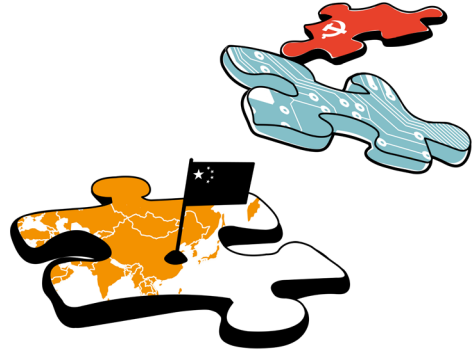


DECEMBER 1, 2022

MERICS China Essentials



CONTENTS

TOP STORY	2
No good way out for China's zero-Covid amid protests.....	2
METRIX.....	4
TOPICS.....	4
Policy schizophrenia drives economic uncertainty and economic stimulus.....	4
China's Covid dilemma: no foreign vaccines and insufficient domestic innovation.....	5
EU's Michel reopens direct communication with Xi Jinping, but at a price	6
MERICS CHINA DIGEST	7

TOP STORY

No good way out for China's zero-Covid amid protests

After a fire killed at least ten citizens in a locked-down, barricaded building in Urumqi, Xinjiang, protesters across China have called for an end to rigid “zero-Covid” measures and lockdowns (解封), which have severely affected livelihoods and personal liberties. In the largest demonstrations in decades, protesters decried the Covid restrictions, and some even called for greater freedoms – most prominently, freedom of expression – and even a change of government.

Nevertheless, the demonstrations have been mainly ad hoc and relatively small in scale, and do not at this point constitute a systemic threat to China's Communist Party. Most protesters are speaking out against the arbitrariness of zero-Covid rather than the political system as a whole. Police have a detailed and well-rehearsed playbook to nip protests in the bud and contain them, aided by censorship and surveillance tools. This makes it exceedingly difficult to organize large-scale collective action, such as the Tiananmen Square protests in 1989 that lasted seven weeks.

Nonetheless, the current unrest is significant because it no longer revolves around a single-issue grievance, and it has rallied broader segments of the public, from workers to students and the urban middle class. The anger about the fire may dissipate, but resentment of the collateral damage of China's zero-Covid policy – which came with the promise to keep citizens safe – has been rising for months and is unlikely to disappear anytime soon.

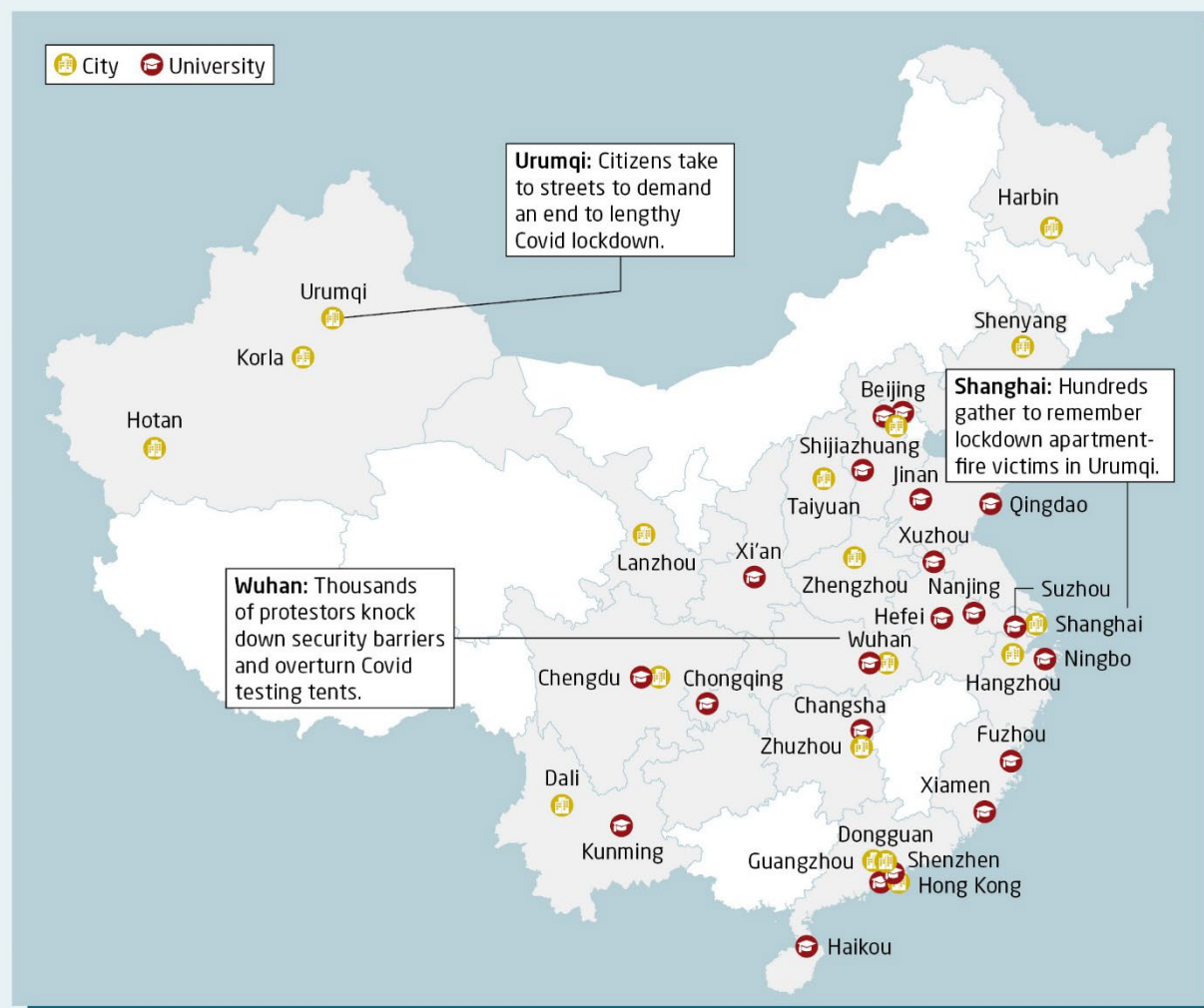
A key cause is the lack of a clear exit strategy. Authorities announced gradual relaxations in early November, but then reinstated many lockdowns as cases spiraled out of control. This caused widespread confusion and frustration. Resources and patience are stretched, while vaccination rates remain too low for comfort. Local authorities and the central government are in a stare-down: implement a full lockdown or slowly let the virus roam free. The former would be disastrous for the livelihoods of hundreds of millions of people, while a large Omicron wave could overwhelm the healthcare system and kill over a million citizens, according to estimates. Society appears increasingly polarized on the right strategy forward – and the economy is set to suffer either way.

MERICS analysis: “Authorities hope to get away with walking a dangerous tightrope. In the wake of the protests, editorials in the party mouthpiece People's Daily have stressed the commitment to the current strategy, while others like vice premier Sun Chunlan have highlighted the weakened pathogenicity of the Omicron variant and expressed optimism towards steps forward,” says MERICS Analyst **Vincent Brussee**. “Police will continue to contain protests, but China is running out of quick fixes and many of the root causes of protests will remain relevant in 2023. This conundrum can only be overcome by a forward-looking strategy focused on reducing arbitrary lockdowns while rapidly increasing vaccination rates.”

More on the topic:

- [“China bows to reality by relaxing Covid restrictions – but ushers in new risks”](#). Short analysis by **Vincent Brussee** and **Katja Drinhausen**.

Protestors across China call for easing of Covid restrictions



Sources: CNN, ASPI, and MERICS collection based on verified open source information.

© MERICS

Media coverage and sources:

- The Initium: [Updating article with discussions of the main protests \(in Chinese\)](#)

- The Guardian: [China Covid protests explained: why are people demonstrating and what will happen next?](#)
- David Cowhig: [Translation of protest statements by students of Peking University and alumni of Tsinghua University](#)
- Nature: [Modeling the transmission and consequences of an Omicron wave in China](#)

METRIX

548

This is the estimated number of days it would take China to give 90 percent of over-60s a first coronavirus booster shot at the current rate, the lowest threshold at which experts reckon hospitals could deal with a wave of the Omicron virus variant. China has to significantly speed up roll-out. Last week, China administered fewer than 140,000 jabs per day, although authorities on Tuesday pledged to booster more elderly people. At this time, only 66 percent of over-60s and 40 percent of over-80s have received a first booster, compared with rates of just under 85 percent in Europe. (Source: [Country overview report: week 46 2022 - europa.eu](#))

TOPICS

Policy schizophrenia drives economic uncertainty and economic stimulus

The facts: After responding positively to the announced adjustments to China's zero-Covid strategy in the first half of November, financial markets have again taken a hit as central and local governments flip-flopped on public health measures. As China grapples with record Covid-19 case numbers and a string of public protests against ensuing lockdowns, the economy continues to sputter, prompting further support from Beijing. On November 25, the People's Bank of China (PBOC) for the second time this year allowed banks to use more of the cash they have to keep on their books by cutting the reserve requirement ratio (RRR) by 25 basis points to 7.8 percent. This followed moves by the PBOC and the China Banking and Insurance Regulatory Commission (CBIRC) to support the struggling real-estate industry with measures like loan-repayment extensions.

What to watch: The reserve-requirement cut – the 14th since 2018, when the RRR stood at 15 percent – is likely to boost the supply-side of the economy as banks will lend more to support investment. Similarly, the measures for the real-estate sector will support new bonds issued to fund further development – even if their main aim is to drive the completion of projects into which many consumers have already put money. As much as these

measures may help at the margins in the short term, they focus mainly on the supply-side of the economy, which is not where China's economic problems lie. China's citizens aren't consuming enough, which is not a symptom of any lack of credit, but of China's zero-Covid strategy and the uncertainty regarding lockdowns.

MERICS analysis: "Chinese authorities are hurting the economy by locking down communities – and trying to stimulate it by adding liquidity. This back and forth betrays a lack of confidence and an absence of coordination in tumultuous times. Ministries seem to be reaching for any option available, making overall policy increasingly schizophrenic," says **Jacob Gunter**, MERICS Senior Analyst. "Investors would do well to take with a grain of salt any further announcements by authorities about policy adjustments. If they don't, they may get burned yet again by yet more official U-turns."

Media coverage and sources:

- Bloomberg: [China Central Bank Boosts Stimulus to Aid Covid-Hit Economy](#)
- THINK: [China's central bank cuts RRR to support economy](#)
- CNN: [Global markets fall after protests erupt in China over Covid lockdowns](#)
- Reuters: [China property sector surges on fundraising support, but COVID protests cloud outlook](#)

China's Covid dilemma: no foreign vaccines and insufficient domestic innovation

The facts: Two years after they were approved in Western countries, China has yet to approve any of the highly effective, new-style mRNA vaccines that use genetic information to produce an immune response to the SARS-CoV2 virus. Recent clinical trials with Chinese mRNA vaccines by drug makers Abogen, CanSino and Stermirna have run into delays. None have received even temporary approval from China's National Health Commission. China is instead still only using home-made traditional vaccines that rely on inactivated virus molecules. Their efficacy is about 80 percent, whereas mRNA vaccines by BioNTech/Pfizer and Moderna at the time of approval shielded 95 percent of the vaccinated population from getting the virus upon contact and has proven to more effectively prevent people from developing severe symptoms. Compounding this problem are low vaccination rates. Only 66 percent of over 60-year-olds have received a booster – compared with 91 percent in Europe – and many people have still not had their first jabs. As Hong Kong and Taiwan have recently shown, relaxing lockdowns and other restrictions without sufficiently high vaccination rates will quickly overrun hospital capacity, which is much more limited in China.

What to watch: The approval of an mRNA vaccine would give to China's stalled vaccination campaign new impetus and better protect the population. Vaccination has a part in any credible exit strategy from Beijing's increasingly untenable zero-Covid approach as it would ease the frustrations that have fueled recent protests. Approval of the BioNTech vaccine, for example, would signal that Beijing is making the most of its options. The German government recently encouraged China to pursue this solution – a joint venture between BioNTech and Fosun Pharma recently shipped first doses to Hong Kong and Macau and is ready to start producing the vaccine at scale. But this would require a departure

from Beijing's official narrative that China's anti-corona approach is superior to that of the West and that it doesn't need any kind of help from abroad.

MERICS analysis: "China has made great progress in its innovation capabilities, but its inability to develop an mRNA vaccine in a timely manner shows that this progress is uneven," says **Jeroen Groenewegen-Lau**, MERICS Head of Program Science, Technology and Innovation. "The debate around this topic also highlights the downsides of China's self-reliance narrative. The Chinese government restricted research collaboration regarding Covid-19 in April 2020, hampering involvement by Chinese researchers in global cutting-edge research."

Media coverage and sources:

- Nikkei Asia: [China builds plants for mRNA vaccines still in development limbo](#)
- Nature: [China's first mRNA vaccine is close — will that solve its COVID woes?](#)
- Mya Care: [Comparison of Covid 19 vaccines](#)
- Jiemian (CN): [首个国产 mRNA 新冠疫苗加强针临床研究数据公布](#)
- Baidu (CN): [吸入式疫苗已来，mRNA 新冠疫苗还要多久？](#)

EU's Michel reopens direct communication with Xi Jinping, but at a price

The facts: European Council President Charles Michel reopened in-person communications with Xi Jinping through a three-hour long meeting during a one-day visit to Beijing. The trip, likely intended primarily as a communication exercise, came at a politically sensitive moment for China. Michel touched down in Beijing amid a wave of protests, the passing of China's former leader Jiang Zemin and at the same time as the EU-US high-level dialogue on China in Washington, D.C.

What to watch: The EU's readout largely reiterates the already established points urging China to call on Russia to respect the UN charter, voicing concerns over the situation in the Taiwan strait, as well as highlighting the importance of tackling climate change and concerns over barriers faced by European businesses in China. Still, Michel steered away from highlighting thorny topics and did not directly mention the protests, only "exchanging on Covid-19 and the relative pandemic experiences in Europe and China", a decision that is set to cause controversy back in Brussels.

In turn, Xi made an engagement-focused message, that emphasized the importance of EU-China relations amid geopolitical tensions and framed EU-China engagement as part of Jiang Zemin's legacy. Beijing also agreed to reopen its human rights dialogue with the EU "on the basis of equality and mutual respect".

MERICS analysis: "Michel's visit may have reopened an important direct channel with Xi Jinping, but it came at a price," says MERICS Analyst **Grzegorz Stec**. "The relative silence on protests erodes the credibility of the EU's commitment to its principles. The visit's limited coordination with member states and, notably, President von der Leyen highlights insufficient alignment among EU leaders. The overlap with the EU-US high-level dialogue helps Beijing to push a narrative that transatlantic coordination on China is cracking. That is a steep price to pay."

Media coverage and sources:

- Politico: [EU chief under pressure to get tough with Xi as China protests grow](#)
- MFA of the People's Republic of China [CN]: [Xi Jinping Holds Talks with European Council President Michel](#)

MERICS CHINA DIGEST

[For China's leader, another dilemma: How to mourn Jiang Zemin \(New York Times\)](#)

Former Chinese president Jiang Zemin died on November 30. His death comes at a difficult time for China's current leader, Xi Jinping, who faces widespread protests over his harsh Covid policies. The task to mourn the former president might be complicated by the fact that the deaths of political leaders in China has previously acted as a catalyst for protests and dissent, notably the deaths of Zhou Enlai in 1976 and Hu Yaobang in 1989. (22/11/30)

[India is the lone absentee at China's Indian Ocean forum of 19 countries \(The Hindu\)](#)

China convened the first "China-Indian Ocean Region Forum" bringing together 19 countries from the region with the notable exception of India, which was not invited to participate. The event was organized by China's new development aid agency CIDCA (China International Development Cooperation Agency), which is currently headed by former Vice Foreign Minister Luo Zhaohui. Chinese proposals focused on marine disaster prevention and mitigation as well as policy coordination and development cooperation. (22/11/26)

[Chinese FM meets Russian ambassador to China \(Xinhua\)](#)

Chinese State Councilor and Foreign Minister Wang Yi met with new Russian Ambassador to China, Igor Morgulov, on November 27. Wang stated that "China and Russia will advance strategic mutual trust and practical cooperation and jointly uphold international fairness and justice." Morgulov said that the "Russia-China relationship is unbreakable and the friendship between the two countries can overcome any challenge." (22/11/27)

[Pentagon: China to more than triple its nuclear arsenal by 2035 \(POLITICO\)](#)

China is continuing to steadily expand its nuclear arsenal and could have 1,500 warheads by 2035 up from a current nuclear stockpile of just over 400 warheads, according to a new Defense Department study released on November 29. The report also states that China is building up its space and counterspace capabilities, developing a range of technologies including kinetic-kill missiles, ground-based lasers and orbiting space robots. (22/11/29)

[Djibouti suspends China and other loan repayments, banks on forgiveness \(South China Morning Post\)](#)

Djibouti – where China has vast commercial and military interests – has suspended debt repayments to two of its main bilateral creditors, most likely including China. In its latest report on Djibouti, the World Bank said the country's external debt servicing costs tripled in 2022 – from USD 54 million last year to USD 184 million – and predicted a further increase to USD 266 million next year. (22/11/29)

EDITORIAL TEAM

MANAGING EDITOR

Claudia Wessling
Director Communications
and Publications, MERICS

EDITORS

Ellen Thalman
Freelance editor

Gerrit Wiesmann
Freelance editor

Hannah Seidl
Communications Manager, MERICS

GRAPHICS

Alexandra Hinrichs
Graphic Designer, MERICS

PUBLISHER

MERICS | Mercator Institute for China Studies

Klosterstraße 64
10179 Berlin
Tel.: +49 30 3440 999 0
Mail: info@merics.de
www.merics.org