

Impact of Shanghai's Zero Covid Policy on Manufacturers and Employees - Case Study

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Abstract: The pandemic that was brought on by the COVID-19 virus has resulted in an increase in the number of lockdowns in China. Given that Shanghai is the country's financial hub, the effects of the citywide lockdown imposed on the Chinese economy were tremendous and very significant. In order to get insight into the ways in which companies and people in Shanghai were impacted, an interview was carried out at a manufacturing company in the city. We discussed the issues and challenges that were presented to them in terms of their manufacturing, supply chain, sales, and marketing. We also spoke with employees separately to have a better understanding of the difficulties they faced. It is recommended that the government should, in the near future, relax control measures and offer greater help to small businesses and those who are now without jobs.

Keywords: Shanghai Covid-19 lockdown, impact on export companies, people's life during lockdown

1. Introduction

The pandemic caused by the COVID-19 virus has led to an increase in the number of lockdowns in China. Because of these lockdowns, the Chinese economy experienced a significant decline. Shanghai's lockdown from April to May 2022 drew international notice. While the rest of the world has opted to live with Covid-19, China has maintained its Covid-zero policy. At the end of August, Shanghai had the second longest lockdown of any city in China.

Given that Shanghai is the country's financial hub, the effects of the citywide lockdown imposed on the Chinese economy were tremendous and very significant. The aftereffects of the Shanghai lockdown has received attention from experts in China and worldwide. Despite the fact that lockdowns reduced the number of deaths caused by Covid, its impact on the economy is cause for concern. The macro-level effects of the Shanghai lockdown on Covid will be discussed in this paper. In addition, we will discuss the interview findings with a local manufacturing company in order to gain a better understanding of the lockdown's impact on businesses and individuals.

2. Background

In the second quarter of 2022, Shanghai imposed a citywide lockdown that was in effect for more than two months in order to suppress COVID-19 flare-ups, and lasted approximately 2 months [1]. Only those personnel who were absolutely necessary were permitted to travel.

Lockdowns are an efficient method for preventing the virus from spreading, but they come at a high financial cost. The rigorous lockdown procedures caused major disruptions to the supply networks and production schedules of businesses that were operating in Shanghai. As a direct consequence of this disruption, the GDP of Shanghai fell by 13.7% during the second quarter of 2022 [2]. The total growth rate of Shanghai's GDP in the first half of 2022 declined by 5.7 percent Year-over-Year (YOY) [3]. (See Table 1)

Table 1: GDP ranking of 31 provinces in 2022 H1.

Ranking	Provinces	GDP (billion RMB)	Growth rate (%)
1	Guangdong	5951.8	2
2	Jiangsu	5690.9	1.6
3	Shandong	4171.7	3.6
4	Zhejiang	3622.2	2.5
5	Henan	3075.7	3.1
6	Sichuan	2617.6	2.8
7	Fujian	2460.5	4.6
8	Hubei	2450.3	4.5
9	Hunan	2293.3	4.3
10	Anhui	2176.4	3
11	Hebei	1982.4	3.4
12	Shanghai	1934.9	-5.7
13	Beijing	1932.5	0.7
14	Shaanxi	1525.2	4.2
15	Jiangxi	1513.3	4.9
16	Chongqing	1351.2	4
17	Yunnan	1346.4	3.5
18	Liaoning	1317.3	1.5
19	Guangxi	1229.4	2.7
20	Shanxi	1156.9	5.2
21	Inner Mongolia	1046.5	4.3
22	Guizhou	983	4.5
23	Xinjiang	827.9	4.9
24	Tianjin	762.1	0.4
25	Heilongjiang	639.5	2.8
26	Jilin	569.7	-6
27	Gansu	523.5	4.2
28	Hainan	314.5	1.6

Table 1: (continued).

29	Ningxia	235.2	5.3
30	Qinghai	168.9	2.5
31	Tibet	97.3	4.8

Source: National Bureau of Statistics

According to the local statistics bureau, the output of Shanghai's industries, located in the center of manufacturing in the Yangtze River Delta, decreased by 61.5% in April compared to the same month a year earlier [4].

3. Interview and Case Study with a Local Company and Employees

In order to look at how individuals in Shanghai live their lives, an interview was conducted at a manufacturing firm in Shanghai. The primary focus of the firm is the production of home textile items for sale to customers in other countries, followed by the export of such goods, mostly to the United States.

3.1. Impact to Productions and Operations of Companies

We first conducted an interview with Mr. Wen, General Manager of the company in August 2022. According to him, the factory of the company experienced lockdown from the 26th of March to the 1st of June. Throughout the three months that the lockdown was in effect, the whole plant was rendered completely inoperable, and no goods were manufactured. They had no choice but to halt all the normal production and operations.

There was severe disruption in the international supply chain. The ports in Shanghai were highly congested, according to him. Average waiting times for container ships in Shanghai spiked to nearly 70 hours in April (14-day moving average), amid the lockdowns that snarled port operations [5] (see Figure 2). Because of capacity issues, some of the cargo had been rerouted; for example, certain shipping containers were being transported to ports in the area, such as Ningbo. A backlog of commodities has caused a disruption to the company's cash flow.

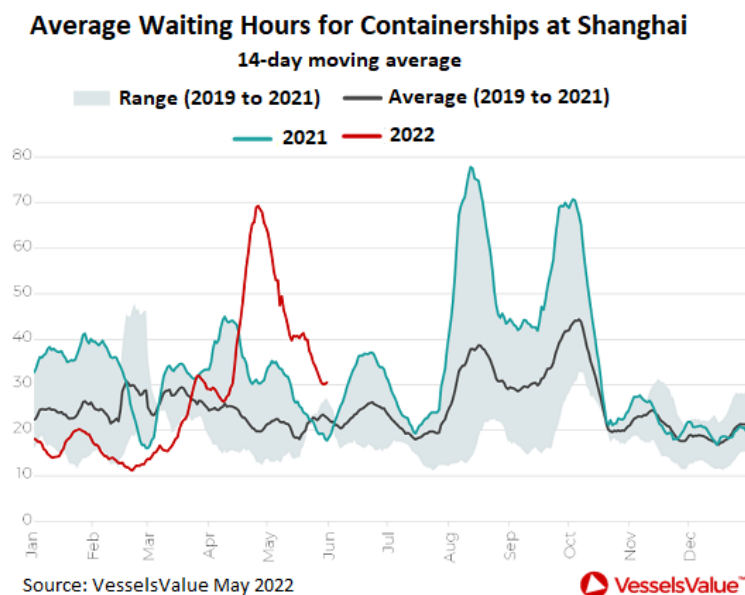


Figure 1: Average waiting time for container ships in Shanghai.

Costs were also going up everywhere, he added. For example, logistics costs surged due to the lockdown. The price of a container would be 2,800 dollars in June of 2020, but it will be around 8,000 dollars between January and June of 2022. The costs of raw materials such as cotton and textile grew by 15–20%, but those of colorants increased marginally.

Even after the pandemic, in August and September, the output of the firm is still very unstable as a result of the loss of workers, the rise in the price of raw materials, shipping, and workers' salaries. In addition, because the company was unable to produce anything in the recent months, and as a result, was unable to fulfill the orders from customers located all over the world on time, some of those customers decided to look for other manufacturing companies in Southeast Asia, which do not run the risk of experiencing a lockdown. This had a significant impact on the quantity of orders that the company was able to receive, and the consequences of this loss were long-lasting not only for the company but also for other companies in Shanghai with a comparable business model.

3.2. Impact on Sales and Marketing

We resumed our conversation with the sales manager of the firm, who informed us that the company's performance was essentially zero during the time that the city was closed. The months of June through September are seen as a transition back to normal.

Customers expect their orders to be fulfilled on time; however, there have been delays, which has damaged the company's reputation and caused some customers to cancel their orders.

Initially, the company's primary focus was on exports; however, the company was forced to develop domestic sales during the pandemic and shifted to individual customers through e-commerce platforms. This change in focus occurred because the company was forced to develop domestic sales during the pandemic. At that point in time, the most important source of sales was the internet.

Due to the intense competition in the local market, the firm had no alternative but to reduce their prices by 15–20%, despite the fact that the costs of all of their raw materials were going up. In addition, the depreciation of the RMB continues. By the end of September 2022, the yuan has fallen more than 11% against the dollar so far this year and looks set for its biggest annual decline since 1994, making the situation for small and medium-sized export businesses even worse [6].

3.3. Impact of the Lockdown on Employees

We went on to interview Mr. Wang, the Human Resource manager of the company, to further understand the impact of the lockdown on individual employees. After the two-month long lockdown of the company, 30%-50% of the workers were lost and the average salary of the workers rose about 10%-20%.

Frequent Testing for Covid was quite disruptive to day-to-day activities. Before entering subways, office buildings, or even parks, a person is required to have a negative test result that was obtained within the previous 72 or 48 hours.

During the outbreak, workers were paid the minimum wage; despite this, forty percent of them were laid off from their jobs. During this time, families were left vulnerable to the strain of increasing mortgage payments, higher rent, and overall higher costs of life. They were frequently forced to negotiate with dishonest merchants who fraudulently jacked up the pricing of the goods they sold [7].

As time went on, people lost their motivation to work, their money on hand dropped, their debt increased, and they acquired anxiety and despair, all of which may have contributed to a reduction in the capacity for production [8].

4. Conclusion

According to the findings of our study, the prolonged lockdown in Shanghai is having a significant negative impact on the profitability of business operations, particularly for companies that are focused on export. Because of the lockdown, there was no production in any part of Shanghai for a period of three months; as a consequence, the direct and indirect losses were severe. The interruption of work and the increasing financial strain of rent or mortgage payments might become important factors that lead to social unrest from the point of the individual. We have made the following recommendations:

- The primary focus should be placed back on economic growth, and progressively ease the implementation of control measures.
- Financial assistance and psychological support offered to businesses, with a particular focus on those of a small and medium size.
- Increases in individual benefits, subsidies, and incentives for those who are unemployed.

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