

CORONAVIRUS

Manufacturers in China on edge as zero-COVID eases

Factories working out how to keep production running if infections surge



Manufacturers are welcoming China's easing of COVID restrictions with caution due to fears that an expected surge in infections will dent production. © Getty Images

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HONG KONG/TAIPEI -- Manufacturers in China are scrambling to prepare for a surge in virus infections that could further slow production as the country pivots away from its zero-COVID strategy.

Last Wednesday, China adjusted some of the world's toughest coronavirus measures, which relied on years of strict lockdowns and citywide testing to quash outbreaks.

While the government hasn't fully abandoned virus curbs, authorities are now letting asymptomatic patients and people with mild symptoms quarantine at home rather than government facilities and effectively banning mass lockdowns.

The easing of restrictions, after widespread protests against the measures, has been applauded by many frustrated residents. But manufacturers are welcoming the news with caution due to concerns about an expected surge in infections.

"We are going to have to make some changes in our factory as the virus spreads, and that will be difficult because we can't control the cases," said Fabien Gaussorgues, CEO of consumer electronics producer Agilian Technology.

Plant employees will be required to do a daily rapid test, said Gaussorgues, who fears that positive cases could trigger a shutdown of his factory near the southern tech hub of Shenzhen.

"We are waiting to see how this will be managed by the government," he told Nikkei Asia.

Another factory owner, whose business produces Christmas and other festive goods, worries the spread of the virus will slow down production. "You can't allow those infected to work," said Richard Chan, a Hong Kong businessman who runs a factory in southern Dongguan. "One spreads it to another, two becomes four infections, four becomes eight infections."

COVID-sparked lockdowns have already disrupted production, with China's factory activity slowing to a seven-month low last month, according to official data.

Closed-loop systems -- which isolate workers in a bubble that requires them to live on-site so production can continue while a city is under lockdown -- have largely worked, but they also sowed frustration among those trapped inside.

In central Zhengzhou, the world's biggest iPhone plant, which went into closed-loop production from October, was rocked by protests last month over bonus pay delays and food shortages. The unrest has disrupted operations at the plant, run by Taiwan-based Foxconn.

Sources close to Foxconn said the company is monitoring the evolving situation and has scrapped daily PCR testing, a source of frustration for many workers. Other Foxconn factories in China are still operating under a closed-loop system, the sources added.

Foxconn declined to comment on how it would respond to a likely surge of infected workers.

Manufacturing, a major driving force of the world's No. 2 economy, relies heavily on migrants from rural areas who flock to export hubs like Guangzhou for work. Bringing back manufacturing would be key to reviving China's slumping economy, but analysts say the journey will be long and slow even as COVID measures are loosened.

"An easing of these restrictions, as we're seeing now, may lead to some stress in the near term, when mass infections disrupt factory operations, but if we consider the outlook in a few months, a stabilization of the pandemic and the normalization of logistics will be great news for manufacturers," Xu Tianchen, an economist at the Economist Intelligence Unit, told Nikkei Asia. "This will make production higher and much more predictable."

Some experts say the closed-loop operations will become less feasible over time, and they expect that model to gradually disappear.

The country's tough coronavirus measures, which included shutting factories for weeks or keeping employees inside an industrial park, have deterred many migrant workers from leaving their hometowns, factory owners said.

Last month, the district of Haizhu in Guangzhou, where many factory workers live in densely packed urban villages, was locked down after an outbreak. The extended shutdown set off rare protests that saw angry residents pushing down barriers and clashing with police.

Some factory owners welcomed the latest moves by authorities, calling them a step in the right direction.

"Supply chains and logistics have had a lot of issues because of the restrictions," said Michael Lai, CEO of window decor maker Nicedrape. "The latest policy means we can't randomly stop work and will help production."

"I hope it won't affect production levels. We will separate workers into two teams so they don't overlap," he added.

One owner of a bag factory, whose clients include luxury brands, said the company will take a more relaxed approach.

"Cases will come for sure, and we need to be prepared that from now on people [will] get sick and will stay home for a few days," said the man, who asked not to be named. "What happens will happen."

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