

COVID Restrictions in China Likely to Last Well Into 2023

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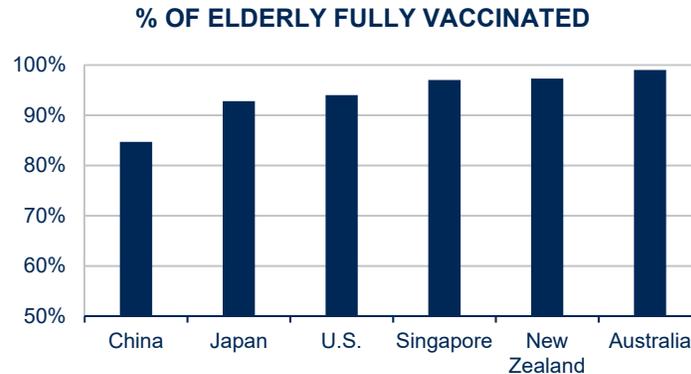
Amid rising speculation around whether China will relax COVID restrictions in the upcoming Party Congress on October 16, it seems more likely that nothing will happen until next year's National People's Congress. Together with the ongoing property sector slowdown, these constraints are weighing significantly on consumer confidence and economic activity and seriously weaken the effectiveness of stimulus measures authorities implement. This means GDP growth could underperform in both 2022 and 2023.

Our investment colleagues in China think that while the National People's Congress scheduled around March of next year could provide the catalyst for change for the zero-COVID policy—particularly as its political effects fade—the progress toward a full end to the policy will likely be protracted and won't come until later in 2023. Policymakers have potential off-ramps they can utilize—vaccination mandates, inhaled vaccines reducing person-to-person spread, or widespread usage of antiviral medication—but given the difficulty of fully implementing these on a national scale, the future of the policy remains uncertain.

The zero-COVID policy is a keystone program for President Xi Jinping. It arguably enhanced the credibility of the Chinese Communist Party, delivering on its social contract: one-party rule in return for competent governance that promotes the safety and quality of life of the public. At the same time, with the number of reported deaths in China significantly lower than the rest of the world, it also highlighted the advantages of China's authoritarian political system against those of the more democratic West.

Harsh restrictions have been perceived by policymakers to be [a largely effective strategy](#) since the start of the pandemic, helping limit contagion whenever cases began to rise. However, with more contagious and deadly variants circulating, and with natural immunity still at low levels within the country, the policy has come with growing scrutiny as well as economic and social costs. Most notable were the [lockdowns in Shanghai](#) earlier this year, which lasted from February to August.

Looking ahead, the move away from the pandemic-era restrictions may not be as smooth as in other economies that finally dropped restrictions, especially as unmitigated spread of COVID-19 throughout China can still lead to severe health outcomes. Limited health care resources—3.6 [ICU beds per 100,000 inhabitants](#) in China, versus 35 and 30 in the U.S. and Germany, respectively—relatively lower levels of immunoprotection given lower natural spread of the virus, and low vaccine take-up for the elderly population all make an outright and immediate abandonment of zero-COVID a [potentially risky affair](#).



Source: Bloomberg, as of August 2, 2022.

Thus, a primary challenge for policymakers is likely finding an appropriate off-ramp that could allow them to not only credibly move away from the policy, but do it without creating further disruptions:

1. A nation-wide vaccination mandate, targeted at the elderly (aged 60+) population

Ninety percent of the population is vaccinated against COVID-19, but only 85% of the elderly population is fully vaccinated, leaving about 85 million people under risk. There is also a divergence among cities; the elderly vaccination rate is above 80% in Beijing, while it is only 70% in Shanghai. A vaccine mandate would be the most direct way to mitigate the risks around full reopening but could be difficult, as policymakers would need to address the public's view that any widespread vaccine mandates [are unjust](#).

2. Inhaled vaccines reducing person-to-person spread

While it is [less effective](#) against severe disease versus injected vaccines, studies have shown inhaled vaccines could help [reduce](#) person-to-person [spread](#), achieving what is called sterilizing immunity. This could help stop contagious variants like Omicron from spreading widely within any community. Sterilizing immunity is of course a high bar for any vaccine, and it remains unclear whether clinical studies will translate into real-world performance.

3. Widespread deployment of Paxlovid

If supplies are plentiful and distributed widely enough, Paxlovid could be used to [help minimize](#) severe negative outcomes during infection, which would ultimately mitigate the risks of widespread infections clogging the limited health care system. Authorities have been trying [since March](#) to ramp-up production, but a nationwide strategy to use the drug has been limited, adding some uncertainty around potential production delays or deployment.

These potential off-ramps should minimize any widespread collapse on the health system upon reopening, but given the government appears to need more time to implement these measures, a full end to the zero-COVID policy will likely be protracted and won't come until 2023.

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