



# OFF THE NEWS

## Fears of the Shrewd Chinese Superpower

*May have been grossly exaggerated.*

If 2019 was the year when Europeans began having serious doubts about Beijing's geopolitical intentions, 2020 may go down in history as the moment they turned against China in defiance. That's not because they blame the Chinese for originating Covid-19, as U.S. President Donald Trump and his secretary of state seem obsessed with doing. It's because China, by trying to capitalize on the pandemic with a stunningly unsophisticated propaganda campaign, inadvertently showed Europeans its cynicism.

The motivation behind the Chinese propaganda is obvious enough: With the U.S. flailing under Trump, Beijing sees an opening to finally rise to the status of a second superpower. The biggest geopolitical prize in this contest is the European Union, formerly anchored securely in the transatlantic camp but in recent years increasingly nervous about Trump and open to Chinese trade, investment, and influence.

As the pandemic's epicenter moved from Wuhan to European countries such as Italy and Spain, China initially had the right idea. Starting in mid-March, it sent Europe big shipments of face masks and other medical equipment, adorned with Chinese flags. Some of this gear turned out to be shoddy, but people saw it as a nice gesture. China could have stopped at "mask diplomacy" and come out ahead.

It didn't. Beijing's minions instead began spreading disinformation, apparently intended

to paint the European Union's democracies as effete and authoritarian China as comparatively strong. In France, the Chinese Embassy posted on its website a wild accusation that French retirement homes leave old people to die. In Italy, Chinese sock puppets disseminated tales that the coronavirus had in fact originated in Europe, or doctored video clips to show Romans playing the Chinese anthem in gratitude. In Germany, Chinese diplomats (unsuccessfully) urged government officials to heap public praise on China.

In response, the European Union's diplomatic service assembled a report on the disinformation campaigns being waged by China and that other usual suspect, Russia. China probably made a bad situation worse, leaning on the publication's authors to tone it down. At this, members of the European Parliament took even more umbrage and demanded assurances that the European Union will not self-censor under Chinese pressure.

—Andreas Kluth, Bloomberg

*Boxes of protective face masks are unloaded from an Air China plane carrying medical supplies donated by the Chinese government in Athens, Greece.*



REUTERS/ALAMY/NO INSTANT/ORBIS

## Minimal Impact

If President Trump follows through on his threat to eliminate Hong Kong's status as a special customs territory separate from China, the economic impact on Hong Kong would be minimal and on China even less.

Multiple press reports state that Hong Kong's exports to the United States are \$45 billion. But these reports overlook an important fact. Only goods produced in Hong Kong are eligible for most-favored-nation tariff treatment by the United States.

In fact, 95 percent of all exports from Hong Kong are goods produced elsewhere, then re-exported from Hong Kong to global markets. Only 1 percent or about \$450 million is produced in Hong Kong.

Decades ago, Hong Kong was a major producer of light industrial goods, such as apparel, toys, and electronics. But within a decade of China's opening to foreign investment in 1978, Hong Kong entrepreneurs had moved almost all their production to the mainland, where wages were lower and the Chinese government offered tax and other incentives. In recent decades, Hong Kong's economy has been composed almost entirely of services.

—Nicholas R. Lardy,  
Peterson Institute for  
International Economics

## Twenty-First Century Homestead Act

India is developing a land pool nearly double the size of Luxembourg to lure businesses moving out of China. That includes 115,131 hectares of existing industrial land in states such as Gujarat, Maharashtra, Tamil Nadu, and Andhra Pradesh. Luxembourg is spread across 243,000 hectares, according to the World Bank.

Land has been one of the biggest impediments for companies looking to invest in India, with the plans of Saudi Aramco to South Korean steel-maker Posco frustrated by delays in acquisition. Prime Minister Narendra Modi's administration is working with state governments to change that as investors seek to reduce reliance on China as a manufacturing base in the aftermath of the coronavirus outbreak and the resultant supply disruption.

—Shruti Srivastava, *Bloomberg*

## Howdy, Neighbor

Constriction of supply chains due to coronavirus-related shutdowns in China, further disruptions in global transportation networks, and a spike in worldwide demand for essential drugs could endanger the health of American citizens. And there is always the possibility of cut-offs imposed for political reasons—a tactic not yet used but increasingly threatened of late by China. An article on the website of China's official Xinhua news agency provides a not-so-friendly reminder: If China were to retaliate for U.S. statements blaming it for the spread of the coronavirus by cutting pharmaceutical exports, "the United States would sink into the hell of a novel coronavirus epidemic."

—Aaron Friedberg, *Foreign Policy*



Published with  
permission of  
Hedgeye Risk  
Management.