

OUT OF OUR MINDS

Going Home: An Account from China's "Zero-COVID" Frontline

by Wenting Shen, CFA • May 19, 2022

Portfolio manager and analyst Wenting Shen braved China's Zero-COVID policy to reconnect in person with her portfolio investments—and her family. This is what she encountered.

Prior to COVID-19, Wenting Shen travelled to China regularly to visit managements of current and prospective investments. Round-trip travel to China from the US was impossible during the first two years of COVID, but recent easing of US travel restrictions encouraged her to plan a trip. With seats going fast, she snagged one on a flight from Newark to Shanghai for March 30. After three negative PCR tests over seven days at a Chinese-government-approved clinic in Queens, New York, she was ready to fly.

But days before Shen's departure, new complications arose: outbreaks of the Omicron variant in several Chinese cities, including Shanghai, were prompting citywide lockdowns. The flight was still due to depart, but had been rerouted to Fuzhou, a coastal city across the strait from Taiwan, 450 miles to the Southwest.

The natural—some would say, prudent—decision at this point might have been to postpone her trip. But Shen, worried she might not easily get another ticket, pressed ahead. Here are her travel bulletins.

4 p.m. GMT March 31, 10,000 feet above Siberia

Quite frankly, it is a miracle we are still enroute to China. In recent months, many other flights were canceled minutes before departure, and some were turned around in the air midway. One woman I spoke with during my pre-flight COVID testing told me her ticket was cancelled eight times!



Assuming we make it (looking around now for wood to knock on—the plane is mostly carbon fiber), ours will be the first plane from the East Coast of the United States to land in China in weeks. When I

booked my flight in January, my seat was one of the last available; a few days later all were gone from any airport between Boston and DC until the end of July.

I'm still amazed so many other people are intent on going to China right now, even though so many people *in* China are under mobility restrictions. The pandemic has occupied nearly every conversation I've had in recent days—with other travelers at the testing facility in Queens, at the airport, here on the plane with the friendly flight attendants smiling from behind their full hazmat garb. On the Chinese social media apps, there is furious debate between the “zero-COVIDers” and the “open-uppers,” just like the culture wars in the States. People in each camp are so busy arguing with and unfriending those from the other camp that a much-needed third voice is being drowned out—one that argues for hurrying more, and, if needed, better jabs into arms, especially for China's under-vaccinated elderly, which might lower the severe costs of the pandemic to society.

4 a.m. local time, April 1, Fuzhou Changle Airport

The arrival process has been pretty orderly. After touching down, we were deplaned in groups of 15 so each of us could undergo testing and temperature checks. Everyone's luggage was sanitized. We filled out forms capturing our identification information and phone numbers, which took several hours. Now we're just waiting for a bus to take us to a quarantine hotel. Still don't know the name and location due to rolling availability.



5:30 a.m. April 1, Phase 1 Day 1 of 15 in Room 919 at the Shiji Jinyuan Hotel, Fuzhou

We are settled in the quarantine hotel in Fuzhou, otherwise known as the City of Banyans because of all the beautiful banyan trees. The largest tree is said to date back to the Song era, about 900 years ago. It's hard to make them out from my hotel room window, and I have no glimpse of the sea or Taiwan. I can see a little bit of the Min River, though, and the mountains to the north.



So far, the room is homey enough. I have plenty of space. The internet connectivity is subpar but functional. I have been staying in touch with my colleagues and talked to many people to update them on my arrival.

Temperatures are checked twice a day with COVID tests every few days. Thankfully, no one on my flight has tested positive. If that happens, our two-week quarantine will be extended even longer.

I received a call from the office in Beijing where my government ID is associated, since that's where I went to college and spent my first job. The woman asked me a few questions about my plans and was pleasant, although I was a little taken aback by how happy she sounded when she learned I would not be frequenting her city after my quarantine. For a moment there, I felt like we were in the Black Plague!

7:30 a.m., Room 919, Day 2 of 15

Obligatory food review: The chefs are cooking for some 400 people, so the quality varies. At times the food is overcooked, presumably to kill any COVID floating around. But the delivery person has been exceptionally kind to me, usually leaving one or even two extra meals for me since I think my room, which is at the end of the corridor, might be the last one on his route. So, I save some choices that I enjoy. The meals are delivered to our door three times a day. No outside food is allowed, but online orders of daily necessities are permitted. For me, that's a yoga mat, which I ordered from Taobao. Hoping that yoga will help me restore my circadian rhythm.



11 a.m., Room 919, Day 6 of 15

My fellow passengers and I (we are all in a WeChat group together) have been scrambling this morning to figure out the next leg of our travel. April 16th now appears to be our release date from Phase 1 of the quarantine period, which still seems very far away. What is not clear is the latest policy for Phase 2 in Shanghai, which many of us have listed as our final destinations. I don't know yet whether I will be at a central government-operated quarantine hotel as I am now, or self-quarantining at another location, which would be strictly monitored. The situation is very fluid.

9:30 a.m., Room 919, Day 8 of 15



Half of my Phase 1 quarantine time has passed, and it looks like spring has arrived here in Fuzhou—the views are pretty, and I wish I could go outside to explore. Unfortunately, the bright sun doesn't lift the spirits of the passengers from Flight MU588. As time grinds on, people have become a bit more anxious and exhausted. On WeChat, there are complaints about the hotel rooms and services. A few people feel the meals are unpalatable and would rather have cup noodles. Others grumble about the brain-stir-style COVID tests or the internet service, which has degraded with a new influx of passengers at the hotel. I've stayed out of it (maybe the yoga helps) and appreciate how tough it must be to keep 400 quarantined people happy. I have been able to stay connected to the internet most of the time but am having to use my phone hot spot more.

Our biggest worry is what will happen to us after Phase 1. The barriers seem more insurmountable by the day for those who were headed to Shanghai. Apparently, most flights and trains to the city have been canceled, so some people may have to stay several more days, or even weeks in Fuzhou. There were stories of people turned away at the Fuzhou airport for departure—but then rejected entry back to the city, so they have no choice but to sleep at the

Fuzhou airport (which might be apocryphal since I didn't see anyone camping out when we were there). The same struggle is shared by those trying to make the trip the other way—those who landed in Shanghai but are trying to get to other cities outside. A friend of mine has been trapped in Shanghai for three weeks. He has spent the first two weeks in quarantine, and the hotel where he is staying has just announced the food is running short. At least I have other options, including heading straight on to my hometown Xi'an.

2 p.m., Room 919, Day 9 of 15

We are the lucky ones. None of our little headaches here in Fuzhou come close to what people in Shanghai are experiencing, who have now been in lockdown for weeks. They are panicking about food, and more and more items are under shortages. I know from my conversations with our portfolio companies that much of this has to do with logistics—countless restrictions have been placed on truckers and drivers, who cannot come into the city because of the fears they will bring in or carry out the virus. At times, this feels like the country is living backwards, plopped right back at the start of the pandemic two years ago. I spoke with one of our companies, the travel booking site Trip.com Group. They think more cities will enter lockdowns in Q2 because of the appearance of Omicron everywhere.

10 a.m., Room 919, Day 11 of 15

I've spent the last couple days speaking to more companies and hearing more difficult news from friends and family throughout China. A friend was placed in quarantine simply because someone else in his testing batch was positive, and they wouldn't readminister tests to find out whose sample it was.

When I put my analyst hat on, all this makes me think that the current wave could leave worse marks on the economy than 2020. If cities have recurring lockdowns, multinationals might re-evaluate China's comparative supply chain advantages. And orders have been lukewarm anyway, as more of the world resumes normality and moves more aggressively to insulate itself from any potential disruption.

11 a.m., Room 919, Day 12 of 15

Out of everything gloomy, a piece of positive news! Some cities are finally pushing more seriously for vaccines for the elderly. In Beijing, a generous gift credit of Rmb500 (US\$75) is being handed out to those above 60 years old who get a shot, along with additional coupons for those who bring in their friends.

My 88-year-old grandparents *finally* got their first shots a couple of weeks ago. Like any good granddaughter, I had bombarded them for several weeks with severity and death data from the unvaccinated elderly in Hong Kong. Now, they're waiting for their second shot. Already, it gives me some peace of mind—and hope they are a representative indicator!

10 p.m., Room 919, Day 15 of 15

My two weeks of quarantining in Fuzhou are nearly up—at times it has been slow, but the days have been very busy for me—earnings season, talking to companies to let them know I am here, comparing notes with colleagues. It's nice to be able to attend so many of my company discussions without a time zone difference, although none seem to be doing in-person meetings just yet.

I can't say this is the finest hotel I have ever stayed at, but it is sure to be the most memorable. For one, I won't forget the silent humor of the staff. One fellow passenger complained that her meals were too bland and asked the hotel to cook with more soy sauce. The next thing she knows, she gets a bottle of soy sauce delivered to her door, a sly invitation to douse her own food all she wants. It's the amusing moments like these that have made this time a little easier.

Now, only nine hours to go before my release from Phase 1. Medical assistants dressed in white protection gear (nicknamed "Big White" on Chinese social media) come to test my hotel room. Swabs are taken from my pillows, my jacket, and my toothbrush.

As lockdowns dragged on in Shanghai and spread to my other intended destination, I have decided to head straight home to Xi'an after all. The only downside is that none of the six people in my family will be allowed to leave the apartment for the first seven days I am there. After a week, they will be granted freedom to move around, but I'll have to stay inside for another seven days. Hopefully my grandpa's snoring won't disrupt our firm's quarterly webcast, which we are filming a couple days after I arrive.

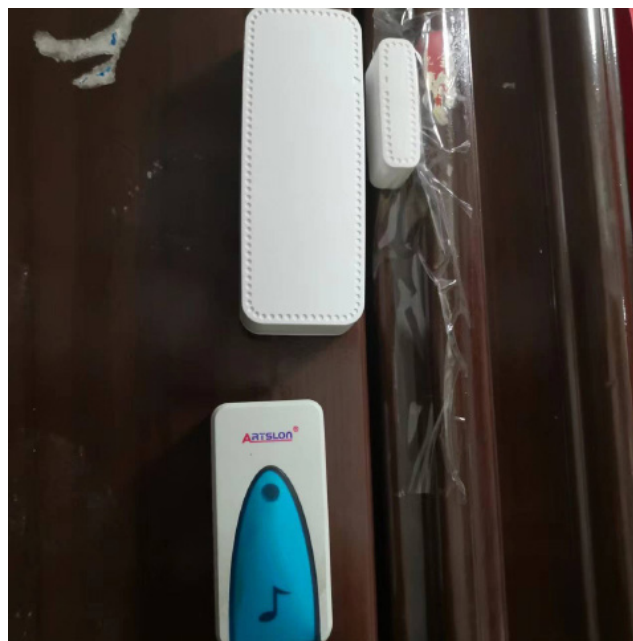
9 a.m. Xi'an time, April 17, Phase 2 Day 2 of 14

Home at last! I left my quarantine facility on Saturday as planned—the trip to Xi'an took twelve hours. The climax was the ambulance ride to my parents' from the airport (that's me again below, mildly offended no sirens are blaring). When I finally reached home, a local officer in Big White was waiting for me. She was carrying a seal for the front door and an electronic lock that will send an alarm to the local police if any of us ventures outside more than three times a day for more than the few minutes it takes to carry out the trash or get tested.



Ours is a kind of double lockdown—one protecting Xi'an from *me* due to my arrival from abroad, the other a citywide lockdown protecting *us* from the virus now loose on the streets of Xi'an.

Evening, April 23, Day 8 of 14



I continue to have daily calls with companies. From my conversations, logistics and travel seem to be front-and-center in their concerns. Since logistics companies are often faulted as carriers of the virus, the new default is to suspend deliveries as soon as a lockdown is commenced.

Consumer sentiment is weak now too, which may scar the consumer and retail sector even after the peaks have passed. Staples like dairy should be doing fine. People are still trying to eat and would like to buy!

Industrial disruptions are occurring throughout the supply chain, which could do long-term damage to China's status as the world's factory. So ironic after China was the first country to get back up and running during the first wave, and so sad since it seems like so much of the damage could have been controlled.

Noon, May 1, Reflection and release

During this entire trip, I have felt extremely privileged. For the duration of my quarantine, I have always had more than enough to eat, unlike all those many isolated and hungry in Shanghai. I also feel a little guilty about the inconvenience my return has

caused others. I learned the hotel staff was in their own parallel lockdown with us, working at the hotel for up to a month and then quarantining for 14 days after each shift. The flight attendants have been quarantining for 14 days after each *flight*.

I've started to wonder how the country's near-term growth targets can possibly be met now absent a relaxation of Zero-COVID and/or massive additional government support. I understand that they wanted to both protect the elderly and other vulnerable people and give the local biotechs a chance to finish developing their own mRNA vaccines before letting in the Western versions. But couldn't there be a more sustainable way to handle the situation?

One thing is certain—the government is at war with the virus, but there's also a war underway within public opinion. In the chat groups and social media sites where I've spent so many of my waking hours these past five weeks, it is constant debate. This lack of solidarity and wavering of confidence that we will get through this is a stark contrast to China's fast emergence from the pandemic in 2020 and has undoubtedly contributed to the difficulties. On the other hand, there is also something refreshing about it—a sign of civic sanity, perhaps, in the face of lockdowns on top of lockdowns.

According to reports a few days ago, another 1,100 companies in Shanghai have been cleared to reopen. That's on top of the 600 that were previously announced. The latest estimates are the whole city might be out of lockdown within two weeks. We'll see. Here in Xi'an, meanwhile, we have gotten off easy. I was finally sprung right before China's five-day "May First" (Labor Day) holiday. The last week actually worked out pretty well for me, because April 30 is the deadline of the super reporting season for A-share companies, who usually report both annual and Q1 results simultaneously and hold their annual investor meetings, the vast majority online. I managed to attend as many as seven meetings per day. I hope my boss doesn't get any ideas about putting me in quarantine every earnings season now.

During the holiday, I was able to catch up with a handful of schoolmates since nobody could really travel outside the province. Interestingly, most have ended up working for state-owned enterprises or institutes. The recurring complaints seem to be around compensation and the rigidity of the system. Otherwise, people still worry about the same things as before: housing prices and kids' education. There still seems fierce competition to get into a good school to test well for the college entrance exam.



Over this past weekend, I took my first long walk in Xi'an in several years. The city has transformed from the historical city I remember into a cosmopolitan metropolis with thousands of high rises and dozens of brand-new shopping malls. As I walked around the new South Lake that was being built when I left for college, early risers were doing their morning exercises. Life was remarkably calm and peaceful. Nobody seemed to care about politics so long as it is leading them to a brighter future—and hopefully a future that doesn't have to involve repeated lockdowns.

Author



Wenting Shen, CFA, is a Portfolio Manager, Chinese Equity (Co-Lead) and Partner at Harding Loevner.

[View bio online](#)

Disclosures

The “Out of Our Minds” series presents the perspectives of Harding Loevner’s analysts on a range of investment topics, highlighting our fundamental research and providing insight into how we approach quality growth investing. For more detailed information regarding particular investment strategies, please visit our website, www.hardingloevner.com. Any statements made by employees of Harding Loevner are solely their own and do not necessarily express or relate to the views or opinions of Harding Loevner.

Any discussion of specific securities is not a recommendation to purchase or sell a particular security. Non-performance based criteria have been used to select the securities identified. It should not be assumed that investment in the securities identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner.

There is no guarantee that any investment strategy will meet its objective. Past performance does not guarantee future results.

Read More “Out of Our Minds”

Visit HardingLoevner.com/insights