

China Watch

COVID policy watch series #1: Politburo signals key changes in policy tone

President Xi hosted a Politburo meeting on Nov 10 on COVID-19 policies. The meeting brief made clear suggestions to optimize control measures and made preparations for potential relaxation, while downplaying the political nature of Zero COVID policy implementation. In addition, NHC announced China will reduce quarantine requirement on close contacts, and cut quarantine for inbound travelers to 8 days from 10, as well as scrapped the flight ban on Nov 11.

We believe it sends an important signal that China is ready to adjust its COVID policies and prepare for an opening up in the future. Even without indicating when a complete relaxation will come, we see hope from this first baby step towards a more evident pivot at the very top level. The announcement came at a critical juncture, as the government is battling COVID flare-ups which have sent daily case counts to the highest level since 2Q and as President Xi is preparing to travel to attend the G20 and APEC summit.

Compared to the previous announcement in May, this policy document contains key changes in the policy tone:

Cautions against economic disruptions and downplays political costs: the Politburo emphasized to “minimize the impact” of the pandemic control on the economy, and warned against the “one-size-fits-all” approach. It also omitted the line on prioritizing the “political cost” of the COVID policy implementation, which was highlighted in the July Politburo meeting. We see this as a key change in the policy tone, mitigating the threat on political penalty on COVID policy implementation, as well as signaling the policy focus will gradually shift back to “effectively coordinating epidemic prevention and control with economic and social development”.

Starting the preparation for future relaxation: The meeting demanded more efforts in promoting vaccine and drug R&D to raise the efficacy of vaccine and medication, as well as the inoculation of vulnerable groups. It left out the May assessment that relaxing controls would lead to “a surge in serious cases and deaths”. In our view, it suggests Chinese policymakers are stepping into the preparation stage for future relaxation, and are taking a more science-based approach going forward. In addition, China has recently approved the BioNTech vaccine for foreign expats during Germany’s chancellor Scholz’s visit in China, which we also consider as a sign of leaning toward science-based approaches towards reopening.

Reiterate the COVID-zero policy without harsh language: While the top leadership reiterates that the country should “unswervingly” stick to its COVID-zero policy, the announcement left out harsh language that suppresses any questioning (“fight against any speech that distorts, questions or rejects our country’s COVID-control policy”).

Key to watch in the near term: while the top-down message has been sent out, there is still more to watch given the dynamic COVID outbreaks, the yet-to-release detailed policy playbooks, as well as the coming economic conferences. The following would be key to watch in the near term:

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PSC: Politburo Standing Committee

CEWC: Central Economic Working
Conference

NHC: National Health Commission

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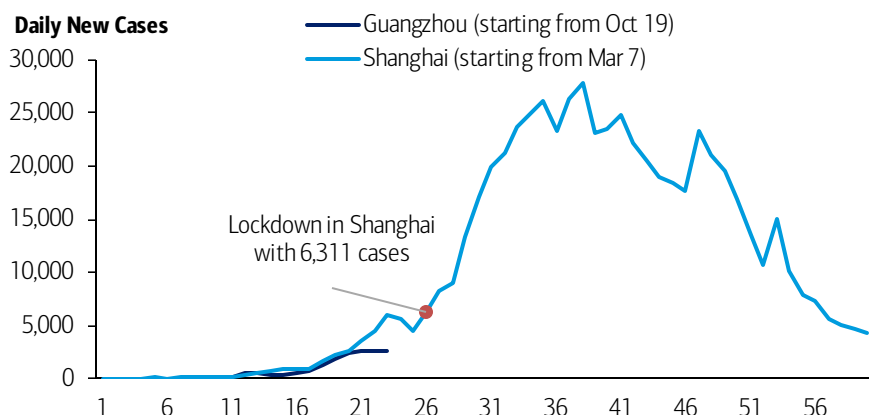
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- The detail of the refined COVID policy measures: It is highlighted that during the PSC meeting, top policymakers have discussed 20 measures to further optimize epidemic prevention and control work. It is worth watching whether there is any significant refinement in the COVID control measures, as well as the execution of pandemic control policies.
- COVID outbreaks development in winter: Daily COVID infections have surged to over 10,000 on Nov 11, the highest in six months, as Guangzhou's COVID flare-ups continue to be intensified. Given its similar COVID outbreak trend to Shanghai in late-Mar (Exhibit 1), it is a key to watch how the local government will respond in the near term, especially after PSC meeting that has specified the risk of COVID outbreaks during the winter and spring.
- Other key events to highlight in the near term: 1) G20 summit: where President Xi is scheduled to meet with foreign leaders in mid-Nov; 2) the PSC meeting ahead of CEWC: where PSC members will discuss the economic policies around early Dec; 3) CEWC: where the economic policies and the economic outlook for 2023 will be discussed around mid-Dec.

Exhibit 1: COVID outbreak trend (Shanghai vs. Guangzhou)

Guangzhou reported 2,583 cases on Nov 10, with its COVID outbreak development similar to Shanghai's outbreak in late-Mar



Source: Wind, BofA Global Research, Note: Shanghai's data starts from Mar 7, with daily new cases of 55; Guangzhou's data starts from Oct 19, with daily new cases of 50. The city-side lockdown in Shanghai started on Apr 1. data as of Nov 10

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