OVERCONFIDENCE & UNCERTAINTY ADD TO EPIDEMIC-RELATED RISKS IN CHINA

The past several days have seen two diverging stories concerning COVID-19: the sustained decline of new infections within China’s borders, and the sudden advancement of the epidemic elsewhere, particularly in South Korea, Italy, Japan and Iran. Multinationals are now faced with the challenging task of managing an emergency response that appears to be in two different stages at the same time: resolution and recovery in China, and acute crisis in multiple other markets.

Further complicating this challenge is what appears to be a degree of overconfidence in China, particularly at lower levels of government, and possibly also within corporates. It is far too early to conclude that the crisis has been resolved in Mainland China, and a second outbreak could easily result in an unpredictable response on the part of the authorities and citizens alike.

There is no room for complacency concerning COVID-19 in China today, on the part of any entity, even as epidemics escalate in other geographies. A possible resurgence of infections in Mainland China is a realistic possibility that must be factored in to planning. This special report offers an overview, scenarios and mitigation recommendations.

COVID-19: Knows and Unknowns
Research on COVID-19 has proceeded at an unprecedented rate. Nonetheless, many important aspects of the virus are either unknown or incompletely defined. Even so, there is reasonably widespread agreement on the following key facts:

- The virus spreads fairly easily from person to person, with recent research suggesting it is much more flu-like than first thought, which makes containment substantially more difficult;
- It is possible for an infected person to spread the virus with few or no symptoms, although it is not clear how common this is;
- While the median incubation period is now thought to be around 5-6 days, in some cases it may be much longer, in the order of two weeks or more.
It is also clear from the recent rise in infections in South Korea and Italy that the epidemic can spread insidiously, even after initial infections have been identified.

![New Daily Confirmed Infections: South Korea & Italy](chart1)

South Korea and Italy reported their first confirmed cases on 20 and 30 January, respectively, with the recent dramatic increases on 18 and 21 February—a lag time of three to four weeks.

However, it is important to remember that epidemics have many variables, and the significant difference in epidemic patterns across regions makes it difficult to draw specific conclusions about the spread of the disease and the impact of response measures. It is not clear why infections have (so far) not climbed in, for example, Thailand and Malaysia, which recorded initial cases around the same time that South Korea and Italy did, or for that matter in Hong Kong, Beijing and Shanghai, which can be assumed to have much deeper links with Wuhan than any foreign country.

![New Daily Confirmed Infections: Shanghai](chart2)

In Shanghai specifically, the observed “epidemic curve” (above chart) does not seem to line up well with key local events, and does not appear to reflect the magnitude of the threat as clearly demonstrated by Wuhan. Generally speaking, the seriousness of COVID-19 was not broadly recognised in China until 20 January, when scientist and public figure Zhong Nanshan confirmed that the disease could spread from person to person. Widespread use of facemasks in Shanghai began around this time. Wuhan was quarantined several days later on 23 January, although many people fled restrictions before they were implemented. Widespread business closures and elective “sheltering in place” by Shanghai citizens did not begin until at least 25 January, the start of Chinese New Year.
The steep rise in recorded infections afterwards accords with common-sense expectations, but “peaked” seemingly too soon in late January and early February. Most interestingly, intense social monitoring at the neighborhood level, including mandatory temperature checks and registration of outsiders, did not begin until around 8 February in Shanghai, after infections had begun declining. As of writing, the recorded total in Shanghai remains just 336 – even if reflective of some under-reporting, the absence of signs of strain on the medical system in the city suggests that the virus did not hit the city hard.

This raises questions about the collective common understanding of the disease, how well response measures work, and how the epidemic might proceed from today. This kind of basic uncertainty is supported by recent reporting from the Financial Times, which highlighted, among other things, confusion and doubt about changing case recording protocols in China, widespread uncertainty about the efficacy and practices surrounding virus testing, and hints of potential hotspots of undetected infections. These factors can be viewed in the context of the considerable uncertainty that accompanies any emerging epidemic: the initial death toll of H1N1 swine flu in 2009 was determined to be at least 18,449 people, but this was later revised upward to around 300,000.

In essence, while the epidemic appears to be under control within China, this is far from certain. Moreover, while the anti-epidemic measures employed by the government appear to have worked, there remains reason to be hesitant in drawing conclusions.

An Epidemic of Optimism

Despite these uncertainties, the overall numbers both inside and outside of Wuhan are encouraging enough to warrant cautious steps towards the normalization of life and business. Prudent policymaking from the top leadership in Beijing is consistent with a reasonable balance of risks: on 18 February, the government released a guideline requiring local authorities to establish differentiated measures based on the level of the risk, a point it emphasised again on 24 February. Another guideline released on 21 February lays out in detail the preventive measures that should be taken by employers as they resume work. The indefinite postponement of the “two sessions” meetings in Beijing, set to begin 5 March, was also a strong signal that the crisis is not yet over.

Some provinces have already reduced the alert level from the highest (Grade I), to lower levels, in response to the central government instructions to establish differentiated responses. Official differentiations should extend down to the county level.

Provincial Alert Levels, 25 February

1. https://www.it.com/content/d3441c7e-56db-11ea-a528-dafd9716ebbc
5. http://www.gov.cn/zhengce/content/2020-02/22/content_5482025.htm?mc_cid=85b712b699&mc_eid=e212b32be8
However there are early signs of overcorrection, with local authorities and citizens seizing on the good news of reduced infections. Some weeks ago, when infections were clearly out of control, the central government faced the challenge of localities over-interpreting orders to implement strict anti-epidemic measures, which included illegal roadblocks, detentions and other incidents. Unfounded confidence now appears to be cascading down the system and creating the opposite problem.

On Sunday 23 February, Xi Jinping held a teleconference attended by some 170,000 officials. While the full address was not made publically available, state media quoted Xi as saying that the CCP’s handling of the outbreak, “demonstrates the remarkable advantages of the leadership of the Communist Party of China and the socialist system with Chinese characteristics.” Hu Xijin, editor of the nationalist *Global Times* who is seen as a mouthpiece of the Party, declared on 24 February that the “risk of virus spreading widely in China has passed.” Video circulating online shows a village in Guangdong celebrating the “win” in the struggle against the epidemic and an end to quarantine measures. In what may be the most conspicuous sign of over-eagerness, an official in Wuhan announced a relaxation of some restrictions on movement out of the epicenter, before higher-ups awkwardly reversed the decision, saying it had been made without the proper approval.

Overconfidence at this juncture introduces a number of risks. First, there is the obvious problem of a general letting down of the guard: less attention paid to hygiene, lax health monitoring by employers and so on. Perhaps less appreciated, however, is the added effect of the enormous pressures to bring the workforce back faced by businesses owners, officials and even individual workers, especially migrants who can ill afford time off. This is not to insinuate an inclination to cover up outbreaks, but rather strong incentives to keep things running in spite of early signs of risk that, for example, may be attributed to other factors (including the common cold), and go undetected by flawed test kits, imperfect practices and everyday human error. The fact that COVID-19 can spread easily and asymptomatically does not augur well for the level of risk likely to be faced in this regard as the economy normalizes.

The bottom line is that given the limited understanding of COVID-19, the fact of non-immunity, and the awareness of systemic shortfalls, there is little basis for believing the epidemic is over, even if its progress can be greatly delayed. Optimism that the virus has been successfully contained likely adds to the risk of further outbreaks.

Recur, not Repeat: Scenario Readiness

In light of the experience of the past two months in China, and the nationwide organisational readiness now in place, a “round two” outbreak will likely play out much differently. There are several scenarios.

Discovery and Mitigation of Isolated Workplace Infections

In this scenario, a small number of infected people are quickly recognised and isolated; measures are adopted to limit risk of further spread. This scenario has already played out in factories and offices.

- **Factories**: Discovery of a small number of infections or exposures in a factory setting leads to operational shutdowns. This has occurred already at a factory in the titanium industry in Chongqing, which was shut down entirely in mid-February after cases were discovered. An air-conditioner manufacturer in Guangdong was also shut down after a company bus driver was found to have had close contact with a suspected sufferer.
Note: According to the Caixin story published about the titanium plant, infections and exposures were uncovered some weeks before the factory suspended operations. This aspect of the incident lends credence to the idea that economic pressures may cause firms to overlook early signs of an outbreak.

- **Offices:** Similar to the above, a small number of infections or exposure among office workers leads to quick action. However, in contrast to factories, which would likely cease operations, some level of productivity may be maintained via flexible working arrangements. Such an incident occurred recently at e-commerce company Dang Dang in Beijing, after which all employees were ordered to work from home.

  **Triggers:** Infection detections at one factory or office are likely to lead to heightened anti-epidemic screening and enforcement at adjacent businesses or neighborhood levels.

**Limited Spread in Industrial or Office Parks**

While such cases have not yet occurred, it is possible that workplace infections could spread more widely among commercial districts before being detected, leading to shutdowns of entire industrial or office parks.

  **Triggers:** A significant outbreak involving multiple companies in a single area is likely to lead to anti-epidemic measures at the municipal level that may impact businesses that are not in the immediate vicinity.

**Outbreaks at the Municipal Level or Higher**

A major outbreak at the municipal level or higher is less likely at this point, given widespread screening efforts, and the increased sensitivity to the health risks. Even if cases initially slip through the cracks at the level of individual firms, small outbreaks would probably be detected before compromising an entire metropolitan area, as seen in Hubei.

  **Triggers:** If an outbreak of this magnitude does reoccur in a sizable municipality, anti-epidemic measures would likely have national-level implications, including travel restrictions and broadly mandated self-quarantines.

**Overall Risk Scenario Preparation**

In terms of organisational readiness, firms should closely monitor the news for outbreaks, which should they occur, trigger business and supply analysis for the impacted area. For example, the emergence of infections at one of the levels described above should trigger additional preparation for threats and consequences at the next level. The discovery of infections at a factory in the same park as a key supplier should trigger consideration for the shutdown of the entire park, plans for which should already have been prepared.

Preparedness for a response to the aforementioned triggers, or others specific to business operations, should contain the following essential elements;

- **A COVID-19 Specific Response Plan** – NOT the generic ‘all-risks’ Crisis Management / Incident Response Plans that may already be in place, although the methodology used within these existing plans would be a useful starting point, as it will be understood by all staff.

- **COVID-19 Response Plan Leader(s)** – Consider appointing specific leaders responsible for the Preparedness and Response effort. Recognise the Capacity and Competence levels this role will require – we strongly recommend this should not be simply an ‘add-on’ task to senior management who are likely already at capacity.

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6 [https://zhuanlan.zhihu.com/p/107975607]
• **ALL Staff & Key Staff understand their Roles & Responsibilities** within the COVID-19 Response Plan – this is achieved by:
  
  o **ALL Staff** socialization briefing of the plan and what to expect in response: Physical and Procedural actions that will be taken/activated in the Workplace.
  
  o **KEY Staff** scenario based Table Top exercise for the most likely Trigger Scenario(s) – these need not be more than half a day, but the experience captured by all will be invaluable in a real response situation. Such exercising can also identify where, within your Operations and Activities, you may need additional Business Resilience planning.

• **The COVID-19 Response Plan should be Realistic, Achievable, and Sustainable:**
  
  o Written in language that **ALL Staff** can understand and in the likely event of multiple **KEY Staff** absences, adopt a role within the plan.
  
  o Resourced to match company Operations and Activities – if you operate 24/7 then be prepared to mount a response plan action 24/7 that will need Manning resource accordingly – *link Table Top exercise to stress test this Manning requirement.*

• **Communications Plan** – Establish clear lines of Internal and External Communications where you can reach **ALL Stakeholders** effectively accordingly – *link Table Top exercise to stress test this Communications requirement - link COVID-19 Response Plan Leader(s).*

Firms should also be ready to quickly engage local authorities, be they building managers, industrial park security officers or local government officials. Particularly in the case of escalating outbreaks, reactive anti-epidemic measures may be unpredictable and extreme, with an intense level of enforcement. It is critical that organisations understand how local officials are handling crisis response, what measures they are implementing and why.

Similarly, firms should be well aware of the possibility of heightened fear among employees, and how this may impact their behavior, for example reluctance to show up for work in the event of infection discoveries in the vicinity. Anticipation and empathic communication may help ensure smooth operations, as well as mitigate the risk of employee dissatisfaction and potential reputational damage.

**Broader Mitigation Recommendations: Realistic Risk Mindset**

In addition to having risk management teams develop preparedness and contingency plans for the above scenarios, it is important to maintain a realistic outlook, and a healthy understanding of the uncertainty at play with COVID-19, across organisations.

From individuals all the way to international governance bodies, people are struggling to understand torrents of confusing and often incomplete information, and the resulting conflicting opinions about the state of the health threat and the best way to respond. Since the novel infection first came to global attention around the turn of the year, the most significant uncertainty has been whether the world is overreacting or underreacting. Nearly two months in, with

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7 The term **Key Staff** refers to those who will have a leadership or decision making role during the response process within the COVID-19 Plan.
over 2,700 confirmed deaths as of writing, this is still not entirely clear, especially as observed epidemic trends diverge in different geographies.

Arguably the most important corporate risk observed by Hill & Associates in recent days is the temptation among organisations to declare that the situation within China is returning to “normal.” This assertion, while not unfounded, is unproven. Clients should take care not to be overwhelmed by an overly positive narrative, especially as they deal with epidemic-related challenges in other parts of the world, and the familiar commercial pressures to regroup and resume normal operations.
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