

Although it carries the risk of an economic downturn, China maintains its “zero COVID-19” policy

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18 FEBRUARY 2022

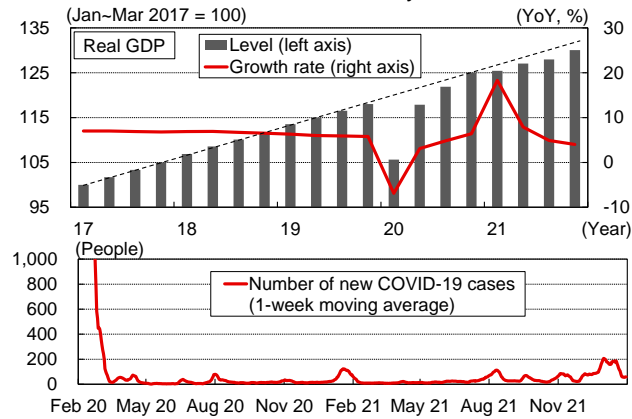
(ORIGINAL JAPANESE VERSION RELEASED ON 1 FEBRUARY 2022)

The real GDP growth rate for the October-December quarter last year was 4.0% YoY, maintaining some degree of growth. The level of real GDP recovered to the trajectory it was on before the COVID-19 pandemic (Chart 1, upper). As a result, the growth rate for 2021 as a whole was high at 8.1% YoY due in part to a rebound from 2020 when the pandemic started. Although there will be downward pressure from a tightening of control over the economy and a sluggish real estate market, there are many that think growth of around 5.0% YoY looks possible this year thanks to the government prioritising financial stability.

That being said, it will be important to keep an eye on risks to the economy from China's strict “zero COVID-19” policy, which is said to have brought the pandemic under control. The current number of new COVID-19 cases is lower than other major developed countries at around 100 (Chart 1, lower), yet the focus on “zero COVID-19” means an outbreak of a small number of cases by developed countries' standards results in cases where large cities are locked down (the most recent being Xi An and Anyang). For example, in the case of Wuhan, which was the first place in the world where a lockdown was imposed during the pandemic, a lockdown of approximately 2.5 months in the city meant its gross regional product (GRP, nominal figure used due to statistical constraints) for the January-March 2020 quarter is estimated to have fallen by around 60% from the “level it should be” (Table 1). Using this as a reference, it is assumed that “a month-long lockdown will lower GRP by around 25% on a quarterly basis for that region” and “five cities around the size of Xi An will be locked down for an average of a month every quarter (20 cities for the year)”, even if the spread of infection is isolated, due to the pursuit of “zero COVID-19”. Based on these assumptions, the downward pressure on China's total nominal GDP was approximately 1.4% points. While it is necessary to look at this figure with some leeway, such converting it to real GDP, it is highly likely that this number will increase further considering the negative impact on other regions through supply chains.

In advance of the National Congress in autumn this year, it is deemed unlikely that the government will shift to a “with COVID-19” policy from a “zero COVID-19” one before the Congress. Therefore, it is important to acknowledge the risk of the Chinese government facing a dilemma where the “zero COVID-19” policy itself will cause a downturn in the economy depending on the COVID-19 situation.

Chart 1: China's Real GDP and Daily No. of New Cases



Note: "Level" is estimated from quarter-on-quarter seasonally adjusted figures published by the Chinese National Bureau of Statistics
 Source: National Bureau of Statistics, MUFG Bank Economic Research Office

Table 1: Estimated Impact on the Economy from Expansion of Lockdowns

	Hubei province			
	Wuhan	Xiaogan	Other	
Nominal GDP (2020, RMB trillions)	4.3	1.6	0.2	2.6
A Estimate of Wuhan's nominal GDP growth rate for Jan-Mar 2020 (YoY, %)	-36.7	-59.2	-24.2	-24.2
B Average nominal growth rate 2017~2019 (YoY, %)	10.9	10.9	13.5	
C Downward pressure on Wuhan's former growth trajectory (%) ($(1+A) \div (1+B) - 1$)	-62.3 (69 days)	-27.5 (30 days)		
D Percentage of nominal GDP (%)				Cities that were locked down 1.0
E Lockdown period				Assumed to be 30 days
F Downward pressure from lockdowns (annual, %) ($C \div 4$)				-6.9 (quarter: -27.5)
G Number of cities locked down (annual, individual)				20
H Downward pressure on whole Chinese economy (%) ($D \times F \times G$)				-1.4

Note: 1. Underlined figures in the upper table are estimates or assumptions. Growth rate for Wuhan is the same for "Other" and "Xiaogan" and is the former growth rate is calculated as the average growth from 2017~2019
 2. Nominal GDP for "Cities that were locked down" is assumed to be the same as Xi An
 Source: National Bureau of Statistics, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

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