

## Covid-19 is Accelerating The Thucydides Trap in US-China Relations

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### From “Frenemies” to Cold Warriors

US-China tensions, which are the worst since the 1989 Tiananmen Square crisis, have re-emerged as a major theme for global markets joining the debate on the shape of the recovery, the scale of further policy stimulus and the prospects for a vaccine before year.

The announcement at the NPC annual meeting on a new Security Law to be imposed on Hong Kong is the immediate focal point of the rapid worsening of US-China tensions. But we believe more significant is that a more assertive China reflects a major shift in Chinese leadership thinking that recognises the inevitability of worsening relations with the US. The Covid 19 crisis is accelerating their move into Thucydides trap, the battle between the incumbent great power and the rival, which will be a major risk factor for the global economy and markets. Anti-China blame will clearly be the preferred strategy for Trump’s re-election campaign, with the current turmoil in US cities from the George Floyd protests increasing the importance of a need for a political scapegoat. But Beijing is pushing back far more aggressively than most would have anticipated. The hardening of hard-line sentiment reflects in part the need to distract from the worsening economy as a result of Covid-19. But President Xi Jinping is also likely to have concluded that with recession and collapsing exports unavoidable, now is the time to accelerate the shift to less reliance on external demand. There will be less accommodation of US demands under the Phase 1 trade deal. Further significant RMB weakening versus the USD seems likely. The unravelling of global supply chains will increase stagflationary risks which will impart a steepening bias to yield curves and challenge the complacency of bond markets to the massive monetization of Covid fiscal stimulus. We also believe China will finally take the strategic decision to reduce holdings of US Treasuries. A more hawkish stance for China, and “Wolf Warrior” diplomacy, also increases the risks for conflict over Taiwan or the South China Sea as Beijing takes US distractions with Covid and domestic challenges to assert greater regional hegemony.

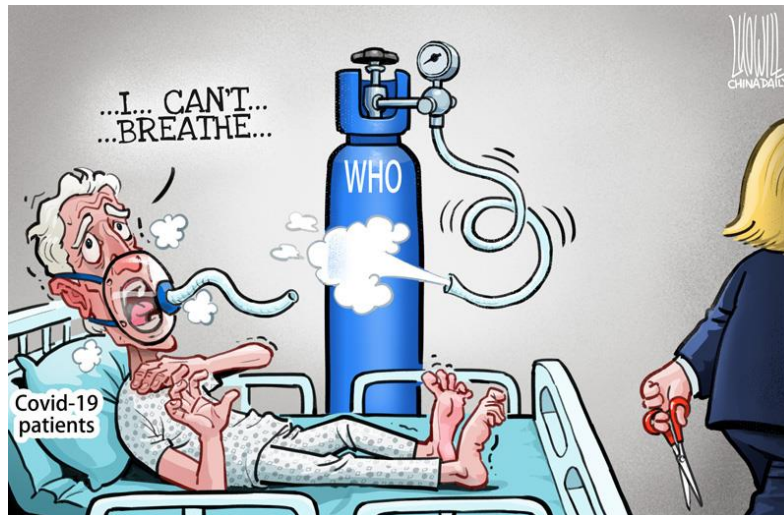


## HK Security Law – The Empire Strikes Back

The draft resolution on the HK Security Law passed by the NPC would make a criminal act “any acts or activities” that endanger China’s national security, including separatism, subversion and terrorism. The legislation would also allow “national security agencies” – potentially Chinese security forces – to operate in the city. President Trump announced on May 29 that he plans to “revoke Hong Kong’s preferential treatment as a separate customs and travel territory from the rest of China”. While Trump said it would affect “the full range of agreements” the US had with Hong Kong “with few exceptions”, he did not set a timeline, nor did he announce specific details as to which economic privileges would be removed, leaving uncertainty over what the US would actually do. The tariffs would affect only locally made products exported to the US, which accounted for less than 2 per cent of Hong Kong’s manufacturing and less than 0.1 per cent of its overall exports. But the psychological blow is considerable and the bigger risks is for further violent protests in the streets on HK being met with the full force of China’s Security apparatus. President Trump’s proposal for the next G7 meeting in September to be extended to include Russia, India, Australia and South Korea, but exclude China, is also clear evidence of the US objective to isolate Beijing.

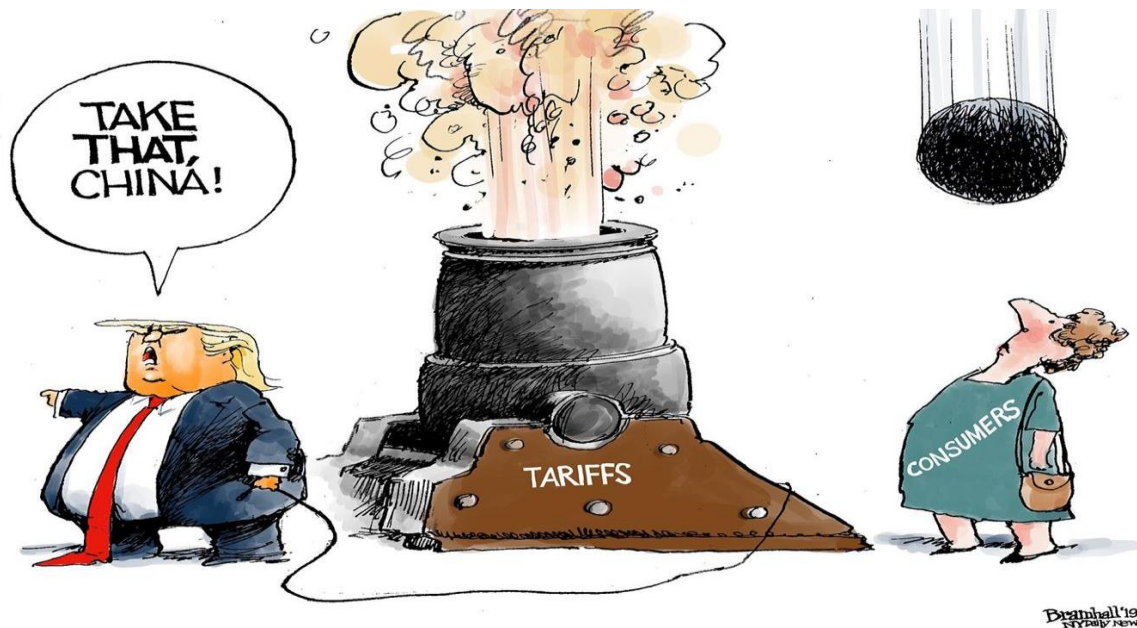


China’s schadenfreude response to the current widespread unrest in the US in the aftermath of the killing of George Floyd only underlines and will worsen the increasingly bitter relations. On Sunday May 31, China’s foreign ministry spokeswoman, [Hua Chunying tweeted](#) “I can’t breath” – Floyd’s last words – with a screenshot of a previous US State Department spokesperson’s criticism of China’s proposed new HK security law. Fellow ministry spokesman, Lijian Zhao retweeted numerous comments and reports on the protests, including from Russia’s deputy representative to the UN, accusing the US of double standards. “Why US denies China’s right to restore peace and order in HK while brutally dispersing crowds at home?” said Dmitry Polyanskiy.



A key question for markets is whether President Trump decides to reverse the Phase 1 trade deal agreed in January which would necessitate re-imposing tariffs on approximately \$ 165 bn of Chinese goods. This would raise prices for US households already suffering the worst recession since the Great depression – fragile consumer spending might come under even greater pressure against a backdrop of record unemployment. On the other hand, as [the Peterson Institute has noted in a recent report](#), China has only made 40% of the purchases needed to stay on target for the agreed first year increase of \$ 77bn over 2017 levels. Moreover, on June 1, China reportedly told state-owned firms to stop buying US soybeans, port, corn and cotton in retaliation for President Trump's announced measures stripping HK of its special status. This signals China falling even further behind on its Phase 1 trade deal commitments. President Trump will be reluctant to risk cancelling the deal and risking the economy and volatility in financial markets. But a failure to respond to China's move would leave him vulnerable to Democrat criticism he is soft on China. White House Economic Adviser Larry Kudlow in a CNBC interview stated that on trade : "It's a complex relationship. The China Phase 1 trade deal does continue to go on for the moment and we may be making progress there." U.S. Trade Representative Robert Lighthizer has recently cited [here](#) "continuing progress" in the deal, after China welcomed U.S. blueberries, barley, beef and dairy products. He has touted the deal's dispute settlement mechanism, which provides for regular consultations on compliance with Beijing's commitments on intellectual property protections, financial services, agriculture standards and purchases. We believe the President will continue to avoid taking a clear decision to cancel the trade deal before the election.





The decision by the UK government to extend visa rights for 2.9 million current or previous British National (overseas) (BNO) passports to an extendable 12 months with a pathway to full citizenship has inflamed Beijing further. Chinese Foreign Ministry spokesperson Zhao Lijian stated that “China reserves the right to take necessary measures” and added that Beijing considered Chinese residents in Hong Kong to be Chinese citizens, regardless of which passport they held. So far beyond condemning the HK security law decision, the EU has so far decided not to take any immediate steps. German Chancellor Merkel stated that she still wanted EU to reach a new investment agreement with China later this year and argued that the EU needed to maintain “a critical and constructive dialogue”. She stated that “Let us think only of the situation in Hong Kong with regard to the principle of one country, two systems. The fact that there are fundamental differences between us should not be an argument against exchange, dialogue and cooperation, especially not at a time when we are experiencing a sharply increasing conflict between the USA and China.”

But beyond the HK security law dispute is the increasingly acrimonious and bitter backdrop of Great Power competition and the way that the Covid-19 crisis has changed the political calculus in Beijing as well as Washington. With its economy in deep recession and trade flows having already declined sharply, China is likely to prioritize an economic policy of decoupling from the US and being less reliant on its role in global supply chains. The economic consequences of such a move can also be blamed on Covid-19. At the same time, a more aggressive nationalist geopolitical stance on HK, Taiwan, South China Sea and even India border disputes.



Clearly Anti-China rhetoric will be the major focus in the Nov 3 US Presidential Elections as events over the past week virtually ensure President Trump and the Republicans and Democratic nominee Joe Biden tries to out-do the other on Anti-China hawkishness. Events over the past week add geopolitical momentum to ongoing Trump Administration blame game holding China responsible as the source of the Virus and/or on lack of transparency on the events in Wuhan in January.





But the bigger surprise, in our view, is increasing signs at the NPC that the Chinese leadership is not only resigned to a new normal of a hostile US and its allies, but actually are shifting their economic strategy towards planning for an increased US-China decoupling and a more isolationist China. GDP growth contracted by 6.8% in Q1, the worst performance on record and the State council declined to forecast a GDP target for the year ahead at the NPC, also a first. But as importantly, there has been a clear shift in the Chinese leadership's stance towards one that combines greater priority on inward-looking economic policies and a more assertive diplomatic stance/less tolerance for criticism or interference on not only Hong Kong but also Taiwan and the South China Sea – the so called “Wolf Warrior” diplomacy. This will be reflected in the upcoming 5 year economic plan for 2021-26 but will have profound implications for the global economy and financial markets before then.

“What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta,” Thucydides wrote in *History of the Peloponnesian War*. In *Destined for War* (2017) Harvard Professor Graham Allison argued that wars start when established powers attack rising powers in order to pre-empt their own eclipse. It is becoming increasingly clear that the COVID-19 crisis is the most powerful series of factors that are dissolving common interests, worsening strategic stresses, and pushing America and China into what Allison calls the ‘Thucydides trap’. Yu Yongding and Kevin Gallagher in a [Apr 24 Project Syndicate article](#) laid out both optimistic and pessimistic scenarios for the impact of Covid-19 on US-China relations...either collaborating to find common solutions to the Coronavirus crisis on vaccines and the economic response or engaging in mutual blame game and increased mistrust. It is clearly the latter and Minxin Pei in another article [“Covid-19 Is Finishing Off the Sino-American Relationship”](#) convincingly argued that “ While the contours of the post-pandemic order remain to be seen, one thing seems certain: far from normalizing their relationship, the United States and China are likely to become increasingly estranged – and increasingly hostile.” President Xi noted in April, at a meeting of the Politburo Standing Committee (the CPC’s top decision-making body), that “we must maintain ‘bottom-line thinking’ and make mental and material preparations for changes in the external environment that will last a relatively long period of time.” There is still a lack of clarity on what Xi’s “bottom-line thinking” is, but it seems likely that it implies that China will respond to intensifying US pressure not with concessions, but with retaliation.



The Covid-19 crisis will likely also accelerate the ongoing deglobalisation trends and the unwinding of global supply chains. In addition, the first phase of the US-China trade deal is at risk of unravelling. The shift in thinking in Beijing most likely reflects a willingness to take economic risks trade talks failing given the collapse in China's economy and external demand as a result of lockdown's and supply chain disruptions. More fundamentally, there is a growing acceptance among China's leadership that some degree of economic decoupling is an unavoidable consequence of the Great Power competition with the US.

Tariff imposition and supply chain unravelling both will have a stagflationary impact on the global economy and impart a steepening bias to bond market yield curves. Fragile consumer recoveries will be threatened by higher prices either directly from tariffs on higher production costs from the shift to less efficient production in the home economy.



The court ruling in Canada this week against Huawei CFO Meng Wanzhou that prosecutors had satisfied a critical legal requirement for her extradition to the US will only exacerbate not only the US-China technology war but also exacerbate sentiment in China that the US is wholly committed to prevent it's rise as an innovation economy that can compete with the US. This will re-inforce the Chinese government's commitment to rapidly develop domestic alternative for key semiconductors and other critical telecom and mobile phone supply chains locally to reduce vulnerability to US blacklisting.



Higher inflation will also make the current aggressive central bank monetization of fiscal spending less sustainable. The G20 has seen almost \$ 9 trillion of fiscal stimulus in the past 3 months with \$ 4 trillion+ of central bank liquidity injection. As soon as inflationary pressures start to re-emerge, it seems unlikely bond markets will be as sanguine about the economic risks of direct central bank fiscal financing. One might argue that policymakers would welcome inflation as a means of dealing with the massive build-up of government debt from the unprecedented Covid-19 fiscal stimulus packages. But demand-driven inflation would be welcome but cost-push supply driven inflation much less so. This is precisely the kind of inflation that will emerge from disrupted global supply chains.

Yale Senior Fellow Stephen Roach noted in a recent FT article that the [IMF](#) estimates that 75% of the increase in trade between 1993 and 2013 was due to the growth of international supply chains. Moreover, the [BIS](#) estimated that global inflation would have been one percent higher were it not for supply-chain enabled efficiencies in global production. In the post Covid-19 world, countries are prioritizing and indeed incentivizing the return of offshore production back home and not just in the area of PPE and Pharmaceuticals where overreliance on China is a legitimate concern. Y 243 bn of Japan's record Y 108 tr stimulus package was dedicated to subsidizing Japanese companies to bring production back home from China. White House National Economic director Larry Kudlow has hinted at something similar in the US. But this will lead to higher cost and less efficient production and supply chains. Prices for goods will be higher for consumers in the US and other countries.

We also see a greater risk of China reducing its holdings of US Treasuries going forward. This is also likely to add to the steepening bias to the US yield curve. There has been much talk about Beijing "weaponizing" its Treasury holdings. But we would rather suggest that this is prudent risk management – even if the probability of the US cancellation of debt obligations still seems relatively low, other potential risk scenarios in the future such as armed conflict leaves China vulnerable with such large exposure. Moreover, with interest rates so low and



with the Federal Reserve buying Treasury bonds so aggressively this would be an opportune time for Beijing to liquidate US Treasury holdings with the least market disruption.



We also believe that China will want to increase its commitment to its flagship Belt road Initiative (BRI) programme to strengthen of geopolitical and commercial relationships in a new more bifurcated global economy between the US- and China-centric spheres of influence. Liquidating US Treasuries and re-investing those proceeds in BRI projects makes sense as China looks for new sources of external demand as exports to the US and other Western countries declines.

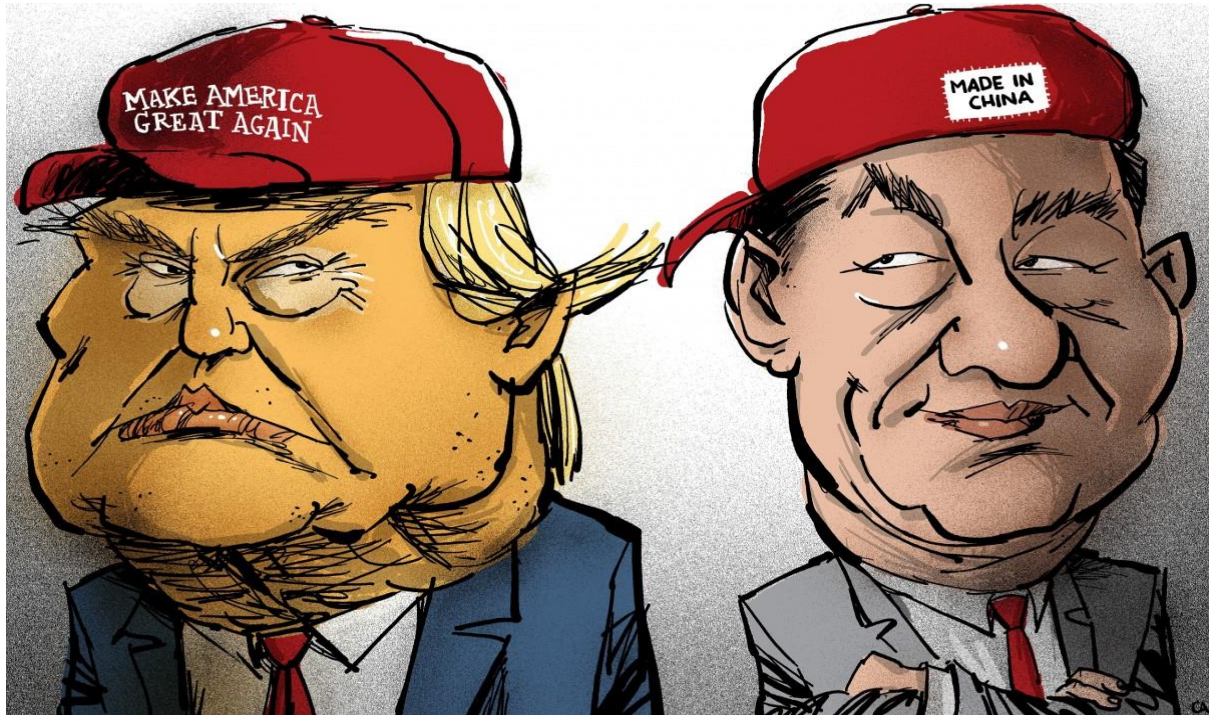
The Hong Kong peg is likely to hold for now given \$ 441 bn of FX reserves but Hang Seng downside risks are significant led by the property sector and banks. RMB is likely to weaken further against the USD in this environment and that may add to the risks of a EM debt crisis, particularly for Asian countries reliant on their participation in China supply chains. Of course, some countries such as Vietnam, Indonesia and Bangladesh are likely to continue to benefit from relocation of factories from China.

The number of geopolitical flashpoints between the US and China are set to increase in Hong Kong, Taiwan, South China Sea with both sides probing each others tolerance and willingness to take risks. As we are seeing in the current standoff between China and India in Ladakh, such flashpoints may occur with potential US aligned countries as China attempts to deflect attention from domestic economic pressures as well as take further steps to establish itself as the Asian regional hegemon and diminish the role and importance of the US.

### **NPC Suggests Chinese Leadership Prioritising a More Isolationist Economic Policy**

The idea that China could rely more on itself for development was endorsed in the most recent 25-member Politburo meeting by President Xi Jinping, who could lead China well

beyond 2025. Xi said China would use a “new development pattern” consisting of “both the great domestic economic circle and the international economic circle”, instead of relying solely foreign markets. This inward-looking tendency was reinforced by the recently published “Go West” blueprint , which promised new investment in industrial projects in central and western regions to offset the damage done to eastern provinces by a drop in international demand caused by the pandemic.



Another key area where China will seek a breakthrough” in the next five-year plan is technology. Washington’s targeting of Huawei Technologies, the Chinese telecommunications giant, and restrictions on hi-tech exports to China, have stirred soul-searching in Beijing on how it can reduce dependence on imported technologies. Xi compared the restriction on hi-tech exports to China to putting a hand around the country’s throat.

The Chinese Academy of Social Sciences (CASS), a government think-tank said in a preliminary study this month that the global economy’s growth dynamics “released by neo-liberal economic policies” were running dry, and economic problems – from inequality in rich countries to imbalances in the flows of capital – was creating international friction. The report noted that “China now has a middle-income group of between 500 and 700 million people, and that alone can be a source to power Chinese economic growth for the next five years...”. Cai Fang, Vice President of CASS and a close advisor of Vice Premier Liu He, said in a speech on May 27 that China will seek “more diversified” external relations during a period when “globalisation is at a low ebb” to be able to thrive in a world where the United States is becoming increasingly hostile. He also noted that “We’ll seek more diversified international cooperation and industrial supply chains. The faster the US seeks decoupling, the quicker China will embrace the trend”. Xi also said the world is witnessing changes unseen in the past 100 years, and the core of these changes is that the centre of gravity is moving from the West to East,” Cai added. “It is not just about China’s rise, but also other changes – the share of developing countries in the global economy and their voices in global governance are



rising...The US will [attempt to] contain China's rise ... it's something that China can't change. The strong motive to contain China will continue into future administrations [beyond US President Donald Trump]." He also hinted that China needs to innovate and sell its own products in markets outside the US – this suggests a greater focus on more open markets and economic opportunities in friendlier countries within the BRI : “ “Previously opening-up was interpreted as being solely related to the domestic market. Not any more. Instead, our enterprises, innovations and products need to go out and prove themselves in international markets – that's a new opening-up...”.



### **Anti-China Hawkishness to Dominate Republican Strategy for US Presidential Elections**

On May 20, the White House sent a report [“ The United States Strategic Approach to The People's Republic of China”](#) to Congress. The paper argues that the past 40 years of U.S. strategy toward China were rooted in the now obviously false assumption that engagement and assistance would encourage China to open up economically and politically. China has abused engagement to shape our system to its benefit while expanding its power and influence in malign ways. It notes that “To respond to Beijing's challenge, the Administration has adopted a competitive approach to the PRC, based on a clear-eyed assessment of the CCP's intentions and actions, a reappraisal of the United States' many strategic advantages and shortfalls, and a tolerance of greater bilateral friction...”. There is a growing consensus within the different parts of the Administration that a more aggressive stance towards China is warranted in the light of the perceived lack of transparency/culpability for the Covid-19 crisis. For months, Treasury had resisted calls to force the board overseeing federal workers' pensions to limit its investments in Chinese companies. But earlier this month, Treasury withdrew its objection, and the White House ordered the board to reverse course.

In another sign of US-China financial decoupling, the US Senate passed a bill that could force some Chinese companies to de-list from US exchanges if they did not comply with US regulatory audits. China's Regulator, CSRC responded by suggesting that the bill would “weaken the confidence of global investors in US capital markets, and their global



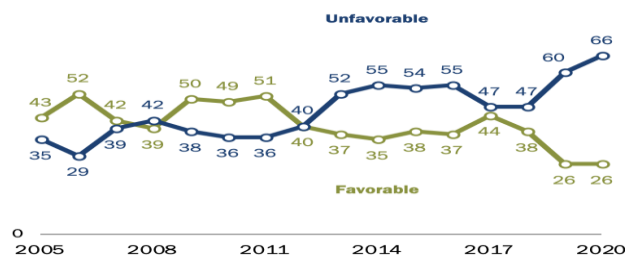
position...(and that) we believe global investors will make their own wise choices, according to what benefits them the most.” Chinese Search giant Baidu has said it’s reconsidering its US listing on Nasdaq and looking at a secondary listing in Hong Kong.

According to a [Pew Research Center poll](#) conducted in March amid the coronavirus pandemic Negative views on China among Americans have grown to the highest levels in 15 years, with two-thirds of people holding an unfavorable opinion of the country, up 20 percentage points since Trump took office.

#### Negative views of China continue to grow in U.S.

% who say they have a \_\_\_ opinion of China

100 %



Note: Don't know responses not shown.

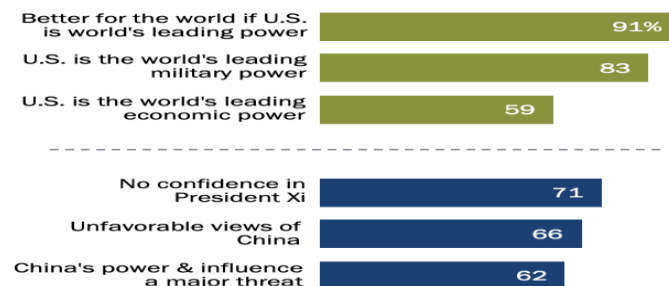
Source: Survey of U.S. adults conducted March 3-29, 2020. Q5b.

"U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak"

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#### Americans see U.S. as a global leader, have major doubts about China

% who say ...



Source: Survey of U.S. adults conducted March 3-29, 2020. Q5b, Q12a, Q14-16, Q17b.

"U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak"

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Politico, in April 24 report, stated that The National Republican Senatorial Committee has sent campaigns a detailed, 57-page memo authored by a top Republican strategist advising GOP candidates to address the coronavirus crisis by aggressively attacking China. [The memo](#) includes advice on everything from how to tie Democratic candidates to the Chinese government to how to deal with accusations of racism. It stresses three main lines of assault: That China caused the virus “by covering it up,” that Democrats are “soft on China,” and that Republicans will “push for sanctions on China for its role in spreading this pandemic.”

But Democratic Nominee Joe Biden will counter by attacking President Trump for praising Chinese President Xi Jinping’s handling of the Coronavirus crisis in March despite clear concerns at that point about the lack of transparency after the outbreak in Wuhan. Biden will also argue Trump’s alienation of traditional US allies has also played into China’s hands.

## China feels isolated by Covid 19 backlash ...and will reach out to BRI partners

China is also facing an international backlash beyond the US. In March/April China aggressively moved to capitalise on their success in containing the virus much more effectively than other countries along with a campaign of “health diplomacy”. But the large shipments of PPE and testing kits to key potential allies, with accompanying propaganda, has often backfired, most notably in Spain when much of the equipment was reported as faulty. But the most visible sign of anger in neutral countries in Europe was the Apr 15 article in Germany’s leading newspaper “Der Bild” presenting Beijing with a bill for EUR 149 bn for the damages inflicted on the country by Covid 19. After the Chinese embassy in Germany blamed the newspaper for “xenophobia”, the paper’s editor-in-chief, Julian Reichelt, responded with an editorial by penning an open letter to Chinese President Xi Jinping commenting that China keeps a close eye on its citizens activities but not its wet markets and also criticized its treatment of political prisoners.

In addition to the decision to extend UK visa/citizenship prospects for HK BNO passport holders , the UK government is also in the process of reviewing and likely reversing its controversial decision in January to allow China to participate in the UK’s 5G networks. Tom Tugendhat, Chair of the House of Commons foreign affairs select committee stated last week that “The virus has clarified the choice...the cost of doing business with autocratic regimes is that you don’t this import their technology, you also import their values and make yourself dependent on their politics.”



China will try and deepen its ties to non-aligned countries already benefitting from major BRI projects. On May 21 President Xi called PM Hasina of Bangladesh, a country benefitting from \$ 25 bn of BRI project commitments. Xi noted that

He added that China stands ready to work with Bangladesh, on the basis of putting in place proper epidemic prevention and control measures, to gradually create favourable conditions for the two sides to resume the implementation of key cooperation projects and maintain the stability of industrial and supply chains, and lay a sound foundation for them to expand

cooperation in various fields after the pandemic. Xi said that he would send a medical team to Bangladesh in the near future and this followed a proposal for China to develop “twin cities” in Bangladesh under BRI.

### **Taiwan and South China Sea likely to be a renewed geopolitical flashpoints**

Taiwan is also likely to be a greater source of tensions between the US and China and to the extent that Beijing has already accepted greater economic de-coupling from the US and indeed other Western powers, they will be less tolerant of provocation either from Taiwan itself or US overt support on the military or diplomatic front. The overwhelming re-election victory of pro independence President Tsai Ing-Wen.

On Friday May 29, to Mark the 15th anniversary Friday of a Chinese anti-secession law, which states that there is only one China and that Taiwan is part of it, Li Zuocheng, chief of the Joint Staff Department and a member of the Central Military Commission, stated that “If the possibility for peaceful reunification is lost, the people’s armed forces will, with the whole nation, including the people of Taiwan, take all necessary steps to resolutely smash any separatist plots or actions

We will not commit ourselves to renouncing the use of force on the Taiwan issue, and will reserve the option of taking all necessary measures...”. The anti-secession law states that China can use “non-peaceful means” if Taiwan declares independence or takes steps to do so. While China has long said it would not renounce force to take Taiwan, its language Friday was escalatory and seems to signal that Beijing realizes that peaceful “reunification” looks increasingly unlikely.

In his State-Of-The Nation work report on May 22 at the NPC, Premier Li Keqiang stated that “ (China would) resolutely oppose and deter any separatist activities seeking Taiwan independence.. We will encourage (the people of Taiwan) to join us in opposing Taiwan independence and promoting China's reunification...With these efforts, we can surely create a beautiful future for the rejuvenation of the Chinese nation.” It was noteworthy that for the first time in over 40 years he dropped the word “peaceful in front of unification. Responding to Mr Li's speech, Taiwan's Mainland Affairs Council said the Taiwanese people were resolutely opposed to the "one country, two systems" proposal as it "belittles Taiwan and damages the status quo in the Taiwan Strait".





The trade war, fallout from COVID-19, and increased military activity raise the risk of conflict between the United States and China in the South China Sea. The Council for Foreign Relations published a report May 21 “[Military Confrontation in the South China Sea](#)” noting that “Xi could feel compelled to accelerate his timeline in the South China Sea to maintain his consolidated position within the Chinese Communist Party (CCP), particularly if the political situation in Hong Kong worsens, peaceful reunification with Taiwan becomes less likely, or domestic criticism of his management of the novel coronavirus outbreak increases. With China’s 2020 economic growth projected to hit only 1.2 percent—the lowest since mid-1970s—Xi could find it necessary to demonstrate strength while Beijing deals with internal fallout from the pandemic...”

Some influential Beijing policy commentators have argued against being sucked into distracting conflicts with Taiwan. [An article in SCMP May 29](#) reported that Retired air force major general Qiao Liang said Washington’s open contest with Beijing to contain China’s rise had attracted other parties – including advocates for independence in Taiwan – to join the attack, but he advised the Chinese leadership to avoid being distracted and focus on the main adversary. Qiao is best known as the co-author of 1999 book *Unrestricted Warfare*, which discussed US vulnerabilities and suggested non-military ways that superpowers could be defeated. Qiao said Washington had taken a number of key steps in preparation for an eventual full confrontation with Beijing. These included starting the trade war , going after technology giant Huawei , suppressing China’s hi-tech industries, decoupling the two economies, blaming China for the new coronavirus pandemic, and demanding compensation for its effects. Qiao also listed US support for separatists in Taiwan, Hong Kong, Xinjiang and Tibet as part of the groundwork being laid by Washington in readiness for the predicted confrontation. General Qiao argued that Beijing should seize the limited time window available to prepare itself by focusing on reducing reliance on raw material imports and boosting the domestic market for Chinese-made goods, in a bid to neutralise the US effort.

But in our view, focusing on the US versus Taiwan is not mutually exclusive given the likelihood that the US will continue to re-inforce their support for Taiwan to counteract Chinese assertiveness on HK and send a signal not to go further with Taiwan. President Xi, now that he has downgraded his policy priority of improving US economic relations and secure an acceptable trade deal, may feel he has less to lose by greater engagement in provoking Taiwan. Much will also depend on the attitude of the Taiwan government itself but the offer from newly elected president Tsai for HK citizens to move to Taiwan as refugees will almost certainly have inflamed sentiment against her regime from the Beijing leadership. There have also been reports of China accelerating plans for South China sea Air Defence Identification Zones (ADIZ) . [An SCMP Report](#) quoting an anonymous source from the PLA, suggested that the proposed ADIZ encompasses the Pratas, Paracel and Spratly island chains in the disputed waterway. While planning for these ADIZs have been in place back to 2010, the deterioration in relations with the US may increase the prospects for Beijing to accelerate these plans to assert its regional hegemony at a time that the US is distracted by Covid 19.

### **Recent Chinese Moves in Asian Geopolitical Flashpoints**

**Taiwan** – March 16 - Chinese military planes stage rare night-time drill near Taiwan.  
April 11-12 - Chinese aircraft carrier group sails near Taiwan on naval drills. May 22 -China’s premier omits the word ‘peaceful’ in outlining policy on Taiwan. **India** May 5-6 - Chinese and

Indian troops scuffle on disputed border.China later moves troops and equipment into the area. **Hong Kong** May 21: China says it plans to impose national-security legislation on Hong Kong. **South China Sea** April 2 - Vietnamese fishing vessel sinks after collision with Chinese coast guard ship. April 14-16 - Chinese survey ship, escorted by other Chinese vessels, enters waters off Vietnam and Malaysia. **East China Sea** May 8 - Chinese coast guard vessels pursue Japanese fishing boat in waters claimed by both countries.



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