

# Geopolitics after Covid-19: is the pandemic a turning point?

A report by The Economist Intelligence Unit



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## **Geopolitics after Covid-19: is the pandemic a turning point?**

**The coronavirus crisis will sharpen great power rivalries and hasten the shift in the global balance of power from west to east.**

- **The coronavirus pandemic will not usher in an entirely new global order, but it will change things in three important ways.**
- **It will bring to the surface developments that had previously gone largely unnoticed, such as the way in which China has already established spheres of influence in parts of the world that receive little attention.**
- **It will act as an accelerant of existing geopolitical trends, in particular the growing rivalry between the US and China and the shift in the economic balance of power from West to East.**
- **Finally, it is likely to be a catalyst for changes that are presently difficult to predict, in both the developed and developing world, from the future of the EU to the relationship between many developing countries and China.**

In times of crisis, global rivalries tend to intensify rather than abate. The coronavirus crisis has led to a further deterioration in the already chronically bad relations between China and the US. As things stand, there seems little prospect that the damage can be repaired in the short term. The epidemic will exacerbate long-standing US-China frictions, undermining any stability that might have been achieved as a result of the shallow “first-phase” trade deal signed in January 2020. The US president Donald Trump has threatened to impose new trade tariffs against China over its handling of the coronavirus outbreak. And even in the midst of the coronavirus epidemic, tensions have flared and sabre-rattling has increased between China and the US in the South China Sea. The coronavirus epidemic is not the cause of the difficulties in US-China relations, however; it is merely exacerbating trends that have existed for years as both countries compete for economic dominance.

### **A disinformation war is under way**

The spread of the coronavirus outside China and around the world has led to a disinformation war. China has sought to disown responsibility for the virus having originated there by spreading confusion and conspiracy theories, and the US has responded by trying to pin the blame firmly on China by using the designation “Wuhan virus” or “Chinese virus”, in reference to Wuhan, the city in Hubei province in central China where the disease was first identified. The US secretary of state Mike Pompeo insists that China must be “held accountable” for the global spread of the virus.

The US propaganda war may in part be an attempt to distract attention from the administration’s own mismanagement of the early phase of the public health emergency. However, more importantly it aims to highlight the moral superiority of the US over China in terms of the openness and transparency of its regime among other things. Meanwhile, in the battle to influence international public opinion, China has made a concerted effort to share scientific information and medical advice, and to offer

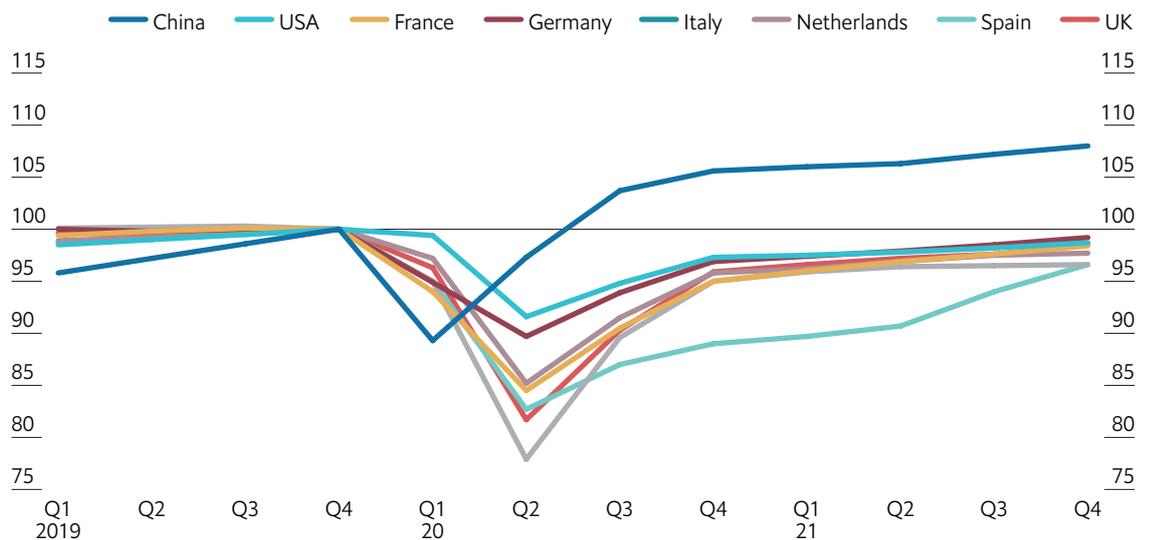
## GEOPOLITICS AFTER COVID-19: IS THE PANDEMIC A TURNING POINT?

assistance to countries struggling with the pandemic around the world. China has also contrasted its “efficiency” in containing the virus with the way the pandemic has been “mishandled” by Western democratic states such as the US.

### A further shift in the global balance of power

The pandemic will accelerate the shift in the global balance of power from the West to the East. The negative economic fallout from the pandemic and ensuing counter-crisis measures on the mature, developed economies of Europe and the US may be long-lasting. The extraordinary fiscal and monetary measures that these countries are taking to support businesses and households will be hard to reverse. It is possible that many of these interventions will not be fully unwound, perpetuating the era of easy money and debt-dependency, resulting in years of slower growth and raising the chances of sovereign debt crises. Unless the developed nations change course and pursue a radically different economic path after the crisis, the gap between a slow-growing West and an economically dynamic East is likely to widen.

### Quarterly real GDP forecasts (2019 Q4 = 100 as base period)



\*2019 data are actual.

Sources: Haver Analytics; The Economist Intelligence Unit forecasts.

China, by virtue of being the first to emerge from the crisis, will be the first on the road to recovery; it will direct all its resources to kick-start the Chinese economy. It will face challenges in engineering a fast recovery amid weak global demand, and it faces serious medium-term challenges, not least its substantial debt pile. Nevertheless, once the negative short-term impact of the crisis dissipates, China and other fast-growing economies in Asia are likely to experience a faster recovery based on their underlying advantages in terms of strong investment, innovation and productivity growth. The pandemic is therefore likely to accelerate the rebalancing of global economic power from the West to the East in coming years.

### **China will emerge as a bigger global player**

China is likely to emerge from the crisis as a bigger global player in political as well as economic terms. Beijing is trying hard to repair the reputational damage caused by its initial bungling of the coronavirus outbreak, in particular by sharing medical expertise, sending aid and filling some medical supply shortages around the world. Inevitably it will face a political backlash, mainly from its rivals in the US and Europe, and relations with these countries will become more difficult. However, this is unlikely to prevent the growth in China's global reach after the pandemic.

There will be a questioning of dependence on supply chains from China, which led to a global supply-side shock in the first quarter of 2020, when Hubei province was under lockdown. Many countries and companies are likely to review their dependence on China for vital products and to take steps to diversify their supply lines and increase national resilience. The pandemic is likely to intensify an existing impulse towards greater national self-sufficiency, but reshoring and localising production will have economic and political limits and will also take time.

China will seek to capitalise on the failure of the US to give a lead at the start of the crisis and on its inward-looking focus during the worst of the public health emergency. Regardless of the criticisms made of its early handling of the coronavirus outbreak, China will use the crisis to raise its global profile and demonstrate its importance as an indispensable global player.

The crisis is also likely to crystallise the development of clearly demarcated Chinese spheres of influence in parts of Africa, eastern Europe, Latin America and South-east Asia. China now has an opportunity to expand its influence by providing expertise and support to countries hard hit by the pandemic. It is not inconceivable, for instance, that China could launch a medical Belt and Road Initiative in some African countries, both to bolster its reputation on the global stage and to protect its investments there. Some of these places will become arenas for the playing out of great power rivalries and conflicts.

### **Will the US's global leadership be diminished?**

The "America First" policy of Donald Trump, the US president, had arguably already led to a retreat from the global stage and a diminution of US power globally, though it is still indisputably the case that the US is the global hegemon given its economic and military clout. However, over the past three years many countries have come to view the US as a less reliable, trustworthy partner. At the same time, some have become warier of China, with the EU for example declaring it to be a "systemic rival" and "strategic competitor". Faced with a less reliable US and a more assertive China, some European leaders are calling for a more ambitious common European foreign and defence policy. However, the pandemic is likely to expose the limits of such ambition. Another consequence of the pandemic will be to intensify rivalries among the major power blocs and between nation states as well.

The US's retreat from the world stage has given China an opportunity to fill a vacuum, particularly as the epidemic has forced the US to turn inwards even more for now. It would be a mistake, however, to underestimate the power and leadership of the US, which is certainly aware of China's intentions and is likely to fight back. The renewed US threat of punitive trade tariffs against China shows the likely future direction of policy.

### **The EU will emerge weakened from the crisis**

The failure to mobilise a pan-European response to the crisis and the tendency of member states to look after their own citizens has dealt a blow to the EU: member states did not act in concert when the crisis erupted in Europe, but unilaterally, closing borders, suspending free movement and stopping transport links without co-ordination. The lack of pan-European solidarity was striking, as Italy's appeal for assistance was initially ignored by other European states, which also blocked exports of medical supplies and equipment, allowing China to step in to offer help and therefore bolster its global influence.

The EU belatedly offered more assistance to struggling member states and to aspirant member states in the western Balkans, but the damage had already been done and resentment is likely to linger. As the crisis spread across the continent, festering divisions within the bloc between northern and southern countries and between the east and west of the continent came to the fore. Coming after the sovereign debt crisis, the migrant crisis and Brexit, the coronavirus crisis will further damage the EU.

### **Emerging powers will seek to capitalise on the crisis**

Regional powers such as Russia, Turkey, Iran and others have in recent years sought to capitalise on the increasing fragmentation of the global order by asserting leadership in their regional "backyards". They have taken advantage of the reduced engagement of the US to increase their influence and meddle. For some of these states the epidemic represents an opportunity to bolster their regional and global presence. Russia has sent military and medical aid to Italy on planes branded "From Russia with love", in a snub to the EU and other traditional partners, which initially failed to help the hard-hit country; it also sent a plane full of masks and medical supplies to the US.

At the same time some of these regional players are likely to be hard hit by the coronavirus crisis (Russia and Turkey have both experienced major outbreaks of the disease), and this may limit their capacity to extend their influence in the short term. However, over the longer term the pandemic will accelerate the fragmentation and decomposition of the global world order, to the benefit of emerging powers such as China, and potentially the likes of Russia and Turkey.

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