

POLITICAL AND ECONOMIC IMPACT OF COVID-19 ON CHINA AND USA RELATIONS

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The COVID-19 pandemic is increasingly looking like a watershed, one of those moments in history that mark the end of an era and usher in a new one. The world is poised to change dramatically as a result of the novel corona virus and many of the assumptions that seem plausible today may have to be revisited a few months down the road. Everything will depend on the severity of the coming socioeconomic shock and the resilience of the world order.

While it is too early for authoritative forecasts, three scenarios are possible at this stage. The best case envisages a moderate economic disturbance, which can hopefully be dealt with by the existing world order and through the mobilization of existing financial tools. A much more likely scenario, which qualifies as bad, foresees severe economic damage necessitating a massive demand for reconstruction, even if it cannot be met through available resources and by the shaky global institutional architecture. The worst-case scenario will be really ugly: it includes a devastating economic collapse of potentially historic proportions, leading to social and political turmoil in a number of countries, a sea change as to configuration of the world order, and curtailed connectivity.

In all developing countries remittances are bound to shrink due to job cuts overseas, thus putting further pressure on the economies and political arena. The position of the Chinese leadership over the past two years has been anything but enviable – it's been steadily exacerbated by the trade war with the United States, an inexorable economic slowdown, riots in Hong Kong, Tsai Ing-wen's re-election in Taiwan, and now the corona virus calamity.

The Chinese Communist Party (CCP) leadership is facing a daunting task revitalizing an economy that is up against serious challenges. With the United States and Europe reeling from the pandemic, Chinese exports will take a big hit. At home, Beijing is faced with limited room to stimulate the country's highly leveraged economy with persistently bad news coming in. Last February, China's official urban unemployment jumped to an unprecedented 6.2 %, though the real rate may be even higher. Some 5 million jobs in urban China have reportedly been lost to date because of the lockdown.

The political imperative of ensuring social stability will require much-needed resources, at the expense of what many Chinese citizens view as a waste of money overseas. While Xi's grip on power remains unchallenged, there is a perception that he may have jumped the gun with an overly ambitious and assertive foreign policy agenda. The COVID-19 outbreak has exposed the need for Beijing's decision-makers to focus on domestic development. But it will also be hard to sell at home and mostly probably won't be touted within China for a while.

To be sure, Washington's initial failures at home and abroad will be costly in terms of lives and prestige, while Beijing has been aggressive in its efforts to cement diplomatic gains after recovering from the initial shock to Wuhan. However, it is far too early to predict that a short-term shock to the global economy will somehow catapult China to regional or global leadership over the long term.

In fact, prognostications in the immediate aftermath of unexpected shocks to the international system are often wrong. In the weeks after the Battle of Waterloo, John Quincy Adams warned from London that the world would fall irreversibly into Napoleon's hands based on the early reports of the battle from those who first fled Belgium. After 9/11, the Bush administration predicted in its first National Security Strategy that the United States and China would improve cooperation on global challenges, a prediction the Obama administration repeated in its National Security Strategy after the 2008 global financial crisis that proved equally wrong.

International relations theorists measure the distribution of power primarily through the combination of domestic economic and military assets and international alignment. While the U.S. economy will now take a Major hit from the pandemic, China is not about to throttle through the economic carnage hitting the rest of the world on its own.

Almost half of China's export markets are now shutdown by the virus, and China's own domestic recovery is being hampered by its still shuttered service economy, which accounts for 60 percent of GDP. Moreover, modern China has never faced a recession, while the United States has itself successfully recovered from a dozen since the Great Depression. The pandemic shows no signs of changing these basic facts even as the global economy temporarily succumbs to its effects.

In terms of alignment, The United States could take a significant credibility hit in future polls, but Beijing's soft-power offensive is only really receiving praise from leaders in places like Spain, Italy, Serbia, or Iran who had already decided to align with China's Belt and Road Initiative because of economic desperation, grievances against democratic neighbours, or in some cases what analysts call "elite capture," meaning bribery.

It is worth noting that President Putin is also sending aid and troops to some of these same stricken countries, yet nobody is arguing that Moscow is suddenly the world's benign hegemony. Beijing's aggressive media campaign against the United States and democratic norms more generally is not playing well in open societies around the world, and the coming weeks and months will be crowded with stories about inaccurate and exaggerated Chinese health and economic statistics, further eroding that trust level. Beijing will score some opportunistic points and may even do well in some parts of the world, but global alignment is not on the verge of a major long-term shift as a result of the pandemic.

Yet even if the pandemic is only one variable in the structure of the international relations of Asia, it is nevertheless a major shock of uncertain duration. Straight line predictions of Chinese hegemonic success are premature, but complacency about American leadership is not warranted. Leadership decisions, the outcome of U.S. elections, and the success of vaccine research could all bend the arc of history in different ways. For now, the best we might do is to capture the range of outcomes of scenarios for the coming years,

Intensified Sino-U.S. strategic competition but no major reorientation of major powers

Even if the COVID-19 crisis does not significantly shift the power and alignment differentials between the United States and China, the tone of the relationship has changed in important ways. Beijing's propagating of conspiracy theories attributing the virus to the U.S. military and attacking U.S. alliances and democratic norms is only confirming the U.S. national security establishment's view that Xi Jinping seeks hegemony in Asia at the United States' expense.

Resurgent American leadership and multilateral institution-building

One critical fact lost on the administration in the current crisis is that American leadership has always been about building up institutions for cooperation and providing public goods and not just knocking down revisionist states or aspiring hegemony. The administration has thus far demonstrated virtually no regional leadership in this context—a contrast to the way the Bush administration created the U.S.-Japan-India-Australia “Quad” out of the 2004 tsunami crisis or the ways the Bush and Obama administrations established the G20 to forestall protectionism and improved coordination after the 2008 financial crisis. Neither Beijing nor Washington has yet made any moves to push for a new pan-Asian institutional architecture to respond to the pandemic or its economic impact, but the most effective architecture would include both countries and involve a certain level of common purpose between the two. Far from looking weak, this would demonstrate to allies and partners that the United States is reinforcing the very alliances and institutions that are the targets of Beijing's revisionism. The United States wins by leading, not blaming.

Moreover, key U.S. allies like Japan and Australia still recognize the sources of American leadership and credibility even when the White House does not, and they will undoubtedly lobby Washington in quiet ways to begin building new patterns of cooperation in the months and years ahead.
