

# China's Foreign Policy in the Post-Covid World Order: An Assessment

*Examining foreign policy threats and opportunities for China in the post-Covid world.*

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## Key Ideas

*Regime survival and stability are likely to remain as primary objectives of China's international engagement. Prolonged economic slowdown, the threat of increased protectionism, and deepening frictions with the US will impinge on this objective.*

### **#1 Sino-US ties are likely to continue to deteriorate**

Middle powers like India, France, Germany, Russia, and Japan, are likely to enjoy greater bargaining power with regard to China. The dependence of smaller powers on Beijing is likely to increase.

### **#2 BRI will likely become even more critical for China**

At the same time, project execution might become even more difficult.

### **#3 China is likely to view US withdrawal from international institutions as an opportunity to expand its stake**

It will also compete more vigorously in the narrative space to craft a favourable public opinion. Expect intensified propaganda and misinformation campaigns from Beijing.

### **#4 Beijing is likely to seek stability in ties with New Delhi along with greater access to the Indian market**

But its sensitivity to the Indo-US relationship or economic policies seen as targeting China can be expected to increase significantly.

# Section I: The Post-Covid World Order

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# Imagining the Post-Covid World Order

*In 2018, we proposed a framework to imagine New World Order scenarios at the intersection of key geopolitical and geoeconomic trends. (Kaniseti et al, India's strategies for a new world order)*

## ***What are the likely geopolitical trends because of Covid-19?***

COVID-19 is likely to decrease the power of both the US and China, while accelerating competition between them.

## ***What are the likely geoeconomic trends because of Covid-19?***

A global recession is on the cards. As supply chains get back up, some of them will move away from China.





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## What Would a 'Race to the Bottom' World Look Like?

*The US-China confrontation will increase. The middle powers will enjoy greater bargaining with both US and China. The smaller powers will likely fall in line with any side that provides them the required capital.*

1. Two major powers, both substantially weakened.
2. China is more likely to attempt a Marshall Plan this time because of existing overcapacity.
3. BRI becomes even more important for China. It will have to concede more. But chances of its success have gone down further.
4. The US dollar is likely to be in higher demand in a recessionary environment.
5. Free movement of labour reduces. Restrictive trade agreements, economic nationalism gains more currency.

# Section II: Chinese Foreign Policy in the post-Covid World

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# China's Foreign Policy in the post-Covid World

## Threats

- Strategic competition with the US evolving into a Cold War; Middle powers enjoying enhanced bargaining power.
- States diversifying supply chains to reduce dependence.
- Stricter rules on foreign investments and M&As, targeting Chinese firms.
- Chinese trade suffering a prolonged demand-side shock.
- Slowdown in BRI projects owing to outbreaks and debt renegotiation.
- Regime instability due to economic slowdown & outcomes of reputation costs.

## Opportunities

- US withdrawal from international institutions creates a power vacuum.
- Transatlantic frictions allow balancing ties with European states.
- Global economic slump provides opportunities to expand strategic investments.
- Window to strengthen gains with regard to territorial disputes.
- Potentially increased dependence of smaller powers on China.
- Bankrolling global recovery via a Chinese Marshall Plan.





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# China's Foreign Policy in the post-Covid World: Our Assessment

Regime survival and stability is likely to remain the primary objective of China's international engagement.

Deepening competition with the US and potential de-globalisation will impinge on this objective; hence one can expect damage limitation efforts. At the same time, Beijing is likely to diversify its trade and investments to focus on emerging markets and developing countries.

China is also likely to compete more vigorously in the broader Indo-Pacific, the global public opinion space, and within international institutions.

# Section III: China's Behaviour Towards Specific Actors

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# Assessment 1/3

Actor

China's Likely Behaviour

**United States**

Sino-US rivalry is likely to intensify in the post-Covid world. In the near term, damage limitation is likely to be Beijing's policy objective with regard to Washington. In the long run, China will likely engage in systemic competition and even confrontation, while seeking to avoid conflict. Either way, it will seek to remain an attractive destination for US businesses and investment.

**Western Europe**

Major European powers should enjoy enhanced bargaining power with China, but the dependence of smaller powers on Chinese economic support is likely to increase. Beijing's primary objective will likely be to limit political & economic backlash from the pandemic. China will also likely reinforce that restrictions on trade and investment will have reciprocal implications. It can also be expected to work to undermine potential transatlantic unity, while seeking partners in Europe to support international institutions.

**Eastern Europe**

Expect China to make greater inroads into this region by expanding its economic and political engagement. This should entail being generous with medical supplies, aid, and investment. It is also likely to support emerging autocratic leaders.





## Assessment 2/3

Actor	China's Likely Behaviour
<b>Russia</b>	<p>A backlash from the West with regard to China increases Russia's bargaining power. In the short-run, Moscow's dependence on Chinese health and medical supplies will be high. However, in the long run, Beijing's dependence on Russian energy supplies, market and political support will increase.</p>
<b>West Asia</b>	<p>The pandemic has reduced the bargaining power of West Asian powers with China. Iran is substantially weakened both due to the outbreak and its international isolation. Meanwhile, with oil prices low, Saudi Arabia is likely to have little money to spare as subsidies for citizens or as financial support to other Arab regimes. Even a rise in oil prices may not be accompanied by a rise in demand, meaning there will be limited financial gain for the rest of the year. All of this creates opportunities for China to shore up its energy reserves and eye strategic investment deals. Beijing, however, is unlikely to seek a greater political role in the region.</p>
<b>Africa</b>	<p>China is likely to expand aid, trade and investments in Africa. It needs African markets, as much as the leaders in Africa will need economic support. Beijing can be expected to engage in debt renegotiations, but this will be done largely on a bilateral basis, and it will also seek to press ahead with BRI projects. In the near term, strategic asset takeovers are unlikely, but these could become part of an increasing number of contracts.</p>





## Assessment 3/3

Actor	China's Likely Behaviour
<b>East and Southeast Asia</b>	China can be expected to move to cement its preponderance in the region. Its maritime assertion might intensify with the aim to create a <i>fait accompli</i> for smaller powers. China is likely to seek to deepen economic and political engagement to emerge as the regional leader. US policy, therefore, will be a key determinant. In the post-Covid world, Taiwan's bargaining power has grown. This might mean heightened Cross-Strait tensions. Japan also enjoys expanded space with regard to China and will likely compete more vigorously.
<b>Indian Subcontinent</b>	China's approach to the Indian subcontinent should be similar to its approach in Africa. In the near term, provision of aid along with kickstarting trade and BRI projects is likely to be the focus. China can also be expected to intensify financial and diplomatic support for Pakistan and is likely to renegotiate some debt. Pakistan's dependence on China will likely increase.
<b>India</b>	The pandemic and intensified Sino-US rivalry present opportunities and risks for India. Beijing is likely to seek stability in ties with New Delhi. China's need for access to the Indian market will be greater now. It is, therefore, unlikely to escalate tensions along the LAC. But its sensitivity to the Indo-US relationship or economic policies seen as targeting China can be expected to increase significantly. This could result in volatility.



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