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WEB ARTICLE

THE IMPACT OF COVID-19 ON THE CHINESE ECONOMY: A COMPREHENSIVE ANALYSIS

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CHINESE ECONOMY: A
COMPREHENSIVE ANALYSIS**



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Abstract

The COVID-19 catastrophe is still having a significant impact on the Chinese economy. The Chinese government was able to contain the pandemic, which aided the country's speedy economic recovery and allowed it to outperform other major countries in 2020. However, in 2021, new waves of infection sent shock waves from economically disadvantaged regions such as Inner Mongolia and Gansu to the country's economic centres such as Beijing, Shanghai, and Zhejiang. In the wake of the 20th National Congress of the Chinese Communist Party, at which he was granted an unprecedented third term as China's top leader, Xi Jinping has been very busy trying to burnish his global credentials by visiting foreign shores. During the congressional hearing that took place two months ago, he emphasized the "success" of his stringent covid policy and reaffirmed his determination to maintain it in the future. This brief will analyse whether China's dynamic zero COVID-19 strategy is Catastrophic or sustainable.

Introduction

The sweeping “dynamic clearance” (动态清零, dongtai qingling) has resulted in the People’s Republic of China’s relative international isolation, which has exacerbated existing geopolitical tensions between China and the West. A major resurgence of the coronavirus has devastated China, harming an estimated 40,000 domestically transmitted infected individuals and their livelihoods, the highest daily count till now¹. People are furious, and China's growth rate, currency, and stock markets are all in decline. Millions of people are enduring "hard lockdowns," forced mass testing, border controls, travel restrictions, severe quarantines, enormous monitoring measures, and food hoarding in major cities. A deadly fire broke out in the Chinese city of Shanghai, in a building situated on Urumqi road, reportedly killing 10 people who were staying there due to quarantine restrictions. This filled the ongoing protests by the people against continuous covid limits and led to a series of protests around the country, as people blamed coronavirus restrictions for the tragedy². Deleterious political slogans were heard and flashed around in Shanghai; college and university students held conspicuous political gatherings; alleged interference by foreign media increased, and various foreign websites encouraged their content organization³.

At the pivotal 20th Communist Party Congress happened in October 2022, Xi Jinping proudly hailed the zero-covid policy of China-which included a series of restrictions followed by violence and tracking of covid-19 infected patients, poor isolations facilities, and contact tracing for nearly three years- and called it an all-out people’s war. However, Xi did not clarify if this policy will remain in place during upcoming outbreaks or if there will be any changes. Reason-Xi and his party members think of it as a perfect strategy to prevent massive outbreaks like what happened in 2020 even if it means subjecting citizens to forced isolation and inoculations⁴. Even though, after the initial success, China’s dynamic “zero-covid policy” has failed to vanquish every chain of infection or stamp out the new Omicron Variant⁵.

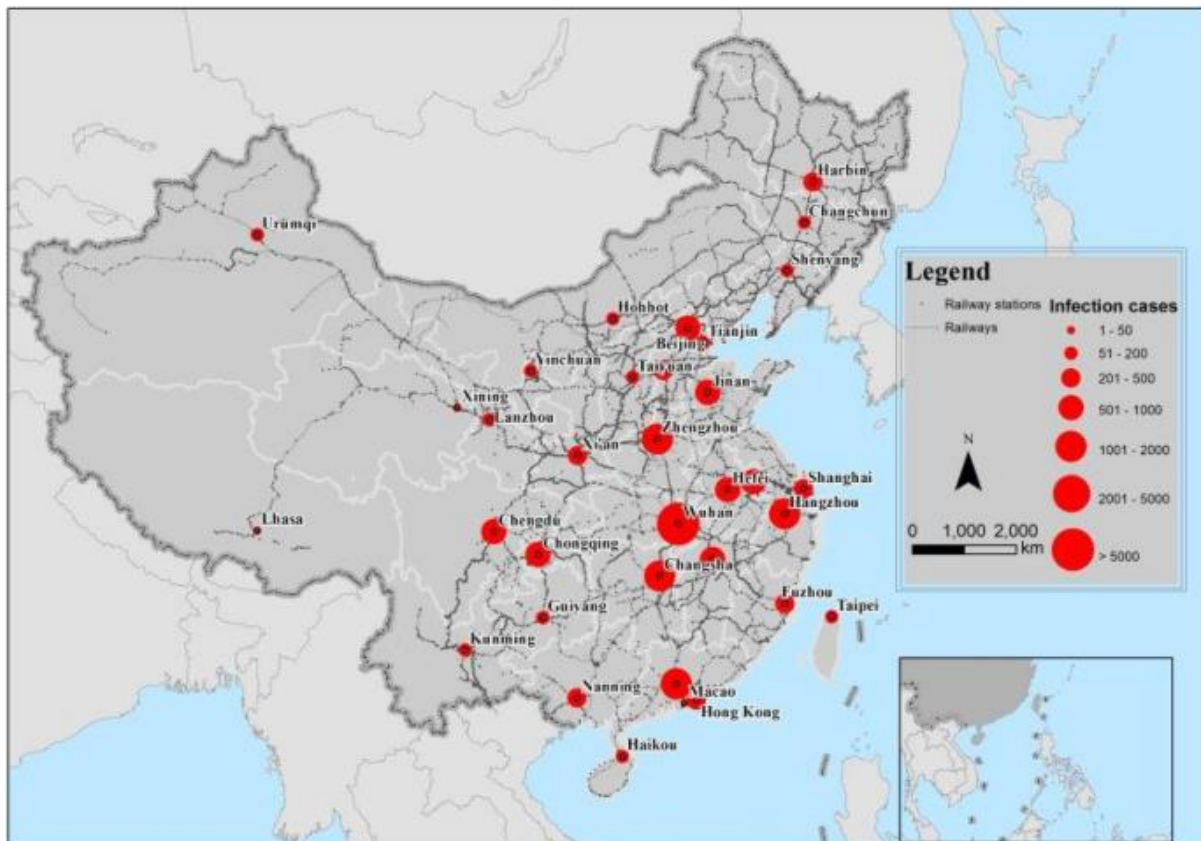
China’s Year of Zero-COVID

The lengthy lockdown in Shanghai may soon come to an end. Parts of the city have been allowed to gradually reopen their stores, and limited public transportation services have resumed⁶⁷. Nonetheless, a large portion of the city remains under lockdown. Moreover, it is unlikely that China will abandon its "dynamic Zero-COVID" initiatives soon. Indeed, fresh evidence that the People’s Republic of China (PRC) is committed

to this approach emerged late last month when Beijing Party Secretary Cai Qi told the Municipality's Party Congress that "Beijing will continue to persevere in the 'next five years' (未来五年, weilai wunian) to do an effective job of normalizing epidemic prevention and control"⁸. These remarks from Cai sparked widespread concern among Chinese netizens that the zero-COVID policy will become semi-permanent.

Chinese authorities have started the highest "emergency response" level of censorship, according to leaked directives, including a crackdown on VPNs and other methods of bypassing online censorship after unprecedented protests demonstrated widespread public frustration and anger for the zero-Covid policy⁹.

Figure No. 1 China's ongoing battle against the Coronavirus



Source: Chen, L., Yuan, X. China's ongoing battle against the coronavirus: Why did the lockdown strategy work well?. *Socio Ecol Pract Res* 2, 175–180 (2020). <https://doi.org/10.1007/s42532-020-00048-1>

The crackdown, including the tracking and questioning of protesters, however, was followed by the easing of the lockdown restrictions in some areas including where

there's no dip in the number of cases and infections. This ease of restrictions is allegedly done to calm people down for a while and lower the grievances against zero-Covid restrictions including criticism of the authoritarian rule of Xi Jinping – which was further highlighted by the death of the former Chinese leader Jiang Zemin.¹⁰

Protesters in Shanghai also flared and held up blank pieces of paper as a symbol of censorship — a gesture often utilized by pro-democracy used by activists in Hong Kong — and pinned them to trees before police ripped them down. Flowers were also seen to be carried by the others as flowers are the symbol of mourning in Chinese culture. The policy is coming under immense pressure from rising cases, popular discontent, and a slowing economy. Authorities reported the highest number of daily infections on record for the fourth consecutive day, with the tally close to 40,000 during the last days of November.

Within the hours of the Urumqi protests, Uyghurs protestors gathered around the Chinese consulate in Istanbul, seeking a response for the inability of any action from fire trucks, and fire stairs were not allowed in the building. The Turkish Foreign Ministry has asked China to inform the public about the reasons behind the lack of rescue actions in response to the fire that killed at least 10 people and injured nine others in Xinjiang Uyghur Autonomous Region.

Recently, the city of Shenzhen took strict anti-epidemic measures for a week before announcing that normal work could resume. Because of this, Shenzhen has tightened its anti-epidemic measures by asking its residents to show negative nucleic acid testing results. Shenzhen did a round of nucleic acid testing all over the city to find out where the epidemic was going and stop it from spreading as soon as possible¹¹.

The rise in COVID-19 cases in Zhengzhou also got a lot of attention when infected workers were found at Foxconn's factory in the city. Foxconn is the world's largest iPhone assembly plant. Official working groups were sent to get the epidemic under control. There is also an outbreak in Guangdong, where 700 people got sick in October. Authorities said that the rise in COVID-19 cases was due to infections coming from other provinces and countries. There has also been a rise in infections in the same area¹². Thousands of workers at the sweatshop protested and complained about horrific living conditions and the absence of salary pay for two-three months.

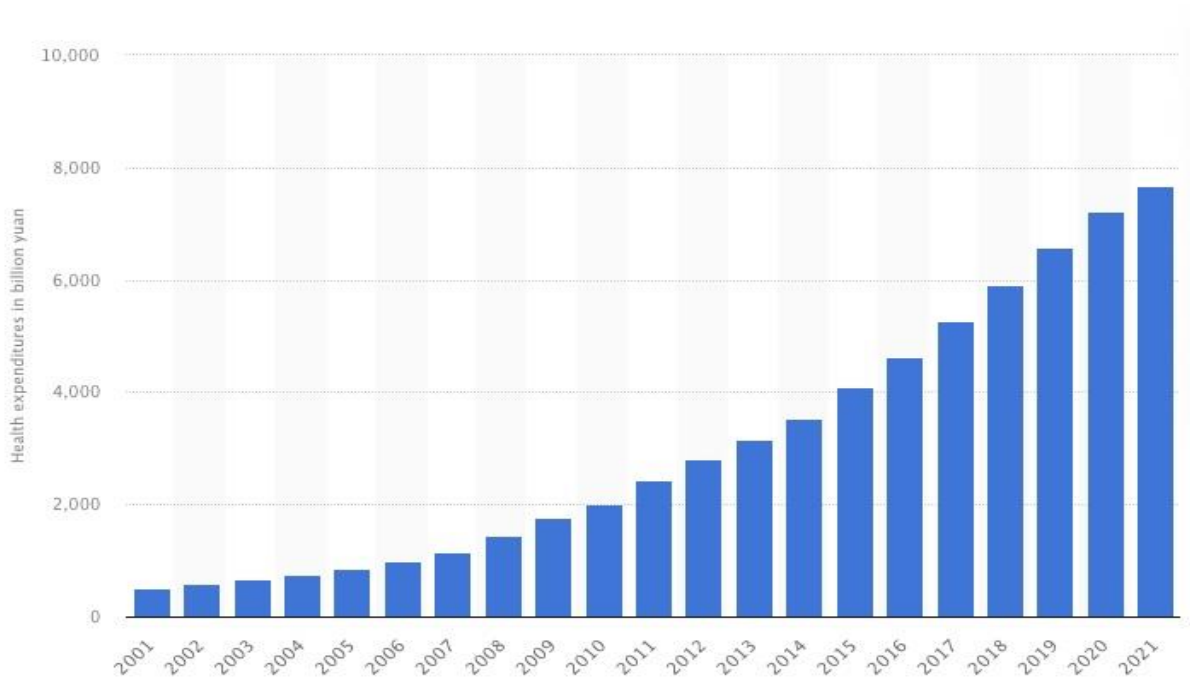


Figure No. 2 Health Expenditure in China from 2001 to 2021 (in billion yuan)

Source: Statista, the total expenditure on health care in China reached over 7.7 trillion yuan. https://www.statista.com/topics/5898/novel-coronavirus-covid-19-inchina/#topicHeader_wrapper

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A Beijing respiratory expert named Wang Guangfa told the Global Times that nucleic acid testing has been a critical way to find people who carry the COVID-19 virus so that

the source of transmission can be controlled. This is one of the first steps in the dynamic zero-COVID strategy¹⁴

Shenzhen was the first place to do regular testing of nucleic acids. It is trying to control the situation quickly by using this method again. Multiple cities in China have changed how often they test for nucleic acids because of the overall improvement. As local governments have learned from past COVID outbreaks, they now know how to deal with COVID-19 and use more targeted, science-based methods to get to "dynamic zero-COVID."¹⁵

A Case Study on Tibet

After COVID struck Tibet in August, and after spending more than 900 days without even a single case, most Tibetans supported the government's efforts over social media, to stop the infection from spreading¹⁶. Tibetans used social media platforms to praise the bravery and dedication of the anti-epidemic workers in white suits, who are called "Big Whites" in Chinese. They also expressed empathy after one of the videos showed them collapsing from exhaustion after praying with the rest of the country for the epidemic to end soon¹⁷.

In Shigatse, Tibet's second-largest city, four local trades contributed 5 million renminbi (\$740,000) to the COVID administration effort, and a group of Tibetan monasteries contributed 3 million renminbi (\$444,000) in cash and materials to show their support, which is a normal gesture on the part of the Tibetan people. Together, these donations totalled 740,000 yuan¹⁸. China's National Health Commission announced today that the country's COVID-prevention policy will be "optimised." It means that foreign travellers won't have to stay in quarantine as long and that lockdowns will be smaller¹⁹.

In the past few days, there has been an outbreak in Guangzhou that officials have called "dire and complicated." At the same time, COVID levels are rising across the country, which has led to more lockdowns like the one in Zhengzhou. On November 10, more than 10,000 new cases were reported in China.

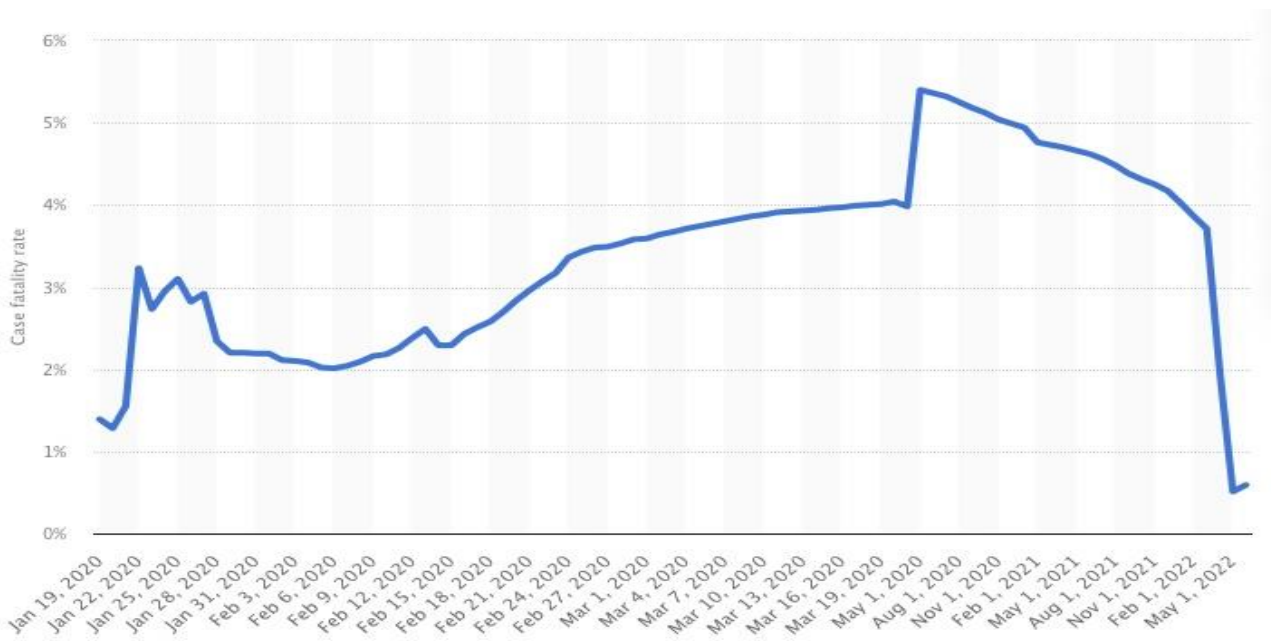


Figure No. 3 COVID-19 case death rate trend in China 2020-2022

Source: Statista, As of June 1, 2022, the case fatality rate (CFR) of coronavirus COVID-19 ranged at 0.59 percent in China, lower than the global level of 1.19 percent. Health authorities in Wuhan, the Chinese epicenter, revised its death toll on April 17, adding some 1,290 fatalities to its total count. The 50 percent increase of death cases in the city raised the overall CFR in China from 4.06 percent to 5.6 percent. https://www.statista.com/topics/5898/novel-coronavirus-covid-19-inchina/#topicHeader_wrapper

The history of the fangcang (方舱) camps and the way in which the administration of Lhasa responded to the outbreak have shed light on some of the limitations of the ability of a government modelled after the Chinese model to respond to a crisis in a community. The absence of exceptional conditions within the isolation fangcang or "square cabin" hospitals in Lhasa was one of the most striking aspects of the zero-COVID policy and its implementation there. But rather the quantity of its buildings and the number of people who live in them in relation to the total population of the city. As a consequence of this, an exceptionally high percentage of the city's inhabitants have been incorporated into the fangcang system. China publishes a daily tally of the total number of persons across the country who are "under medical observation" (医学观察,

yixue guancha), of whom the exact number of unidentified patients is not known. The Chinese government announced that 145,548 people were under remedial supervision on September 27. On the same day, 42,937 close contacts were held in isolation fangcang in the TAR, as we have observed previously. This indicates that at least 30 percent of the close contacts that were being held in isolation fangcang across China on that day were located in Tibet, despite the fact that only 12 out of one hundred COVID cases were being reported there²⁰. Since 91 in each hundreds of the COVID cases in the TAR during the preceding 14 days were reported from Lhasa, the vast majority of those held in Tibet fangcang were likely in Lhasa.

Economic Catastrophe

Throughout the course of this year, the "dynamic Zero-COVID" policy has led to a number of major cities instituting tight limitations on human mobility in an effort to stop the spread of disease. At the end of March, these cities were responsible for contributing forty percent of China's gross domestic product (GDP). The most extensive and stringent lockdowns have been implemented in Shanghai, which is China's most important metropolitan area in terms of its contribution to the country's GDP²¹. The city accounts for about 5 percent of China's GDP and is the nation's most significant onshore financial hub. China's consumption fell dramatically in March, with retail sales dropping by 3.5% and restaurant sales tumbling by 18%. This dip was mostly attributable to the country's severe epidemic control measures:

Local officials have attempted to build closed loops to prevent the lockdown from impacting Shanghai's manufacturing capabilities, but many enterprises have been unable to operate and have been forced to temporarily halt production²². In addition to the challenge of keeping their employees informed, the logistics of obtaining production inputs and delivering finished goods to the market have become a nightmare. According to local GPS data, over fifty percent of China's roadways appear to be closed, while air freight and ports operate inefficiently due to mobility limitations and cross-border quarantine regulations. In April, the manufacturing Purchasing Managers Index (PMI) fell to 47.4 percent, a reduction of 2.1 percent from March and the lowest level in the past 12 months²³. Based on these figures, both the service sector and the manufacturing sector of the Chinese economy are extremely weak, with the latter entering the recession zone.

The continued protests at the Foxconn factory or after the Urumqi incident or even the September bus incident point toward the failure of social and economic policies of the party. Already observable are the effects of China's rapid economic decline on the rest of the world. In March, China's imports unexpectedly plummeted²⁴ by 15%. The fall in imports is attributable to the negative effect of quarantine regulations recently placed on foreign goods, which have introduced another barrier for goods entering China. China exports as much as one-third of the world's intermediate goods, thus manufacturing restrictions represent a severe blow to the global economy. Transportation issues, which derive from cross-border movement limitations and high shipping costs, are also likely to drag on, resulting in substantial disruptions to global supply chains.

China's Progress Towards Sustainable Growth

Since the first breakout of the virus two years ago, the Chinese economy has continued to expand healthily, growing at an average annual rate of 5.1% throughout the course of those two years. The expansion of the Chinese economy by 4.8% year-on-year in the first quarter of 2022 was consistent with the economy's recent pattern of steady development. The country's foreign exchange reserves remained stable at roughly \$3.2 trillion over the first four months of the year, and 4.06 million new employment were created in that time. The total payments from foreign investments reached \$74.47 billion, representing a year-over-year growth of 26.1%. The actual investment from South Korea, the United States of America, and Germany increased by 76.3%, 53.2%, and 80.4%, respectively. May saw a year-over-year increase of 11.1% for China's commercial activity, with exports recording a year-over-year gain of 16.9%²⁵.

It is generally believed that China's dynamic zero-COVID plan would maintain the steady expansion of the world's second-largest economy as well as the global supply chain. The solid economic pulse of China is evident as the country's zero-COVID policy continues to support the recovery of normal life and the creation of goods by all enterprises.

Figure No. 4 Independently forecast and officially reported daily new COVID-19 cases and deaths in Mainland China on selected dates



Source: Airfinity, national reports via Johns Hopkins University, Statista, https://www.statista.com/topics/5898/novel-coronavirus-covid-19-inchina/#topicHeader_wrapper

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After having some initial success in limiting the next COVID-19 resurrection, China has reason to be confident about its country's economic prospects. As of the middle of May, the majority of Shanghai's over 9,000 vital industrial enterprises have resumed production, as indicated by data provided by the Shanghai Municipal Commission of Economy and Information Technology²⁶.

The Chinese ambassador to Dominica, Zhang Run, recently stated in an article that was published in local media that China's "dynamic zero-COVID" strategy has resulted

in a healthier, safer, and more stable environment for China's development, and has effectively stopped the spread of the disease to other countries.

Zhang Run, the Chinese ambassador to Dominica, recently stated that China's "dynamic zero-COVID" strategy has produced a healthier, safer, and more stable environment for China's development, and has also effectively stopped the spread of the disease to other nations. He said this in response to a question about whether or not China's "dynamic zero-COVID" strategy has had any effect on the disease's spread to other countries.²⁷.

Conclusion

Dynamic zeroing is neither zero transmission nor the permanent Chinese plan. Whether to adjust the existing pandemic prevention plan depends on the worldwide epidemic trend, the mutation of the virus, the change in disease severity, and the level of vaccination coverage in China, among other things²⁸.

In contrast, China has successfully coupled the prevention and control of epidemics with economic and social development by adhering to a scientific and precise policy known as "dynamic zero-COVID." The year 2020 marked the year that the nation became the sole major economy in the world to have positive economic growth. The country's gross domestic product is projected to reach over 110 trillion yuan (about \$16.95 trillion) in 2021, representing an increase of 8.1% in comparison to the previous year²⁹. Same, in the year 2022, China's economy expands 3 % and finally after 20th Party Congress China scrapped the zero-COVID policy.

The analysis of this strategy is crucial, as it could have a significant impact on the Chinese economy in the long run. While stringent COVID-19 policies have been effective in containing the virus, they may also have negative consequences on economic growth, particularly if the policies continue to be enforced in the future. Additionally, the emphasis on China's COVID-19 policies by its top leader, Xi Jinping, suggests that the strategy is a significant priority for the government.

In his speech, Xi claimed that China's economy expanded at a nominal rate of more than 4 percent in 2022. However, such claims are in conflict with data published by the

Chinese government, which suggests that the economy most likely contracted in the most recent quarter due to disruptions caused by COVID. For example, China's manufacturing and service sector activity both reached their lowest levels in three years last month. This was the case last month³⁰.

It is also important to keep in mind that the overarching goal of China's overall policy of "dynamic zero-COVID" is to "strive to achieve the maximum prevention and control effect at the lowest cost and minimise the impact of the epidemic on economic and social progress." The "dynamic zero-COVID" policy that China has implemented is the approach that is the most responsible for preventing and controlling the global epidemic. From the rapid containment of COVID-19 outbreaks to the investigation of normalised epidemic and control, from the entire chain of prevention and control "dynamic zero-COVID" to the extensive prevention and control of a "scientifically and precisely dynamic zero-COVID" strategy, China's epidemic prevention and control have been steadily improving since the year 2020. This includes everything from the investigation of normalised epidemic prevention and control to the investigation of normalised epidemic prevention and control.

Overall, it remains to be seen whether China's dynamic zero COVID-19 strategy is sustainable or catastrophic. However, it is clear that the strategy is a significant focus for the Chinese government, with potential implications for both the country's economic recovery and its global standing.

DISCLAIMER

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