

MACROCOSM

**“Zero Covid” Protests? Zero Importance.**

Tuesday, November 29, 2022

**Donald Luskin****Mostly a media confection, the protests shouldn't suppress stocks or oil prices.**

In every client conversation now we are asked for our views about the protests in China against “Zero Covid” policies. *We caution against either too much concern or too much hope about these protests.* Remember, when the media isn't scaring you to death, it is catering to your wish-fantasies. This is the opportunity for both. To scare you, you are encouraged to expect that civil unrest will be the catalyst for China to fall into recession and attack Taiwan. To titillate you, you are invited to imagine that the Chinese people will courageously throw off their oppressors and greet us as liberators. Never mind that China's Covid policies are no more restrictive than those we ourselves imposed two and a half years ago – the difference is that here nobody protested.

- A key media narrative is that [President Xi Jinping is put into an unsolvable quandary](#) by these protests. To be sure, his government must find a path between the appearance of appeasement on the one hand, or excessive repression on the other. But this is standard fare for China. [There were protests against the Shanghai lockdowns in May](#), and nothing particularly came of them.
- *Xi skillfully negotiated similar dynamics on a vastly larger scale in Hong Kong in 2019 and 2020 in the face of hundreds of thousands of protestors flooding the streets for months* (see [“How Worried Should We Be About Hong Kong?”](#) May 28, 2020). It took patience, a little forbearance for a while, and then the skillful decapitation of protest movement leadership. Now China controls Hong Kong.
- Nothing on that scale is going on now. The protests appear, as far as we can tell from news stories, to be mere dozens of people, [photographed low and close](#) to make them look like more. In Hong Kong the crowds were orders of magnitude larger, always [photographed high and from a distance](#) to show the sheer scale of it.
- It is simple enough to either live with small protests (while getting more skillful at suppressing reporting of them) or just cart all the protestors away (there are so few of them). For that matter, it is simple enough to appease them by backing off the “Zero Covid” policies (without even having to make any embarrassing announcements that it is being done).
- Indeed, the regime has already announced [“Twenty Measures”](#) to “optimize” its anti-Covid strategy.

**Update to strategic view**

**ASIA MACRO, US STOCKS, OIL:** Protests in China against “Zero Covid” policies inspire fear of a recession in China and a move against Taiwan and hopes that the Chinese people will overthrow tyranny. These small protests, like the kind we saw earlier this year in Shanghai, are too small for that. China was able to handle vastly larger protests in Hong Kong, which it now controls. The regime can appease the protesters by backing off lockdowns without admitting it has done so. Already steps toward “optimization” have been taken. There is no risk that ending the lockdowns would result in a surge of cases or deaths, because there is no evidence that lockdowns have ever been effective. Economic impact should be as small as it was in the spring with the Shanghai lockdowns. It is not these protests, but the risk of escalating super-power tensions in Ukraine that could create an opening for China to invade Taiwan. Any effects from all this on equity and oil markets should be short-lived.

[\[Strategy dashboard\]](#)

- Ah, but this, the narrative goes, is Xi's real quandary. To back off the "Zero Covid" policy means that the Covid caseload will explode, so the government is damned if it does and damned if it doesn't. *This is a false dilemma – if we have learned anything at all about lockdowns, it is that they do not measurably contain the spread of Covid – indeed, if anything, the evidence is that they slightly exacerbate it* (see ["The Failed Experiment of Covid Lockdowns"](#) September 1, 2020).
- The dilemma is especially false in China, which we believe has no compunction about under-reporting Covid cases and deaths. Want to make it look like Covid has gone away whether or not it has? Just report the numbers that make it look like Covid has gone away.
- Note that amidst record new cases, China reports almost none in Hubei, the province that contains Wuhan (see ["Data Insights: Covid-2019 Monitor"](#) November 30, 2022). Growth there would raise difficult questions...
- Overall China has officially reported only 47 Covid deaths in the last 186 days. Can that be true? What's the difference? It's just rounding error away from "Zero Covid" already, so the regime can stop the lockdowns at will.
- What about the economic impact? We argued earlier this year that such risks were exaggerated, because China's lockdowns are generally orchestrated in such a way as to keep the wheels of commerce turning (see ["The Myth of China's Lockdown"](#) May 26, 2022). We see no reason why this time should be different.
- Yes, there has been plenty of [high-profile reporting](#) about Covid disruptions at the Foxconn factory in Zhengzhou, where Apple products are manufactured – including bloody confrontations with police. But it's not at all clear that any of this will lead to significant or long-lived production losses.
- Clients are asking whether these protests might spark a ["wag the dog"](#) strategy motivating the regime to attempt a hostile move against Taiwan. We wouldn't presume to know – but it doesn't strike us that, so far, these protests have the magnitude that would demand a distracting and unifying event like a war.
- If we fear anything in that dimension it is that something could go terribly wrong in Ukraine, commanding the attention of the West and permitting China to sneak into Taiwan unopposed (the mainland's move against Hong Kong in 2020, after all, was made at the peak of the world's distraction with Covid lockdowns).
- *To the extent that fears about any of these matters are putting downward pressure on equities or oil, we think the smart move is to just look past all this. In a week you won't even be hearing about it.*

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## Bottom line

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vastly larger protests in Hong Kong, which it now controls. The regime can appease the protesters by backing off lockdowns without admitting it has done so. Already steps toward “optimization” have been taken. There is no risk that ending the lockdowns would result in a surge of cases or deaths, because there is no evidence that lockdowns have ever been effective. Economic impact should be as small as it was in the spring with the Shanghai lockdowns. It is not these protests, but the risk of escalating super-power tensions in Ukraine that could create an opening for China to invade Taiwan. Any effects from all this on equity and oil markets should be short-lived. ▶