

Strategic Analysis Paper

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The Wuhan Coronavirus and Its Impact on China's Foreign Relations – Part Two

Lindsay Hughes

Senior Research Analyst

Indo-Pacific Research Programme

Key Points

- Recognising China's duplicity in managing the coronavirus pandemic, Western countries are beginning to challenge its narrative and policies.
- Faced with China's intellectual property theft, double standards and attempts to coerce, many Western countries are re-evaluating their relationships with China.
- That re-evaluation could potentially lead to the erosion of globalisation itself.
- At a time when the Chinese economy is faltering, the rejection of globalisation would spell doom for China's economy and its plans to become a world leader.
- More importantly, its leaders recognise the danger that the situation poses to their continued rule.

Summary

It is, perhaps, in recognition of the attempts by China to influence the Covid-19 narrative that has led the European Union and its member states (apart from other Western countries) to challenge that narrative. Speaking very plainly, the Union's foreign policy chief, Josep Borrell, [called on member states](#) to prepare for a 'struggle for influence' in a 'global

battle of narratives'. Borrell placed China's medical aid to Europe in distinctly geostrategic terms, and noting that, rather than Europe helping China, the reverse was now true, he said:

There is a global battle of narratives going on in which timing is a crucial factor. China is aggressively pushing the message that, unlike the US, it is a responsible and reliable partner. In the battle of narratives we have also seen attempts to discredit the EU as such and some instances where Europeans have been stigmatised as if all were carriers of the virus. The point for Europe is this: we can be sure that perceptions will change again as the outbreak and our response to it evolves. But we must be aware there is a geopolitical component including a struggle for influence through spinning and the "politics of generosity". Armed with facts, we need to defend Europe against its detractors.

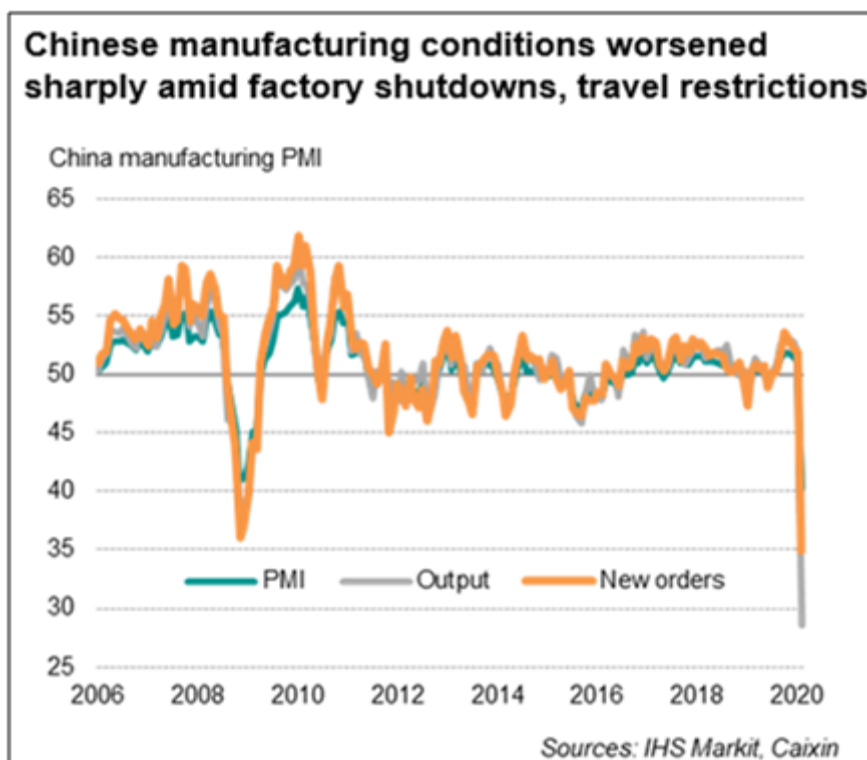
Analysis

Mr Borrell was effectively re-stating the European Union's perception of China as a "[systemic rival](#)", albeit in more strident terms, and reiterating the call from European Union leaders to [end the naivety](#) in the EU's relationship with Beijing. He was cautioning against China's habit of conducting negotiations with individual countries, in this case Serbia and Italy, and ignoring multilateral groupings, such as the European Union itself. Chairman Xi [telephoned](#) French President Emmanuel Macron, German Chancellor Angela Merkel and King Felipe of Spain individually after the virus took hold in Europe but ignored European Union officials, such as European Commission President Ursula von der Leyen, leaving it to Premier Li Keqiang to speak to her. The European Union was also taken aback by Serbia's reaction to its ban on the export of medical equipment. Serbia had applied to become a member of the European Union, but is not as yet one. When the ban was enacted, Serbian President Aleksandar Vucic denounced the European Union as a "fantasy" and turned, instead, to Chairman Xi, who he called a [brother and a friend](#). European Union officials saw those events as attempts by China to divide and conquer Europe country by country. Mr Borrell's comment reflected that perception.

It is not only Europe, however, that has seen its relations with China erode. In Brazil, the son of President Jair Bolsonaro, Eduardo, became involved in a spat with the Chinese ambassador to Brazil when he commented that the pandemic had originated in China and blamed Beijing for the global spread of the virus. Although he later stated that did not intend to offend the Chinese people, he also stated that he stood by his criticism of the Chinese Government. Before that, however, Chinese Ambassador Yang Wanming responded to Eduardo Bolsonaro's criticism; he tweeted in a now-deleted post that the Bolsonaro family was a "huge poison" and that Bolsonaro junior had contracted a "mental virus" while in the United States recently. Brazilian Foreign Minister Ernesto Araujo struck out at those comments, saying, 'It is unacceptable that the Chinese ambassador endorses or shares offensive posts aimed at the Brazilian head of state.' He also demanded a retraction. The Chinese Embassy in Brasilia responded by tweeting that Eduardo Bolsonaro's criticism was 'absurd, prejudiced ... (and) irresponsible' and suggested that he 'educate himself'.

In Sweden, which has not enjoyed the best of relations with China in the recent past, the Chairman of Stockholm Free World Forum, a local think-tank, Gunnar Hökmark, [declared](#) that China’s leaders should apologise to the world for the epidemics that arise in and spread from China because of the ‘dictatorship’s failure to address food safety, animal standards, and because of its repression of truth and the freedom of its own citizens.’ In [Australia](#), where medical supplies have been running low, tempers are rising against China after it was reported that a ‘chartered plane with 90 tons (82 tonnes) of medical supplies, including 100,000 most needed protective coveralls and 900,000 pairs of medical gloves, has successfully departed from Sydney and arrived in Wuhan on 24 Feb[ruary].’ Prior to that shipment, ‘employees of Greenland Australia, a subsidiary of the Chinese Government-backed global property giant Greenland Group, were instructed to put their normal work on hold and source bulk supplies of essential medical items to ship back to China.’ The procurement of medical supplies, according to one employee, was part of a global effort by China to procure such supplies. If that allegation is true, China is effectively distributing medical aid to those countries with which it had or sought to have strategic ties by denuding the rest of the world of those supplies. That exercise can only be seen as a mercenary effort to increase its influence and standing worldwide. It could also be seen, however, as [bluster](#) (also [here](#)), in an attempt to conceal Beijing’s fear of facing social unrest as its economy sinks and unemployment rises in China while anti-globalisation forces and sentiment rise and strengthen internationally.

China’s economic travails in the wake of the pandemic have given the Chinese Communist Party another major cause for worry. The Party’s first objective, bar none, is to remain in power. To do that, it knows that it must maintain social stability, which requires, in turn, economic prosperity. As the pandemic takes hold across the world and economies slow in its wake, the effect on China’s manufacturing sector and, by extension, its own economy is massive, as the following diagram shows.



With demand falling drastically across the world, China's factories are being forced to lay off their workers, with the subsequent loss of income to families. As the graph shows, the fall in manufacturing surpasses that which occurred during the Global Financial Crisis of 2008. China, nevertheless, allegedly plans to make use of the pandemic to enhance its economic clout and international influence. As one [report](#) notes, Beijing is working to acquire more foreign direct investment, enhance its market share globally in critical industries such as telecommunications, artificial intelligence, the manufacture of pharmaceuticals, electric vehicles and high-speed rail networks, and to stop the West, especially the US, from challenging its behaviour, for instance, its wholesale theft of intellectual property, and the bending (and even breaking) of WTO rules. As the report states, 'Beijing intends to reverse recent US efforts to counteract China's subversive international presence; at the same time to chip away at US-Europe relations'. The optimal way of fracturing US-European relations would be to influence individual European countries to do so, which would provide another reason for its attention and investments in countries such as Serbia, Greece, the Czech Republic, Hungary, Italy and Spain. It is very likely its investments and growing influence in those countries that led Chairman Xi to ignore European Union officials and phone the leaders of those countries.

To achieve those goals, however, China needs to get its factories working again. The Chinese Communist Party extended the Lunar New Year holiday by a week on 23 January so as to prevent the return of workers to its manufacturing centres and to halt the further spread of the virus. The travel restrictions that it imposed and the quarantining of 60 million people brought manufacturing to a virtual standstill. China's economy was affected much more severely by the uncertainty of the closures than Beijing anticipated. Lacking access to reliable data on the spread of the virus, due to Beijing's refusal to divulge those, investment banks reduced their [forecasts](#) for China's GDP in the first quarter of the year. Even those forecasts, however, were optimistic. As a China Beige Book [survey demonstrated](#), of the 1,400 organisations that it tracked in February, only one-third of businesses had re-opened fully. Close to one-third of those firms remained shuttered since the start of the Lunar New Year holiday, around 30 per cent of employees tele-commuted and seven per cent still waited to resume work at their places of employment. Company sales have declined by over ten per cent overall and 68 per cent of managers blame the coronavirus for that state of affairs.

The more concerning outcome of that decline, however, will be felt in the longer term. While information technology organisations were not as badly affected as others, even they have not returned to normal production. The automobile and chemical manufacturing sectors, on the other hand, have been severely hit. Shipping and logistics companies have been among the worst affected, reporting higher closure rates than the national average. That could have a damaging effect on supply chains. The possibility that even more international organisation will now move their manufacturing and other divisions out of China has increased dramatically. Organisations were already leaving China due to rising costs as the country's standard of living rose. The rate at which organisations left increased under President Trump, when he declared his tariffs on China. The coronavirus now appears to have given any companies that dithered on leaving China the final push. After a shortage of surgical masks was reported in Europe, for instance, the question was asked: why does

Europe depend on China for masks? Why can they not be manufactured in, for instance, Albania, which has equivalent or lower manufacturing costs than China? Albania, moreover, is geographically closer to Europe than China is, transportation costs could be reduced and better controls exerted on the production process. In the US, companies are increasingly considering moving their manufacturing plants to Mexico, a move that was influenced to a large extent by the new USMCA Agreement. If President Trump is re-elected, [certainly a possibility](#), the restrictions on importing Chinese-manufactured goods could increase drastically in his second term. According to the results of a recent [survey](#), 160 US automotive, manufacturing and technology company executives said that they would move their operations from China and other countries to Mexico within the next one to five years.

Were that to happen, and there is every likelihood that it will, FDI into Mexico that is re-directed from China and Europe would increase by US\$12 billion to US\$19 billion (\$19.5 billion to \$30.9 billion) a year on average, causing Mexico's GDP to grow by around 4.7 per cent per year. The incentives for manufacturers to move to Mexico are compelling; due to the 25 years of NAFTA, Mexico has become a major manufacturing base for cars, computers, electronics, televisions and trucks that are destined for the US market. A shipping container that takes forty days to be transported from Shanghai to New York takes only five from Mexico, with the attendant reduction in shipping costs. Mexico, moreover, is ranked eighth in the world for the number of citizens with engineering degrees. According to the same [survey's report](#), over forty per cent of US companies that have manufacturing facilities in Mexico also have facilities in China. The incentive for them to disinvest in China and relocate their businesses to Mexico is, therefore, very strong. The overall outcome would be even greater US economic disengagement with China, which is precisely what the China hawks in Washington desire.

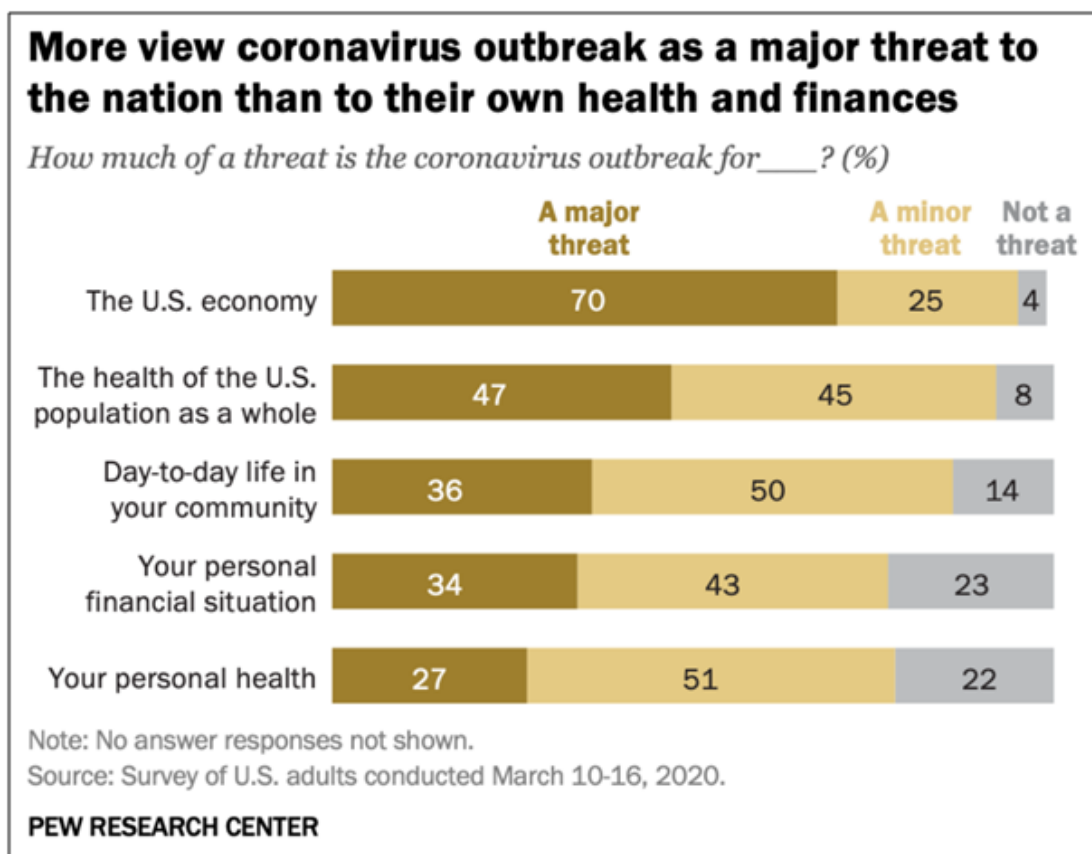
China itself has compounded its own worries. During the ongoing Sino-US spat as to who was responsible for the spread of the virus, the Chinese Communist Party mouthpiece, *Xinhua*, [reported](#) [Chinese] that Beijing threatened to restrict exports of pharmaceuticals to the US, causing the latter to be 'plunged into the mighty sea of coronavirus'. Washington recognises that it is almost entirely dependent on China for its pharmaceutical goods. As an observer of the issue [testified](#) to the US Congress in July last year, over 90 per cent of the pharmaceuticals that US citizens require are sourced from China. In her testimony, she pointed out that within four years of President Bill Clinton giving China unfettered access to the US market, 'the last penicillin fermentation plant in the U.S. closed; China's vitamin C cartel forced the closure of the last U.S. production facility, and the last aspirin manufacturing facility ceased business because of predatory pricing by Chinese firms.' She also [remarked in an interview](#) with a prominent newspaper, 'If China shut the door on exports of core components to make our medicines, within months our pharmacy shelves would become bare and our health care system would cease to function.' As is now its standard operating practice, China made the world dependent on its (pharmaceutical) manufacturing by stealing American pharmaceutical intellectual property and then protecting through subsidies Chinese manufacturers in order to undercut US manufacturers and drive the latter out of business. China recognises the importance of the biotechnology, including the pharmaceutical, sector, and has made it a key element of its "Made in China 2025" strategy to dominate world manufacturing.

China has found US allies among the globalists in Washington. Most prominent among those was the Obama-Biden Administration, with then-Vice President Biden controlling the US's response to various outbreaks of foreign diseases that entered the US. That was the case during the H1N1 (swine flu) pandemic in 2009, the 2014-16 Ebola outbreak and the Zika virus outbreak. In 2019, Biden was [recorded on video](#) mocking allegations that China posed a threat to the US, saying that the Chinese Communist Party "were not bad folks" in his estimation:

China is going to eat our lunch? Come on, man – they can't even figure out how to deal with the fact that they have this great division between the China Sea and the mountains in the west. They can't figure out how they're going to deal with the corruption that exists within the system. They're not bad folks, folks ... They're not competition for us.

The current pandemic has underlined the paucity of that judgement and the danger of complacency that it poses. That contrasts with the statement by Chairman Xi who, during a teleconference on 26 March, [told fellow G20 leaders](#) that China intends to increase its manufacturing of pharmaceuticals and medical supplies to 'keep global financial markets stable'. The contrast between the Chinese leader and an US presidential aspirant could not be greater.

The American people, however, see things differently. A [Pew poll](#), the results of which were released in mid-March, noted that 70 per cent of Americans believed that the pandemic posed a major risk to the country's economy, while 47 per cent believe that it is a major threat to their health.



Given the growing distrust of China across most Western countries and in many other parts of the world, it is hardly surprising that the calls to [disengage with China](#) are growing. It is equally unsurprising that Washington is now beginning to take steps to [reduce its dependence](#) on China for its pharmaceutical requirements. There is a growing awareness in other countries that they, too, are at great risk because of their dependence on China for their medical supplies. India, Germany, South Korea, Taiwan and others have clamped down on exports of masks and other protective gear over worries that their own supplies will fall short. It is likely that they will take future steps to reduce their dependence on China for pharmaceutical goods.

Chairman Xi is right to fear that growing distrust and the growing re-evaluation of their ties to China by major multinational and even smaller organisations. The Chinese Government has [threatened to blacklist foreign organisations](#) that do not comply with its diktats, initiated [operations to influence](#) domestic and global public opinion and sought to [influence](#) global organisations such as the United Nations. That effort is being dismantled, however, by the increasing international awareness that a number of past global pandemics, including SARS, [African Swine Fever](#) and [avian influenza](#), have all originated in China. Those issues, coupled with the [million premature deaths in China](#) caused by China's poor environmental pollution, call into question China's claim of offering an alternative model to democracy and its claim to being a global role model. Beijing's use of blackmail, such as its decision to [terminate the export of rare-earth minerals](#) to Japan because of their territorial disputes in the East China Sea, has not endeared it internationally, either. The decisions by foreign organisations to [relocate their operations out of China](#) because of intellectual property theft and increasing production costs has added to Mr Xi's worries. If more and more organisations were to relocate out of China, its economy, already stagnating, would plummet. Worse, if those businesses were to return their manufacturing facilities back home, globalisation itself would be eroded, perhaps irrevocably. China, which depends on globalisation for its economy, would return to being, at most, a regional player. That would pose a personal risk to Mr Xi and his strategies such as the Belt-Road Initiative and Made in China 2025. It would also have cost China trillions of dollars in wasted efforts like those.

China's chickens are coming home to roost. The coronavirus pandemic appears to be the last straw for a world that has long suffered China's dictatorial practices. China's leaders are now starting to panic; the Chinese Communist Party's hold on power could be at risk or it would take a major effort, perhaps including military intervention, as occurred at [Tiananmen Square and elsewhere](#) in China in 1989, to remain in power. Its international relations are deteriorating, and that deterioration is accelerating in the wake of the pandemic. Chairman Xi may bluster all he wants, but in the light of growing domestic dissent (see, for instance, [here](#), [here](#), [here](#) and [here](#)) and international anger and confrontation, China may have few options but to reform how it conducts itself. China, as it stands today, is no role model for how to manage the coronavirus pandemic, let alone as an alternative to democracy.

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Suite 5, 202 Hampden Road, Nedlands WA 6009, Australia.
Tel: +61 8 6389 0211
Web: www.futuredirections.org.au