. It enabled China's export machine to emerge from the nationwide shutdowns of early 2020 and shift into high gear to meet global demand for masks, mobile devices, and other stay-at-home products. Chinese factories helped power nearly 8 percent gross domestic product (GDP) growth in 2021, another achievement that Beijing has trumpeted as exemplifying China's superior governance.

At the same time, China faced contagion of a different sort—a spreading economic slowdown that the export boom could not offset. Zero COVID has had a deep impact across various sectors of the economy—especially the entertainment, restaurant, tourism, and other service industries that represent the country's largest share of employment. At the same time, this slowdown is exacerbating the deepening problems of China's all-important property and construction sectors. Moreover, the widening shutdowns have produced new worries about "new bottlenecks in global supply chains," as the International Monetary Fund (IMF) highlighted in its April 2022 World Economic Outlook.[10]

Now the pandemic's reemergence threatens to deal a new blow to the economy that could combine with what appears to be the growing frustration of many Chinese with unrelenting lockdowns and other disruptions to daily life. This could undermine the narrative of China's superiority in responding to the pandemic—and the image and stature of Xi's rule.

6 For number of nurses in China, see David Fickling and Anjani Trivedi, "Supply Chain Snarls May Be Here to Stay, Too," Bloomberg Opinion, January 13, 2022, https://www.bloomberg.com/opinion/articles/2022-01-13/omicron-may-be-about-to-finally-give-us-a-supply-chain-crisis-as-it-hits-china?sref=E0nAM78N; and for hospital beds, see Robin Xing, Jenny Zheng, Zhipeng Cai, and Helen Lai, "Omicron in China: Impact and Policy Implications," Morgan Stanley, January 9, 2022.

7 For doses in China, see National Health Commission of PRC, "Nearly 2.9b COVID-19 Doses Administered on Chinese Mainland," via Xinhua News Agency, January 11, 2022, http://en.nhc.gov.cn/2022-01/11/c_85571.htm; and for doses sold or donated abroad, see "China COVID-19 Vaccine Tracker," Bridge Consulting (Beijing), https://bridgebeijing.com/our-publications/our-publications-1/china-covid-19-vaccines-tracker/.

8 Elie Dolgin, "Omicron Thwarts Some of the World's Most-Used COVID Vaccines," *Nature*, January 13, 2022, https://www.nature.com/articles/d41586-022-00079-6; and Sumathi Bala, "China's Zero-Covid Strategy 'Won't Work' against Omicron, Says US Epidemiologist," CNBC, February 6, 2022, https://www.cnbc.com/2022/02/07/chinas-zero-covid-policy-will-not-work-with-omicron-epidemiologist.html.

9 Roxanne Liu and David Stanway, "FACTBOX: China's mRNA COVID Vaccine Candidates," Reuters, February 28, 2022, https://www.reuters.com/business/healthcare-pharmaceuticals/chinas-mrna-covid-vaccine-candidates-2022-02-28/.

10 International Monetary Fund, "World Economic Outlook" (WEO), April 2022, xiii, https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022.

The Party Wins

After the initial COVID-19 outbreak erupted in Wuhan in January 2020, the spiraling crisis appeared a potential threat to the Chinese Communist Party. Since its leaders characterize themselves as infallible, they perceive any major social disorder or high-profile policy failure as a danger to their legitimacy and control. A public health fiasco that takes the lives of a significant number of people could have presented a serious risk to the party's implicit contract with its citizens: give us full political power and we'll take care of you.

As the pandemic reached crisis proportions in Wuhan during the early stages of the outbreak, the threat became more and more apparent. Public revelations—rare in China's tightly monitored media environment—exposed that the government, at both the national and local levels, had badly mishandled the initial response and allowed the virus to spread. A quarantine in Wuhan was imposed only after five million residents had already departed from the city, carrying the mysterious pathogen with them.[11]

Worst of all, the unfolding tragedy appeared to be a result of the party's authoritarian governance. Li Wenliang, a Wuhan doctor, had recognised the new virus and shared that critical information in an online chat group in late December 2019. Local authorities forced him to recant his claim as unfounded rumor and suppressed the discovery. The government seemed to place its own image above the public good. This doctor, who contracted COVID-19 and died soon afterward, became a folk hero—and a lightning rod for criticism of the regime.[12] His ill-treatment suggested that China's authoritarian system itself was a contributing factor to the terrifying outbreak. The stench of a scandal reached all the way up to Xi. A Communist Party journal suggested that Xi was directly involved in managing the government's policy toward the outbreak in early January, thus implicating him in the bungled response.[13]

The existential threat to party rule resulting from the COVID-19 outbreak is at the very core of its zero-tolerance policy. Though it is true that the leadership had to be concerned about an uncontrolled pandemic that overwhelmed the poorly resourced hospital system, the party also needed to protect itself, both from the potential fallout of a nationwide health crisis that would raise doubts about its competence, and the deeper risk that its governance system would be tarnished and then questioned by the public at large. The threat had to be eliminated, at all costs.

Once the government mobilized against the virus, it did so with an intensity and severity unmatched almost anywhere else. The strict practices eventually put in place—large-scale lockdowns and quarantines of major cities, limitations on domestic and international travel, an effective border closing, testing on a mass scale, detailed tracing of cases—were draconian. Yet they were effective in containing the pandemic in a relatively short period of time, and then preventing its reemergence.

11 "Five Million People Left Wuhan Before the Lockdown, Where Did They Go?," CGTN (Chinese state-run cable TV news service), January 27, 2020, https://news.cgtn.com/news/2020-01-27/5-million-people-left-Wuhan-before-the-lockdown-where-did-they-go--NACCu9wltW/index.html.

12 Chris Buckley and Paul Mozur, "A New Martyr Puts a Face on China's Deepening Coronavirus Crisis," *New York Times*, February 7, 2020, https://www.nytimes.com/2020/02/07/world/asia/china-coronavirus-doctor-death.html.

13 Tom Mitchell, Christian Shepherd, and John Reed, "China's Xi Jinping Knew of Coronavirus Earlier than First Thought," *Financial Times*, February 1, 2020, https://www.ft.com/content/3da73290-5067-11ea-8841-482eed0038b1.

By mid-March 2020, new cases in China reached zero,[14] and keeping them there became a political imperative. Once the party had extinguished the coronavirus menace, it desperately wanted to prevent a resurgence.

The apparent success of the heavy-handed coronavirus lockdowns offered the party an opportunity to rewrite the political narrative of the pandemic. The original story—of an autocratic state that sacrificed people's lives for its own interests—was redrafted into the very opposite. Now the state was willing to sacrifice anything for the national interest. Even better, an authoritarian state had the capabilities, skill, and leadership to implement a successful policy that prevented a widening crisis and saved lives.

The battle with COVID-19 was transformed into another triumph of the Chinese people against the odds, a national struggle that would pave the road to national rejuvenation. All thanks to the Communist Party, of course. A white paper on China's COVID-19 experience released by the State Council in June 2020 characterized the anti-pandemic effort as an "all-out people's war" won "through painstaking efforts and tremendous sacrifice" and achieved "under the leadership of the CPC."[15] Xi, in his 2021 New Year's address, proclaimed that "we put people and their lives first to interpret the great love among humans. With solidarity and resilience, we wrote the epic of our fight against the pandemic."[16] After all, the party cares most about the common people. As Premier Li Keqiang put it in a speech to the National People's Congress in May 2020, the economic cost of the coronavirus-control policies "is a price we must pay, and a price worth paying" because "life is invaluable."[17]

CCP CREDIBILITY ON THE LINE

The tragedy-to-triumph script composed by the Communist Party has had tremendous political consequences. The party tied its credibility to the zero-COVID policy. An outbreak, and thus a failure of the policy, equated to a failure of the party and its governance. COVID-19 cases became a measure of the party's merit and legitimacy, similar to economic growth statistics—proof that it can deliver real results to the Chinese people and therefore has a right to rule.

That has had several real-life effects on the Chinese political, economic, and social system. First, the zero-COVID strategy became entrenched and inflexible. Easing up and risking a renewed outbreak would potentially erupt into both a public health challenge and a political crisis. That made moderating the approach to suit new circumstances problematic and helped to encourage sometimes extreme and excessive responses by local governments. For instance, officials kept strict lockdowns in place in the metropolis of Shanghai in 2022 and in Xi'an in late 2021, largely prohibiting their millions of residents from leaving their homes, even as households ran short of food.

14 Javier C. Hernández, "China Hits a Coronavirus Milestone: No New Local Infections," *New York Times*, March 18, 2020, Updated April 14, 2022, https://www.nytimes.com/2020/03/18/world/asia/china-coronavirus-zero-infections.html.

15 China's State Council Information Office, "Fighting COVID-19: China in Action," White Paper, Released via China's Xinhua (state news service), June 7, 2020, http://www.xinhuanet.com/english/2020-06/07/c_139120424.htm.

16 Xi Jinping, "2021 New Year's Address," via Global Times (Chinese Communist Party flagship newspaper), December 31, 2020, https://www.globaltimes.cn/page/202012/1211532.shtml.

17 Li Keqiang, "Premier Li's Speech at the Third Session of the 13th NPC," CGTN, May 22, 2020, https://news.cgtn.com/news/2020-05-22/Full-text-Premier-Li-s-speech-at-the-third-session-of-the-13th-NPC-QHaP1FpB8k/index.html.

As a result, China has become "stuck in time," still shutting down cities and restricting cross-border travel while much of the rest of the world is learning to live with COVID-19 and striving to restore normal life, business, and mobility. The economic toll has mounted as disruptions to business operations and daily life continued (see more below).

Secondly, the policy may have further entrenched the Communist Party in Chinese society. Not only do its top cadres have a success to market to the public, the pandemic offered an opportunity to tighten political and social control. New systems to track people's movements—established in the name of public health—can easily be utilized for more sinister purposes. Citizens must scan QR codes to get into office buildings, restaurants, and shops—good for hunting down COVID-19 cases, or the party's critics. Citizens require "health codes," generated through apps such as WeChat and Alipay, in order to travel and access events and buildings—which could be used to limit the movements of targeted individuals. Such requirements may not be removed once the coronavirus epidemic has finally passed, leaving the party with extra monitoring tools, and a populace more accustomed to being overtly tracked.

Third, zero COVID may have bolstered the stature of Xi and increased his chances of claiming a third term at the twentieth Communist Party Congress later in 2022. Xi has become personally tethered to the policy and its success. The victory over the coronavirus was not just a win for the party, but for Xi specifically. The State Council's white paper proclaimed in its opening paragraphs that "General Secretary Xi Jinping has taken personal command, planned the response, overseen the general situation and acted decisively."[18] Such statements are somewhat boilerplate in Communist documents, but in a political climate in which Xi has concentrated political power in his person, the buck, in reality, has nowhere else to stop.

That, too, has added inflexibility to the zero-COVID approach. A failure of the policy would translate into a personal political disaster for Xi himself. It should come as no surprise that he appears to be committed to upholding the policy and has insisted it continue. Josh Chin of *The Wall Street Journal* reported in late 2021 that Xi was furious when government officials suggested softening zero COVID and finding ways to live with the virus, accusing them of being too lax.[19] In mid-April 2022, as economic and social pressure was building to ease a near-total lockdown of Shanghai, Xi insisted zero-COVID should not be relaxed.[20]

Now, as the government seeks to limit the excesses, and thus the economic cost, of zero COVID, the politics of the policy loom large. As noted above, Chinese authorities have solid public health reasons for maintaining the approach. Yet equally important is the party's fear of political fallout from a renewed outbreak. As the recent surge in cases in Shanghai and Hong Kong sadly shows, past success at virus-fighting is not a guarantee of future performance. With an inadequately vaccinated populace (more on that below), the new coronavirus variants could easily take hold in China—and undermine the party's neatly crafted political narrative as well. It is a risk the party is unlikely to take. That means the government may soften zero COVID only on the margins and continue to react with speed and severity to any inkling of growing infections.

18 China's State Council Information Office, "Fighting COVID-19: China in Action."

19 Josh Chin, "Xi Jinping's Leadership Style: Micromanagement That Leaves Underlings Scrambling," *Wall Street Journal,* December 15, 2021, https://www.wsj.com/articles/xi-jinpings-leadership-style-micromanagement-that-leaves-underlings-scrambling-11639582426.

20 "Xi Says China Must Stick with Covid Zero Even as Costs Mount," Bloomberg, April 14, 2022, https://www.bloomberg.com/news/articles/2022-04-14/xi-says-china-must-persist-with-covid-zero-even-as-costs-mount?sref=4LEYncfM.

Model for the World

The Communist Party recognized that its refashioned narrative of the pandemic could potentially burnish its image abroad as well as at home. Its self-proclaimed zero-COVID triumph quickly entered Beijing's increasingly assertive propaganda campaign to promote China as a global leader and model for the rest of the world.

The messaging began only weeks after the initial Wuhan outbreak. In March 2020, the state-owned *China Daily* opined that Beijing's methods of quick detection and quarantine could halt the global pandemic: "Countries, especially those in the West, should pay due attention to these principles, and waste no more time in applying them," it recommended.[21] A month later, Liu Xiaoming, then China's ambassador to the United Kingdom, penned an essay for the *Financial Times* entitled "China Has Valuable Lessons for the World in How to Fight Covid-19."[22] In it, he touted China's lockdown method of containment and claimed: "the initial success in China has bolstered international confidence in beating the virus." The messaging also tried to present China as a more responsible global leader than the United States, more committed to the global good and international cooperation. For example, Beijing highlighted its support for the World Health Organization (WHO) to differentiate itself from the Trump administration, which criticized and then withdrew from the body.

As zero COVID continued to keep the pandemic at bay, while the United States and other countries struggled to contain the virus, Chinese state media and the regime's supporters claimed China's success as a mark of the superiority of its governance system, especially compared to democracy. Hu Xijin, then editor of the *Global Times*, a Communist Party-run news outlet, wrote in May 2021 that the normality of life in zero-COVID China was a "display of the competitiveness of China's approach of governance," especially in light of the failed response in the United States. That, he continued, stripped Washington of the right to criticize China's political system. "The highest human right—the right to life—has never been the top priority in the [United States]," he wrote. "American leaders, please have some sense of shame."[23]

If China's superior coronavirus-busting skills were a sign of its ascent as a world power, an additional line of argument went, then America's inability to contain the virus was an indication of its corresponding decline. Xinhua, the official news agency, added Washington's inept pandemic response to a list of failures, including domestic social disparities and botched foreign interventions. "The 'shining city' has been seeing its halo fading away," the commentary contended.[24]

Financier Eric Li, in an essay for *The Economist* in December 2021, used the high number of COVID-19 deaths in the United States, Brazil, and India compared to China as primary evidence that liberal democracy is failing while the Chinese governance system (which he attempted to characterize as a form of democracy) is succeeding. "Some may object that this [low number of COVID-19 deaths in China] was because China restricted freedoms more than 'democracies,' " Li wrote. "But what kind of democracy would sacrifice millions of lives for some individuals' freedom not to wear masks? It is precisely in this way that liberal democracy is failing its citizens."[25]

In order for this narrative to stick, however, the Chinese leadership and its propaganda machine had to contend with the inconvenient truth that the pandemic began on their own soil, and was allowed to spread by their own mistakes. Just as this undeniable reality had presented a danger to the Communist Party's domestic standing, so, too, it could tarnish its international reputation and stature. The regime's critics tried to make certain of that by reminding the world Beijing should be held responsible for the global pandemic.

The party's solution was an attempt to alter the historical record and sow confusion about the virus's origins. Instead of the home of the initial outbreak, China tried to paint itself as the world's savior. In mid-March 2020, Xi told the United Nations secretary-general that "China's extraordinary response has bought precious time for other countries to fight the virus," according to the Foreign Ministry's official summary of the conversation.[26] Liu, in his *Financial Times* essay, wrote that critics who accused China of being

21 China Daily, "Detection, Quarantine and Treatment Tried and Tested Response to Virus: China Daily Editorial," Updated March 16, 2020, https://www.chinadaily.com.cn/a/202003/16/WS5e6f645ba31012821727f7d9.html.

22 Liu Xiaoming, "China Has Valuable Lessons for the World in How to Fight COVID-19," Op-Ed, *Financial Times*, April 28, 2020.

23 Hu Xijin, "US Should Be Ashamed to Criticize China on Human Rights Considering Its Own COVID-19 Death Toll," Global Times, Opinion, May 04, 2021.

24 "Unravel the Crippled U.S. Hegemony," Xinhua, October 21, 2021.

25 Eric Li, "Eric Li on the Failure of Liberal Democracy and the Rise of China's Way," By Invitation (Commentary series), Economist, December 7, 2021.

26 Foreign Ministry, "President Xi Speaks to UN Secretary General on the Phone," Embassy of the People's Republic of China in the United States of America (website), https://www.mfa.gov.cn/ce/ceus/eng/zgyw/t1755477.htm.

responsible for the epidemic did so out of ignorance. “I believe those who seek to stigmatize China owe the Chinese people an apology,” he contended.[27]

Officials and state media strove to disassociate the virus from its first appearance in Wuhan and sow confusion about its origins. For instance, they went on an offensive against the use of the terms “Wuhan virus” or “Chinese virus.” In March 2020, when President Trump called COVID-19 the “Chinese virus” in a tweet, a spokesperson for China’s Foreign Ministry derided it as “stigmatization.” The ministry urged the United States to “immediately correct its mistake and stop making unwarranted accusations on China.”[28] A few days later the ministry claimed that the Chinese people and international community “explicitly oppose linking the virus with any specific country or region.” Playing up sensitivity in the West to discrimination, the spokesperson went on to say that “some in the [United States] who can still see things clearly have publicly opposed the saying of ‘Chinese virus,’ pointing out that it is bald-faced racism and xenophobia.”[29] In May 2020, the ministry released a notice called “COVID-19, 15 Truth [sic] You Need to Know,” with the first “truth” stating that “Wuhan city in China first reported COVID-19 cases, but that doesn’t mean the virus originated in Wuhan.” It continued to assert that “there is no certain conclusion as to the origin of COVID-19,” and “there is no evidence that China is the source of the virus that caused COVID-19.”[30]

EVADING RESPONSIBILITY

The narrative, however, required even more embellishment. If the virus did not originate in China, then where did it come from? How did it get to Wuhan? Knotty questions indeed for the avid Chinese propagandist. The government and its state-controlled media grasped at any shred of scientific inquiry that suggested the origins of the virus could be traced to other countries, and actively spread misinformation. Foreign Ministry spokesperson Zhao Lijian tweeted an unfounded conspiracy theory that the COVID-19 virus was brought to Wuhan by members of the US Army.[31] In March 2022, Li Yang, counsellor at the information department of China’s Foreign Ministry, turned to Twitter to spread the conspiracy theory that American pharmaceutical firm Moderna created the virus and demanded an explanation from the United States.[32] Officials also pushed the idea that the COVID-19 virus was transmissible on imported refrigerated food. The attempts to blame the outside world for local outbreaks continues. In recent months, officials have suggested Chinese were infected by the virus lurking on or in international mail.[33]

How much progress this campaign achieved in changing the pandemic’s narrative is questionable. In a fourteen-nation survey conducted in 2020 by the Pew Research Center, a median of 61 percent of the respondents thought Beijing handled the pandemic poorly, while unfavorable views of China reached all-time highs in many countries in the poll.[34] In certain respects, the propaganda campaign may have had negative consequences for China, both at home and abroad.[35]

First, the international blitz may have reinforced the inflexibility of the zero-COVID strategy. By using the policy’s success as evidence of its superior system, the leadership likely feared that the image of the party would be damaged if China experienced a major, uncontrolled outbreak. In that eventuality, the Chinese authoritarian model would be no better than the democracies Beijing has routinely mocked. That may have made it more difficult to adjust or move on from the zero-COVID policy, with all the resulting economic and social consequences.

Second, the campaign, in certain respects, exposed Beijing as an irresponsible power rather than a constructive one. So desperate was the leadership to avoid responsibility for the pandemic that it hindered the efforts of the international community to investigate and learn from the pandemic.

27 Liu, “China Has Valuable Lessons.”

28 See, for example, “Foreign Ministry Spokesperson Zhao Lijian’s Regular Press Conference on March 4, 2020,” Ministry of Finance (website), Remarks, March 4, 2020; and Foreign Ministry Spokesperson’s Daily Briefing, Ministry of Finance (website), March 17, 2020, https://www.mfa.gov.cn/ce/ceke/eng/fyrth/t1752172.htm.

29 Foreign Ministry Daily Briefing, Ministry of Finance (website), March 24, 2020, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202003/t20200324_693148.html.

30 “Covid 19: 15 Truth [sic] You Need to Know,” China’s Ministry of Foreign Affairs (website), May 16, 2020, https://www.mfa.gov.cn/ce/cein//eng/xwfw/xxfb/t1779506.htm.

31 Zhao Lijian, (@zlj517), “2/2 CDC was caught on the spot. When did patient zero begin in US? How many people are infected? What are the names of the hospitals? It might be US army who brought the epidemic to Wuhan. Be transparent! Make public your data! US owe us an explanation!,” Twitter, March 12, 2020, https://twitter.com/zlj517/status/1238111898828066823.

32 Li Yang, (@Li_Yang_China), “The US has an obligation to explain this to the International community!!!,” Twitter, March 24, 2022, https://twitter.com/Li_Yang_China/status/1507155894286520320.

33 BBC, “Covid: Beijing City Urges End to Overseas Deliveries over Omicron,” January 17, 2022, https://www.bbc.com/news/world-asia-china-60023968.

34 Laura Silver, Kat Devlin, and Christine Huang, “Unfavorable Views of China Reach Historic Highs in Many Countries,” Pew Research Center, Report, October 6, 2020, https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/.

35 Silver, Devlin, and Huang, “Unfavorable Views of China Reach Historic Highs.”

Apparently, the party equated calls for an investigation with an attempt to undermine its reputation and rule.

Beijing has resisted an independent inquiry into the COVID-19 virus's origins since the earliest stages of the pandemic in 2020,[36] and when China's leaders eventually consented, they tightly controlled the activities and access of a visiting WHO team of experts in early 2021 and refused to fully cooperate. For instance, Chinese authorities denied the investigators potentially valuable raw data on early COVID-19 cases.[37] WHO Director-General Tedros Adhanom Ghebreyesus—who has generally avoided public criticism of China—admitted in a 2021 briefing that the investigative team was frustrated with their access to raw data while in China. "I expect future collaborative studies to include more timely and comprehensive data sharing," he said.[38] Beijing then rejected a WHO plan for further study of COVID-19's origins in mid-2021.[39]

Beijing was so fearful of an international inquiry that when the government of Australia called for one in 2020, Beijing resorted to economic coercion to arm-twist Canberra to change its position. In the end, the campaign to avoid blame for the pandemic may have hurt the Communist Party's international reputation rather than enhanced it and fueled speculation about the true origins of COVID-19.

So, too, did the often rabid tone of Beijing's messaging. Comments from officials and official media often appeared to mock other countries for their struggles to contain COVID-19, and seemed insensitive to their suffering. One especially egregious social media post on an account linked to the Communist Party juxtaposed two images—one of a rocket launch in China, the other a photo of COVID-19 victims being cremated in India. The text read: "Lighting a fire in China VS lighting a fire in India." The post, made at the depths of India's pandemic crisis, sparked outrage and was deleted.

At times, Chinese officials and state-media organs seemed to revel in the rising death toll in the United States. "America is coming back!" Diplomat Li Yang tweeted sarcastically amid a renewed surge in the United States in 2021. "Yes, thanks to a series of political manipulations, America is coming back at almost the peak of its epidemic!!!"[40] In its quest to promote itself, the Chinese government too often denigrated others—hardly a method of winning hearts and minds.

VACCINE DIPLOMACY'S THREAT TO CHINA

Perhaps the most damaging aspect of China's COVID-19 policy was its "vaccine diplomacy." Beijing clearly recognized that the pandemic offered an opportunity to expand Chinese political influence and "soft power" around the world, especially with developing countries, and to use homemade vaccines to market its companies and technology. Two companies, state-owned China National Pharmaceutical Group (Sinopharm) and private Sinovac Biotech, were at the center of the effort. With the United States distracted by its fight against the virus, Beijing was able to get a jump-start on a program to export China's own vaccines, largely for sale but also as humanitarian aid.[41] The leadership and state media routinely publicized China's efforts to provide vaccines to developing nations, so as to portray the country as a caring and responsible great power. Xi himself played a part in this campaign, for instance, outlining his administration's largesse in a speech before the Global Health Summit in May 2021.[42]

Certainly, some recipients of China's vaccines were grateful for Beijing's assistance, especially when the US products were not yet widely available for export in early 2021. Indonesian President Joko Widodo received his Sinovac jab in January 2021—which was duly promoted by Xinhua.[43] According to data from the World Trade Organization and International Monetary Fund, China exported more than double the number of doses as the United States (though not as many as the European Union),[44] notching more than a third of total vaccine exports.

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36 Salem Gebrekidan, Matt Apuzzo, Amy Qin, and Javier C. Hernandez, "In Hunt of Virus Source, W.H.O. Let China Take Charge," *New York Times*, November 7, 2020, https://www.nytimes.com/2020/11/02/world/who-china-coronavirus.html.

37 Jeremy Page and Drew Hinshaw, "China Refuses to Give WHO Raw Data on Early Covid-19 Cases," *Wall Street Journal*, Updated February 12, 2021, https://www.wsj.com/articles/china-refuses-to-give-who-raw-data-on-early-covid-19-cases-11613150580.

38 Tedros Adhanom Ghebreyesus, "WHO Director-General's Remarks at the Member State Briefing on the Report of the International Team Studying the Origins of SARS-CoV-2," WHO (website), March 30, 2021, https://www.who.int/director-general/speeches/detail/who-director-general-s-remarks-at-the-member-state-briefing-on-the-report-of-the-international-team-studying-the-origins-of-sars-cov-2.

39 Gabriel Crossley, "China Rejects WHO Plan for Study of COVID-19 Origins," Reuters, June 23, 2021, https://www.reuters.com/world/china/china-will-not-follow-whos-suggested-plan-2nd-phase-covid-19-origins-study-2021-07-22/.

40 Li Yang, (@Li_Yang_China), Twitter, August 4, 2021, https://twitter.com/Li_Yang_China/status/1423091237087682561.

41 Yen Hee Lee, "Data Shows the U.S. Is the World's Largest Covid Vaccine Donor–Way Ahead of China," CNBC, September 9, 2021, https://www.cnbc.com/2021/09/09/covid-us-is-the-worlds-largest-donor-of-vaccines-data-shows.html.

42 "Full Text: Remarks by Chinese President Xi Jinping at the Global Health Summit," Xinhua, May 21, 2021.

43 "Indonesian President Receives 1st Chinese COVID-19 Vaccine Shot," Xinhua, January 13, 2021.

44 "WTO-IMF COVID-19 Vaccine Trade Tracker," World Trade Organization (website), Last Updated March 1, 2022, https://www.wto.org/spanish/tratop_s/covid19_s/vaccine_trade_tracker_s.htm.

Yet the achievement was marred by a lack of transparency and outdated technology. Studies have suggested that China's vaccines are somewhat less effective than their Western competitors (especially if not boosted). One recent study by two Hong Kong universities made the claim that even three doses of the Sinovac vaccine do not provide adequate protective antibodies against the Omicron variant.[45] Chinese firms used an older method to develop their vaccines and did not have the capability to match the more advanced mRNA technology of Pfizer/BioNTech and Moderna products. In the end, Beijing's attempt to show off its technological prowess instead revealed it still lags behind that of the major advanced economies.

The most problematic consequence of China's "vaccine diplomacy," however, threatens China's own people. The Chinese government chose to vaccinate its citizens with only Chinese vaccines. That may have left China more vulnerable to outbreaks, especially of the new variants.

Beijing did have other options. Another Chinese firm, Fosun Pharmaceutical, reached an agreement with BioNTech to form a joint venture to supply the latter's mRNA vaccine in China from a Chinese factory with the capacity to produce one billion doses a year, but Chinese regulators never approved the vaccine for use in China. (Beijing has not sanctioned any foreign vaccines for domestic distribution.) Vaccines, of course, are not a simple solution to the COVID-19 problem, but if China's large population was better vaccinated, it would likely offer the leadership more flexibility in adjusting the zero-COVID policy. Without that, it is it all but impossible to reopen China's borders to freer international travel as long as COVID-19 continues to rampage worldwide—and complicates efforts to balance zero-COVID control measures with the need to bolster slowing economic growth. It also makes it challenging for Beijing to find an exit route from the policy without risking a major public health crisis.

In an ironic twist, the Communist Party's desire to promote itself on the world stage has come back to haunt it at home. From the start, China's leaders viewed the pandemic in geopolitical terms and sought to capitalize on what they perceived to be a moment of weakness in the United States to score points in its intensifying global competition with Washington. Instead, while much of the rest of the world is learning to live with COVID-19 and other nations protect people through vaccines and advanced treatments, Beijing is badly behind the curve, still locking down cities and maniacally tracking cases as it was two years earlier. Rather than a leader, China has become the laggard.

The Chinese leadership and its supporters believe that the United States was willing to sacrifice hundreds of thousands of lives to an ideological commitment to freedom, or the definition of it to which some Americans adhere. They like to contrast the US approach to their own by claiming they base decisions on science. Yet China's leaders made many key choices for political reasons and based on ideological precepts—most critically, the vaccine program, driven by Xi's desire for self-reliance and the demands of competition with the United States. These decisions are having serious consequences for China's current and future approach to COVID-19. The government must find a new course as the economy and society strain under the weight of pandemic restrictions, but it has left itself limited room to respond to changing circumstances.

45 Martina E. McMenamin, et. al., "Vaccine Effectiveness of Two and Three Doses of BNT16262 and CoronaVac against COVID-19 in Hong Kong," https://www.medrxiv.org/content/10.1101/2022.03.22.22272769v1.full-text. University of Hong Kong media statement on results of joint study, Dec. 23, 2021, https://www.hku.hk/press/press-releases/detail/23804.html. Samuel M.S. Cheng, et. al., "Neutralizing Antibodies against the SARS-CoV-2 Omicron Variant BA.1 Following Homologous and Heterologous CoronaVac or BNT162b2 Vaccination," https://www.nature.com/articles/s41591-022-01704-7, Nature Medicine, Jan. 20, 2022.

Economics in a Time of Zero Covid

The Chinese economy appeared to rebound smoothly from nationwide shutdowns during the early stages of the COVID-19 pandemic. As the virus spread from Wuhan through Europe, North America, and the rest of the world, China's industrial sector returned to full output and supplied record amounts of exports to a world desperate for the protective gear and stay-at-home products that helped many people weather the pandemic.

China's growth in 2020 slowed to only 2.2 percent—largely reflecting the impact of the first-quarter lockdowns—but it roared back later in the year and into 2021. GDP in 2021 expanded about 8 percent, with exports surpassing $3.3 trillion, including a single-month record in December 2021 of $340.5 billion.[46] However, domestic consumption—which has been identified by the government as a crucial driver of growth and the key to a rebalancing of the economy away from its export-driven model—never really recovered its pre-pandemic vitality as households tightened their purse strings and small businesses suffered. The pandemic was one reason for this disparity in economic performance, but there were other forces at play.

Nonetheless, the headline numbers provided plenty of reason for Beijing's propagandists to proclaim the superiority of the country's tough pandemic response. "Protecting lives will always be a priority, and it is acceptable that the economy is sacrificed more or less when necessary," declared researcher Lu Xiang of the Chinese Academy of Social Sciences in an article that echoed a common government refrain. "After all, the economy can bounce back, but can life?"[47]

Indeed, as the Delta variant began to seep through China's tightly sealed borders last year, the zero-COVID policy was imposed with increasing frequency. Lockdowns hit important cities like Xi'an and Tianjin, disrupting semiconductor and automobile production.[48] Global supply chains that run through some of the world's largest container ports like Ningbo and Shenzhen were hit by delays that sparked sharp increases in shipping costs.[49]

This year, however, it was Omicron's complete shutdown of Shanghai, Shenzhen, and Dongguan in Guangdong province, and auto production center Changchun in the northeast that truly drove home the reality that the zero-COVID policy had failed to protect the Chinese people. For the first time since 2020, China publicly recorded COVID-19 deaths.[50]

The damage to the economy quickly mounted. By one estimate, Shanghai represents 3.8 percent of China's GDP and one-fifth of the country's trade. Guangdong accounted for nearly one-quarter of total exports in 2021. Shanghai and Shenzhen together are the beating heart of China's financial markets.[51]

46 Regarding economic growth, the Chinese government announced 2021 growth at 8.1 percent, while the International Monetary Fund (IMF) estimated China's growth at 7.9 percent. See Jonathan Cheng, "China GDP Grew 8.1% in 2021, though Momentum Slowed in Fourth Quarter," *Wall Street Journal*, January 16, 2022, https://www.wsj.com/articles/china-gdp-grew-8-1-in-2021-though-momentum-slowed-in-fourth-quarter-11642386349; IMF, "People's Republic of China, Staff Report for the 2021 Article IV Consultation," Country Report (hereafter referred to as China AIV), January 28, 2022, 52, https://www.imf.org/en/Publications/CR/Issues/2022/01/26/Peoples-Republic-of-China-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-512248; and for 2021 exports, see "China's Trade Surplus Hit a Record $676 Billion in 2021," Bloomberg, January 13, 2022, https://www.bloomberg.com/news/articles/2022-01-14/china-posts-record-trade-surplus-in-2021-on-soaring-exports?sref=E0nAM78N.

47 Lu Xiang, "More Negative Impact without Zero-COVID Policy," Global Times, January 23, 2022, https://www.globaltimes.cn/page/202201/1246671.shtml.

48 For the impact on semiconductor production, see Joyce Lee and Manya Saini, "Samsung, Micron Warn Xian Shutdown May Disrupt Memory Chip Manufacturing," Reuters, December 30, 2021, https://www.reuters.com/world/china/micron-warns-dram-chip-delays-due-chinas-xian-lockdown-2021-12-29/; and for the impact on automobile production, see "VW Is Latest Automaker Ensnared by Chinese Covid Plant Shutdowns," Bloomberg, January 13, 2022, https://www.bloomberg.com/news/articles/2022-01-14/vw-shutters-factory-as-automakers-caught-in-china-covid-outbreak?sref=E0nAM78N.

49 "One of China's Busiest Ports Jammed by Covid, Ship Delays," Bloomberg, January 20, 2022, https://www.bloomberg.com/news/articles/2022-01-20/ship-arrivals-to-shenzhen-s-yantian-port-delayed-by-a-week?sref=E0nAM78N; and Weizhen Tan, "No Respite for China's Stressed Out Supply Chains as Covid-Zero and New Year Holidays Take Toll," CNBC, January 23, 2022, https://www.cnbc.com/2022/01/24/china-zero-covid-lockdowns-cny-holiday-impact-supply-chains-ports.html.

50 "China Reports First COVID Deaths in More than a Year," Reuters, March 20, 2022, https://www.reuters.com/business/healthcare-pharmaceuticals/china-reports-first-covid-deaths-over-year-2022-03-19/.

51 "China's Covid Lockdowns Could Threaten Half of Economy," Bloomberg, March 14, 2022, https://www.bloomberg.com/news/articles/2022-03-14/china-s-covid-lockdowns-could-threaten-half-of-economy?sref=E0nAM78N; and "Next China: A Lockdown Shocks Shanghai," Bloomberg, April 1, 2022, https://www.bloomberg.com/news/newsletters/2022-04-01/next-china-a-lockdown-shocks-shanghai?cmpid=BBD040122_CN&utm_medium=email&utm_source=newsletter&utm_term=220401&utm_campaign=china&sref=E0nAM78N.

CONSUMPTIVE CONSUMPTION

The reality is that even before the Omicron outbreaks, China's export surge has masked serious economic weaknesses that became increasingly evident during the second half of 2021, many of them the direct result of the country's strict response to COVID-19.[52] Travel and tourism plummeted, and retail sales and household spending on restaurants, tourism, and other forms of entertainment all fell. Even though many Chinese returned to public spaces after the early lockdowns, the ailing sectors of the economy did not experience the same return to strong growth experienced by manufacturing.

Numbers compiled by the Rhodium Group highlight this slowdown: compounded growth of per capita consumption has declined to 5.8 percent during the two years of the pandemic compared with an average of 8.4 percent in the period leading up to 2020. Rhodium points to significant declines in consumption beginning in the third quarter of 2021.[53]

The first quarter of 2022 brought more bad news. While the economy expanded 4.8 percent, retail sales posted the worst contraction since COVID-19's 2020 emergence in Wuhan. The latest outbreaks and lockdowns likely will reverberate through the economy as the year continues.[54] In mid-March, Goldman Sachs estimated that regions facing COVID-19 restrictions represented more than 30 percent of China's GDP, and that was before the April outbreaks.[55]

China's small businesses appear to be bearing the brunt of the downturn. One analysis of business registration data reported that only 1.3 million new small businesses registered in the first eleven months of 2021, while 4.4 million small businesses deregistered. In 2020, 6.1 million new businesses registered and 4.5 million deregistered.[56]

This is important because small and medium businesses represented about 80 percent of China's urban jobs in 2013—overwhelmingly in the service sector.[57] Notably, employment in that sector grew more slowly than in the industrial sector last year for the first time since 2012.[58] Nationwide unemployment has been on the rise, with young job seekers facing a particularly difficult job market.[59]

Nor has China's industrial juggernaut been immune from the steadily deepening downturn. The Caixin/Markit Manufacturing Purchasing Managers' Index for January showed that factory activity recorded the sharpest contraction since the early months of the pandemic, although it returned to growth the next month. The measure for new export orders contracted for eight straight months through March—a trend that partly reflects reduced foreign demand for pandemic-related products.[60]

The IMF warned about the likely continued impact of the pandemic in its most recent report on the Chinese economy: "The pandemic will continue to impede the recovery of consumption—especially services—before loosening its grip in 2023, which will require a combination of more efficacious vaccines and relaxation in the zero-tolerance strategy toward the virus" (italics added).[61] The IMF forecasts that China's economy will grow 4.4 percent in 2022, significantly below Beijing's declared target at the March meeting of the National People's Congress of "around 5.5 percent."[62] The IMF number, which is a downgrade from its

52 Atlantic Council GeoEconomics Center and Rhodium Group, "China Pathfinder: Q4 2021 Update," Atlantic Council, Issue Brief, January 31, 2022, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/china-pathfinder-q4-2021-update/.

53 Logan Wright and Agatha Kratz, "The Gravity of Zero," Rhodium Group, January 21, 2022.

54 "Kevin Yao and Stella Qiu "China Q1 GDP Tops Forecast, but March Weakness Raises Outlook Risks," Reuters, April 18, 2022, https://www.reuters.com/world/china/chinas-q1-gdp-expands-48-yy-better-than-fcast-risks-outlook-abound-2022-04-18/.

55 Malcolm Scott, "China's Consumer Woes," Bloomberg, March 24, 2022, https://www.bloomberg.com/news/newsletters/2022-03-24/what-s-happening-in-the-world-economy-china-s-consumer-woes?cmpid=BBD032422_NEF&utm_medium=email&utm_source=newsletter&utm_term=220324&utm_campaign=nef&sref=E0nAM78N.

56 Ji Siqi, "China's Smallest Firms Failing at Historic Pace as 4.37 Million Close Up Shop and Registrations Plummet," *South China Morning Post*, December 30, 2021, https://www.scmp.com/economy/china-economy/article/3161554/chinas-smallest-firms-failing-historic-pace-437-million-close.

57 Organisation for Economic Co-operation and Development, *Financing SMEs and Entrepreneurs 2016*, OECD, Annual Report, April 14, 2016, https://www.oecd-ilibrary.org/sites/fin_sme_ent-2016-12-en/index.html?itemId=/content/component/fin_sme_ent-2016-12-en.

58 IMF, China AIV, 8.

59 "Unemployment on the Rise in China as Covid Takes Its Toll," *Standard*, March 15, 2022, https://www.thestandard.com.hk/breaking-news/section/3/188130/Unemployment-on-the-rise-in-China-as-Covid-takes-its-toll%C2%A0.

60 Regarding the January contraction, see "China's Jan Factory Activity Contracts as COVID Lockdowns Bit—Caixin PMI," Reuters, January 29, 2022, https://www.reuters.com/markets/europe/chinas-jan-factory-activity-contracts-covid-lockdowns-bite-caixin-pmi-2022-01-30/; for February growth and export orders, see "China's Caixin Manufacturing PMI Signals Slight Improvement in February," Dow Jones Newswires, February 28, 2022, https://www.marketwatch.com/story/china-caixin-manufacturing-pmi-signals-slight-improvement-in-february-271646100514; for March export orders, see Jonathan Cheng, "Covid-19 Outbreaks Slow Factory Activity in China," *Wall Street Journal*, March 31, 2022, https://www.wsj.com/articles/covid-19-outbreaks-slow-factory-activity-in-china-11648712023.

61 IMF, China AIV, 13.

62 IMF, WEO, 6; Evelyn Cheng, "China Sets GDP Target of 'Around 5.5%' for 2022," CNBC, March 4, 2022, https://www.cnbc.com/2022/03/05/china-on-deck-to-reveal-its-2022-gdp-target.html.

January 2022 forecast of 4.8 percent growth, is attributed, in part, to the impact of zero COVID.[63]

PROPERTY DOWNTURN: FROST ON SNOW

The causes of China's slowdown—and the reasons for worry about the economy—run much deeper than the pandemic.

Most importantly, China's property sector is facing a complicated and deepening crisis that has sharply reduced real estate investment, home purchases and housing prices, and construction activity. The downturn has caused several developers to default on dollar-denominated bonds and renminbi obligations, which has only made matters worse. The situation poses a threat to the balance sheets of many local governments and has contributed to the drop in consumer confidence and spending. The succession of shocks—property crisis and COVID-19 restrictions—is best described by the Chinese idiom: to add frost to snow (雪上加霜).

Property investment in China has been one of the world's greatest one-way investment bets over the past generation. Hundreds of millions of Chinese have become homeowners, leading to the concentration of 70 percent of urban wealth in real estate.[64] More than 25 percent of China's GDP is generated by the real estate sector and construction industry. The IMF estimates that "about a quarter of both total fixed investment and bank lending went to property" during the five years before the pandemic.[65]

Developers have taken on vast amounts of debt even as local governments have come to depend on revenue from land sales to them in order to finance essential services. Nonbank financial institutions and so-called local government funding vehicles (LGFV)—the same local governments that sell the land—also have heavy exposure to property investment. To make matters worse, about one-third of home purchases involve presales that builders use to finance construction, turning homeowners into creditors and immensely complicating developers' balance sheets.[66]

This massive buildup of debt—the troubled China Evergrande Group amassed over $300 billion of liabilities before defaulting on dollar debt in 2021—presents a serious risk to China's economic and financial stability.[67] Notably, it was Beijing's effort to contain those risks that precipitated the downturn that swept across the property sector in 2021. Among the official actions were restrictions on mortgage lending in major cities, and a sharp tightening of controls on lending to developers that created the so-called three red lines, which sparked a severe, industry-wide credit squeeze.[68] By the end of 2021, Fitch Ratings reported, ten Chinese property developers had defaulted on dollar-denominated bonds issued abroad, and in assessing the risks facing the country, Fitch singled out the vulnerability of LGFVs.[69]

The government effort to rein in the real estate sector—which it is relaxing[70]—has had predictable consequences. The country's one hundred largest property companies have reported sharp falls in sales: down 39.6 percent on a

63 For the earlier IMF forecast, see IMF, "World Economic Outlook Update," January 2022, 3, https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022. For the impact of zero-COVID in the latest forecast, see IMF, WEO, 3.

64 "Xi Reshapes China's Property Market Paving Way for State Dominance," Bloomberg, January 13, 2022, https://www.bloomberg.com/news/articles/2022-01-13/china-s-property-market-is-set-for-state-dominated-age-of-rust?sref=E0nAM78N.

65 IMF, China AIV, 36-37.

66 For LGFV debt exposure, see Shuli Ren, "China's Local Governments Are at Risk of a Puerto Rico Moment," *Bloomberg Businessweek*, January 31, 2022, https://www.bloomberg.com/news/articles/2022-01-31/china-s-local-governments-risk-collapse-due-to-slow-economy-real-estate-slump?sref=E0nAM78N; and for home purchase presales, see IMF, AIV, 37.

67 Rebecca Chong Wilkins, "Evergrande Declared in Default as Huge Restructuring Looms," Bloomberg, December 9, 2021, https://www.bloomberg.com/news/articles/2021-12-09/evergrande-defaults-for-first-time-as-china-debt-strains-spread?sref=E0nAM78N\.

68 Andy Lin, Thomas Hale, and Hudson Lockett, "Half of China's Top Developers Crossed Beijing's Red Lines," *Financial Times*, October 8, 2021, https://www.ft.com/content/d5803d64-5cc5-46f0-bed0-1bc207440f9c.

69 "China Corporate Bond Default Rate Set to Rise in 2022," Fitch Ratings, January 27, 2022, https://www.fitchratings.com/research/corporate-finance/china-corporate-bond-default-rate-set-to-rise-in-2022-27-01-2022.

70 Reuters, "China Plans to Relax 'Three Red Lines' to Encourage State-Led Property M&A: REDD," January 6, 2022, https://www.reuters.com/markets/deals/china-plans-relax-three-red-lines-encourage-state-led-property-ma-redd-2022-01-07/.

year-to-year basis in January after falling 35.2 percent the month before. Construction output in the final quarter of 2021 dropped 2.1 percent, while the real estate sector fell 2.9 percent. In February 2022, prices fell for both new and older homes in seventy major cities, and the total value of new mortgages declined for the first time since 2007.[71]

In March, with COVID-19 lockdowns and other restrictions wreaking new havoc on the real estate industry, new home sales dropped 29 percent.[72] Meanwhile, the IMF reports that developers' stock of presold, but unfinished, housing is nearly equivalent to the total number of homes completed since 2015.[73] The widening ripple effects of the property downturn is only adding to the loss of confidence that consumers and businesses are feeling from the pandemic.

THE POLICY TOOLBOX: HALF FULL OR HALF EMPTY?

The risks from the combination of zero-COVID policies and the property downturn are evident. Demand across several sectors of the economy is in danger of contracting further, unemployment could continue to rise (especially affecting the tens of millions of migrant workers who depend on construction and gig economy jobs), and the financial sector could come under stress as property companies struggle. The government's longstanding effort to rebalance the economy away from investment and manufacturing, and toward consumption could falter even more.

Slower growth will also strain government resources, especially at the local level where officials have been saddled by Beijing with many new responsibilities over the past year. For example, under the zero-COVID policy they are expected to assume the cost of testing, surveillance, contract tracing, and quarantines.[74]

In addition, Xi's policies intended to reduce inequalities in income and social services put the onus on local authorities to provide increased spending on education, health, housing, and other social services.[75] That also doesn't take into account the potential impact of problems with LGFVs, whose total debt is estimated at between 39 trillion and 53 trillion renminbi ($6.13 trillion to $8.33 trillion). Local governments recently have been using LGFVs to buy land at auctions when private bidders have stayed away.[76]

The government's actions in the face of these threats have at times suggested complacency. It was noteworthy, for example, that even as the economy faced the unprecedented challenges of pandemic and property downturn, Beijing chose to launch a heavy-handed campaign aimed at reining in the country's largest private-sector companies. The government used fines and bans for previously ignored regulatory transgressions to target e-commerce and tech platform conglomerates that are major employers and sources of business dynamism. The campaign has had a severe impact on business confidence and financial markets.[77]

In its "report card" on the Chinese economy released in February, the IMF said of the government policies: "The multitude, timing, seemingly uncoordinated, and discretionary nature of these [regulatory] interventions, [are] viewed by market participants as undercutting the role of private enterprises and has led to heightened policy uncertainty and financial market volatility. The lack of a clear, coordinated, and well-communicated policy response to financial stress faced by large property developers, following efforts aimed at reducing leverage in the real estate sector, has added to the uncertainty." This is blunt language for an institution normally known for gentle criticism in its economic assessments of individual countries.[78]

71 For the impact on the property and construction sectors, see "China's Surprise Growth Spurt Likely Short-Lived as Covid Spikes," Bloomberg, March 14, 2022, https://www.bloomberg.com/news/articles/2022-03-15/china-s-economy-starts-year-strongly-as-covid-and-war-risks-loom?sref=E0nAM78N; "China Will Not Expand Its Property Tax Trial This Year," Bloomberg, March 16, 2022, https://www.bloomberg.com/news/articles/2022-03-16/china-will-not-expand-its-property-tax-trial-this-year-l0tex2zh?sref=E0nAM78N; and "China Credit Growth Slows More than Expected Despite Easing," Bloomberg, March 11, 2022, https://www.bloomberg.com/news/articles/2022-03-11/china-s-credit-expansion-slows-in-seasonally-weak-month?sref=E0nAM78N.

72 COVID Hammers China's Developers by Depriving Them of Cash Flow," Bloomberg, April 18, 2022, https://www.bloomberg.com/news/articles/2022-04-18/covid-hammers-china-s-developers-by-starving-them-of-cash-flow?cmpid=BBD041822_MKT&utm_medium=email&utm_source=newsletter&utm_term=220418&utm_campaign=marketsasia&sref=E0nAM78N.

73 IMF, *Global Financial Stability Report*, April 2022, 29, https://www.imf.org/en/Publications/GFSR/Issues/2022/04/19/global-financial-stability-report-april-2022.

74 Amy Qin and Keith Bradsher, "Omicron Deepens Uncertainty Surrounding Beijing Olympics," New York Times, January 12, 2022, https://www.nytimes.com/2022/01/12/world/asia/beijing-olympics-covid.htm; and Yanzhong Huang, "China's Immunity Gap," Foreign Policy, January 26, 2022, https://www.foreignaffairs.com/articles/china/2022-01-26/chinas-immunity-gap.

75 Jonathan Cheng, "China's 'Common Prosperity' to Squeeze Cash-Strapped Local Governments," Wall Street Journal, January 25, 2022, https://www.wsj.com/articles/chinas-common-prosperity-to-squeeze-cash-strapped-local-governments-11643115843.

76 "Property Crisis Means Chinese Cities Sell Land to Themselves," Bloomberg, January 25, 2022, https://www.bloomberg.com/news/articles/2022-01-25/shadowy-china-firms-spend-billions-on-land-shunned-by-developers?sref=E0nAM78N.

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https://www.nytimes.com/2022/01/05/technology/china-tech-internet-crackdown-layoffs.html.

78 IMF, China AIV, 4.

The government has responded to the deepening slowdown, but the measures so far have disappointed markets. The People's Bank of China (PBOC) announced in January that it would "open its monetary policy toolbox wider, maintain stable overall monetary supply and avoid a collapse in credit" to help sustain growth.[79] It followed by cutting key lending rates.[80] Subsequently, the central bank has held off on further rate cuts.[81]

Then at the March National People's Congress, Premier Li announced a package of fiscal measures, including tax cuts and increased spending—including trillions of yuan of direct transfers to local governments that will lose revenue because of the tax cuts—to help stimulate growth, with the government's usual focus on infrastructure.[82] These measures may provide some relief to the construction sector, but it will take more than additional highways and high-speed rail lines to boost an economy struggling with slack consumer demand and a slumping housing market.

As the Yicai business newspaper said of infrastructure investment in a rare moment of Chinese media candor: "Poor-efficiency investment has not been uncommon in past years, wasting resources to some extent. Thus, local governments should not blindly boost their investments, expecting better outcomes."[83] Meanwhile, tax cuts will offer small comfort to locked-down businesses that have no customers.

Soon after the Congress's rubber-stamping, it was hardly surprising when investors—with foreigners in the lead—stampeded for the exits.[84] That resounding no vote caused the Chinese leadership to respond with a series of measures to lift the markets, including assurances from Vice Premier Liu He that the crackdown on Internet companies would end soon, steps to prevent a property market collapse, and direct support for the stock market.[85] The government also announced a postponement of the trial introduction of a property tax in some locales that was to be the precursor to a national levy.[86] COVID-19's continued spread—and especially the Shanghai lockdown—only caused further uncertainty, and the State Council and PBOC were forced to offer warnings about the economy to the nation.[87]

The recent turbulence has tarnished Beijing's reputation for effective economic policymaking, and with COVID-19 spreading again, and pessimism on the rise, China is likely to face more and more challenges from an economy that is increasingly buffeted by bad decisions and "the slings and arrows of outrageous fortune."[88]

ZERO COVID'S INTERNATIONAL IMPLICATIONS

The global economy will not be immune to China's economic problems, the most immediate concern of which is the impact of its zero-COVID policy. While the Chinese government so far has managed to keep factory output going, the battle against the variants at China's ports has added new stresses to global supply chains.[89] Wait times have lengthened for container vessels in Chinese waters, and air freight costs have at times

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82 For the NPC announcement, see Tom Hancock, "China Puts Tough Reforms on Hold to Focus on Growth: NPC Roundup," Bloomberg, March 10, 2022, https://www.bloomberg.com/news/articles/2022-03-10/china-puts-tough-reforms-on-hold-to-focus-on-growth-npc-roundup?sref=E0nAM78N; for the impact on local government revenue, see "China Fiscal Aid Little Comfort for Cash-Strapped Provinces," Bloomberg, March 8, 2022, https://www.bloomberg.com/news/articles/2022-03-08/china-s-fiscal-aid-is-little-comfort-for-cash-strapped-provinces?sref=E0nAM78N.

83 "Opinion: Expanding New Infrastructure Helps Stabilize China's Economic Growth," Yicai Global, February 9, 2022, https://www.yicaiglobal.com/news/opinion-expanding-new-infrastructure-helps-stabilize-china-economic-growth. The Trump administration designated Yicai Global a Chinese foreign mission.

84 Hong Kong- and New York-listed Chinese shares were especially pummeled. See Jeanny Yu and Charlotte Yang, "Panic Selling Grips Chinese Stocks in Biggest Plunge Since 2008," Bloomberg, March 13, 2022, https://www.bloomberg.com/news/articles/2022-03-14/china-s-tech-rout-deepens-amid-lockdown-geopolitical-worries?sref=E0nAM78N.

85 "China Makes Strong Vow to Ease Crackdowns After Market Turmoil," Bloomberg, March 13, 2022, https://www.bloomberg.com/news/articles/2022-03-16/china-vows-to-keep-markets-stable-and-handle-developers-risks?sref=E0nAM78N.

86 "China Will Not Expand Its Property Tax Trial This Year," Bloomberg, March 16, 2022, https://www.bloomberg.com/news/articles/2022-03-16/china-will-not-expand-its-property-tax-trial-this-year-l0tex2zh?sref=E0nAM78N.

87 "China Pledges to Stabilize the Economy and Plan for Uncertainty," Bloomberg, March 30, 2022, https://www.bloomberg.com/news/articles/2022-03-30/china-pledges-to-stabilize-economy-and-plan-for-uncertainty?sref=E0nAM78N; and "China's Li Issues Third Growth Warning as Covid Takes Toll," Bloomberg, April 11, 2022, https://www.bloomberg.com/news/articles/2022-04-12/china-s-li-issues-third-warning-on-growth-as-covid-takes-toll?sref=E0nAM78N.

88 William Shakespeare, "Hamlet," Act III, Scene 1.

89 Ann Koh and Kevin Varley, "U.S. Goods Risk Being Late as China's Lockdowns Worsen Shipping Port Jams," Bloomberg, March 24, 2022, https://www.bloomberg.com/news/articles/2022-03-24/china-port-jams-at-five-month-high-pose-risk-to-u-s-deliveries?sref=E0nAM78N.

risen sharply.[90] Some ships are bypassing Chinese ports altogether because of delays. The Shanghai lockdowns also have added to the delays—and hit local manufacturers—by severely affecting trucking into the Yangtze Delta.[91] In addition, the war in Ukraine has disrupted rail shipments to Europe over train lines built under China's Belt and Road Initiative—only increasing the load on the country's harbors.[92]

While some multinational corporations have privately praised China's efforts to contain COVID-19, the most recent lockdowns have affected operations across the board. A March 29-30 survey of US businesses operating in China nationwide and in Shanghai, conducted by the American Chamber of Commerce in the People's Republic of China (known as AmCham China) and AmCham Shanghai, showed that 99 percent of respondents reported being "impacted" by outbreaks, with 81 percent of manufacturers reporting "slowed or reduced production." In addition, 85.5 percent of manufacturers were experiencing "disrupted" supply chains.[93] The worsening situation led the European Chamber of Commerce to send a letter to Vice Premier Hu Chunhua expressing concern about the social and economic costs of the pandemic.[94]

Businesses worldwide are fretting at the cost of China's port delays. It isn't just a matter of deliveries to the United States, Europe, and other destinations. China's imports are affected as well. By mid-February 2022, products ranging from raw materials to the electronics components essential for China's vast industrial base were sitting at anchor in Chinese waters.[95]

The burden of zero COVID is beginning to influence long-term planning for companies that have become accustomed to China as a production base. Stephen Lamar, CEO of the American Apparel and Footwear Association, says that the policy is adding to the pressure that his member companies are facing to move production out of China—coming on top of US tariffs on imports from China and official pressure to disconnect from Chinese suppliers in Xinjiang.

There also is the problem of the severe restrictions on travel to China, which makes running businesses much harder. The longer zero COVID remains in place, Lamar says, the more his members will look to shift to other countries.[96]

The impact of supply-chain problems on inflation—especially port and land-shipping delays in the United States—have been well documented for industries like semiconductors and food.[97] Several factors beyond those issues have contributed—ranging from rising oil prices to pent-up consumer demand. If China's response to the latest outbreaks causes additional delays to cause price pressures to build, that would be an unwelcome international development, especially as some of the supply-chain backups elsewhere are untangled. Similarly, the rising cost of raw materials caused by the Ukraine war may soon be reflected in China's export prices.

The deeper worry for the global economy stems from slowing Chinese demand. The implications of a steeper-than-expected drop in Chinese growth and a slowdown in construction would be a blow to economies still struggling to emerge from the pandemic-induced slowdown of 2020—especially developing countries. It would also add further uncertainty to a global economy adjusting to the shocks from Russia's invasion of Ukraine.[98]

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91 Liza Lin and Yang Jie, "Shanghai's Covid Lockdown Leads to Logistics Disarray, with Quarantined Truckers, Piled-Up Containers," *Wall Street Journal*, April 21, 2022, https://www.wsj.com/articles/shanghai-lockdown-leads-to-logistics-disarray-with-quarantined-truckers-piled-up-containers-11650537303.

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96 Stephen Lamar, Interview by Michael Schuman, February 8, 2022.

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98 IMF, WEO, 18.

Conclusion

Zero COVID has been a tremendous success for the countless deaths it has prevented. Yet two years after its initial formulation, the strategy is facing its most severe test. Significant outbreaks across the country—most notably in the business capital of Shanghai—have stretched government resources and public endurance. The sagging economy has become a more pressing concern as continued lockdowns and disruptions hamper production and consumption, and weigh on the country's fragile property market. The latest outbreaks, and the problems they have presented, suggest that China's leaders may need a new strategy, or at the very least, an adjustment to the zero-tolerance approach.

The leadership appears to recognize that need. While remaining committed to the zero-COVID policy, Beijing has begun experimenting with methods to minimize the economic uncertainty it creates. For instance, authorities instituted a more limited lockdown in Shenzhen than in some other cities, and permitted some factories to remain open using a "closed-loop" formula. Many ports have continued to operate at a level that keeps imports and exports moving—albeit with some delays. The government approved Pfizer's new anti-viral drug, Paxlovid, in February (though not its mRNA vaccine) as well as several rapid COVID-19 tests, indicating it may be looking to further moderate its coronavirus strictures.

Nevertheless, China's leaders will likely struggle to move on from zero COVID, as the especially draconian lockdown in Shanghai showed all too clearly. With an under-vaccinated populace—only about half of those over 80 years of age have received the required shots[99]—and a feeble, state-heavy healthcare system, a shift away from the zero-COVID policy risks a major public health crisis. Politically, too, the leadership will find it challenging to break with the policy. Having touted it as a measure of its competence and proof of its legitimacy, both at home and abroad, the Communist Party might perceive threats in relaxing zero COVID. The party may also see a major outbreak in China as a diplomatic embarrassment. With the historic party leadership congress looming later this year, Xi will have to calculate what course best serves his chances of securing an extended term in office—continuing to strive for zero COVID, or relaxing pandemic restrictions to bolster a slowing economy and assuage public frustration.

The response to the severe lockdown of Shanghai also reveals how a continuation of zero COVID presents new risks to the Communist Party. The lockdown generated an unusual level of public protest, both on the streets and online, as well as resistance to some of the program's more excessive elements, such as separating children who have tested positive for COVID-19 from their parents. The anguish of the people of Shanghai, suffering without food and basic necessities, generated sympathy and concern around China and the world, and fostered an impression that China's governance was becoming increasingly inhumane. The Communist Party appeared unable to respond to the mounting difficulties—both in regard to the swelling humanitarian problems and angry public reaction. While making minor concessions on some aspects of its practices, the party mainly responded with greater force to impose its will, treating Shanghai as if it was a city in rebellion. The saga exposed both the limits of the government's ability to continue its zero-COVID policy, and the limits of the Chinese people to tolerate it. The Communist Party arrived at its zero-tolerance approach to eliminate risks to its image and legitimacy; now it must find ways to moderate its COVID-19 policy to eliminate new risks resulting from those policies.

In that sense, zero COVID has shown us the strengths and weaknesses of China's political and social system. At a time of crisis, the state was able to marshal resources and impose a level of societal control that few other governments around the world have the capacity (or the will) to match. Yet as is true with authoritarian regimes more generally, China's government is trapped by policy inflexibility brought about by the dearth of public participation in politics and policymaking. That inflexibility is contributing to an economic downturn that is undermining the Chinese Communist Party's assertion that it alone can deliver prosperity to the Chinese people. Worse still, decisions on COVID-19 policy could be influenced by the political needs of one man—Xi Jinping, and his quest for unprecedented power. Proponents of Chinese authoritarianism held up zero COVID as a sign of that system's superiority, but the strategy may also prove to be one of that system's greatest tests.

99 State Council Information Office of the Peoples Republic of China "国新办举行从严抓好疫情防控工作新闻发布会图文实录" ("The State Council Information Office Held a Press Conference on Strict Efforts to Prevent and Control the Epidemic,") March 18, 2022, http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/47673/48041/wz48043/Document/1721891/1721891.htm; China National Health Commission press conference, Mar 18, 2022, http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/47673/48041/wz48043/Document/1721891/1721891.htm.

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