The Economist INTELLIGENCE UNIT

What next for vaccine diplomacy?

A report by The Economist Intelligence Unit

The Economist INTELLIGENCE UNIT

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Q2 Global Forecast: What next for vaccine diplomacy?

China and Russia are seizing a golden opportunity to bolster their global standing.

China and Russia have been sending millions of doses of coronavirus vaccines to (mostly) developing states in recent months. Through this "vaccine diplomacy" operation, Russia and China aim to establish themselves as reliable suppliers of vaccines, strengthen their global presence, and boost their bilateral relations with the many emerging countries where Western influence is declining. China is also trying to restore its global reputation, which took a hit in the early stages of the pandemic.

Vaccine diplomacy deals are different from regular contracts between pharmaceutical companies and governments: vaccine diplomacy deals are concluded between two sovereign states, making them (geo)political rather than business-oriented deals.

What is in it for China and Russia?

Russia and China are playing a long game with vaccine diplomacy. Their intention is not only to win plaudits for fulfilling a short-term need, but to cement their influence over the long term. Both countries are establishing vaccine facilities across the world and training local workers from emerging countries, betting that such a strategy will boost their presence on the ground for decades to come. In doing so, Russia and China are gaining leverage on the cheap while fulfilling commercial goals. In most cases, they are not donating vaccines, but selling them; in China's case, state-owned firms are competing with private ones for the supply of shots.

Assistance in the form of vaccines will often come with economic or political strings attached. For instance, Russia started discussions with Bolivia about access to mines producing rare earth minerals and nuclear projects shortly after delivering a consignment of its Sputnik V vaccine. Vaccines may also prove to be a reward for countries that have proved to be reliable partners in the past. For example, China may seek to reward Cambodia and Laos with vaccines for their support on territorial disputes in the South China Sea. Meanwhile, Pakistan may be getting shots in return for its approval of projects linked to China's Belt and Road Initiative (BRI).

Russia and China hope that recipient states will prove grateful and find it hard to say no if they ask for a favour. Looking ahead, both China and Russia will expect recipient countries to back them at the UN, facilitate access to natural resources, fast-track the approval of investment projects, facilitate trade, or become more open to buying defence equipment or 5G technology. That vaccination against the coronavirus could become an annual occurrence for at least some age groups is only likely to reinforce this trend.

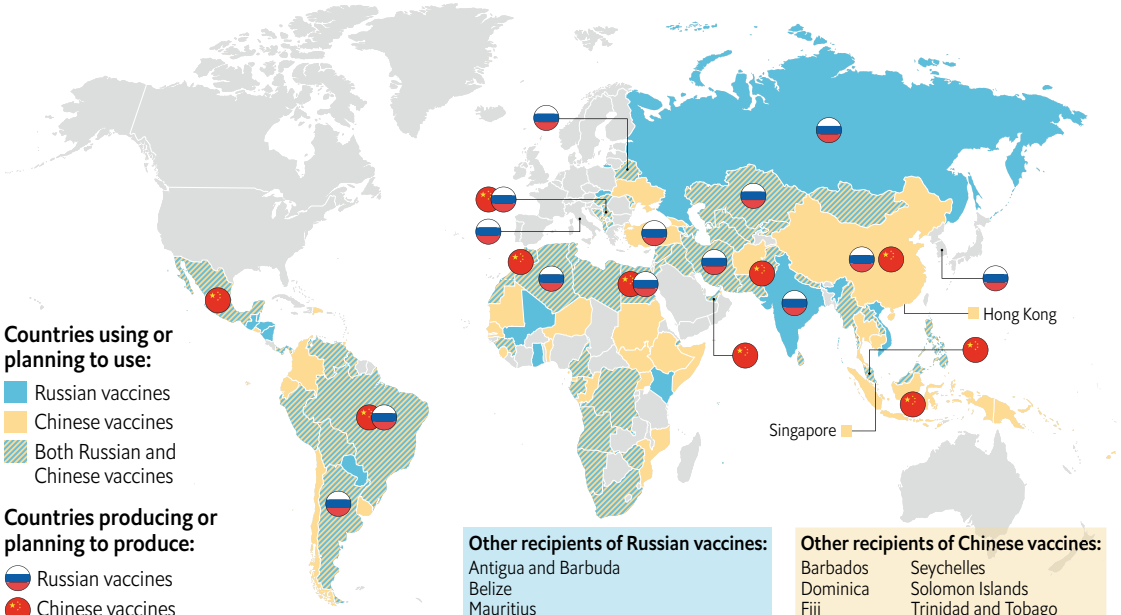
How are China and Russia choosing recipient countries?

Russia and China are aiming to take advantage of a "vaccine vacuum"—a perceived failure of Western states to help in the provision of vaccines. They are also seeking to leverage resentment against Western countries, which have secured access to more than half of the global supply of vaccines this year and are prioritising immunising their own populations.

China and Russia are using this situation to their own advantage by presenting themselves as the "saviours" of emerging countries, providing vaccines on an often (although not always) affordable basis to countries that would otherwise struggle to vaccinate their populations. However, China and Russia are not sending vaccines in equal numbers to all emerging countries. Some, such as Brazil, Chile, Indonesia and Mexico, will get millions of doses. Others, especially in sub-Saharan Africa, will get only a few thousand vaccines, suggesting that this is more of a public relations exercise than a genuine attempt to fill an urgent need.

China and Russia are focusing their efforts on regions where they are courting favours from emerging countries (for instance, Asia for China), directly competing with Western powers for influence (such as eastern Europe, and in particular the western Balkans, for both China and Russia), or where they have only a limited presence so far (as is the case for Latin America, which is traditionally within America's sphere of influence).

China and Russia's vaccine diplomacy spans across the globe



Accurate as at April 22nd 2021

Sources: WHO; UNICEF; government websites; company websites; press reports; The Economist Intelligence Unit.

Spotlight: Russia's vaccine diplomacy

Having been the first country in the world to develop an effective vaccine, Russia is determined to maximise the geopolitical benefits that it can reap from the Sputnik V jab. Russia's vaccine diplomacy is primarily a means for the country to deepen its influence in friendly states and to extend its reach in places where it has not been particularly active. Most importantly, exports of Sputnik V shots will allow Russia to expand industrial, technological and political co-operation beyond its traditional sphere of influence; Russia's strategy is to produce Sputnik V in multiple regions around the world.

Beyond establishing itself as a global vaccine supplier, Russia is also using the Sputnik V jab to pursue an anti-Western narrative. It has highlighted vaccine hoarding by Western countries and sought to present itself as a benefactor of the emerging world. Russia plans to deliver shots to around 70 countries, mostly in Asia, eastern Europe (including members of the former Soviet Union) and Latin America. Russia is also using the vaccine to compete with the EU in its immediate neighbourhood, where the initially slow start of the EU's vaccine rollout has fuelled frustration (particularly among eastern EU member states) or where the EU has not offered to provide vaccines (as is the case in some western Balkan countries).

Strikingly, several EU member states have done or are considering doing deals with Russia to obtain supplies of Sputnik V. Hungary and Slovakia have already placed orders, and others may follow suit. Looking ahead, there is every chance that the Sputnik V jab will sow division in the EU, as the bloc struggles to speak with a single voice when it comes to Russia. The German chancellor, Angela Merkel, and the French president, Emmanuel Macron, have recently discussed the prospect of authorising and producing Sputnik V in the EU with the Russian president, Vladimir Putin.

The potential approval of the vaccine by the European Medicines Agency would represent a massive symbolic victory for Russia (so far, there is no timeline for this). However, other EU countries, such as Poland and the Baltic states, will not share France and Germany's openness to the Russian vaccine, potentially opening the door for more divisions as to how to handle relations with Russia. A recent rise in tensions over the build-up of Russian troops on the border with Ukraine and revelations about alleged Russian involvement in an arms factory explosion in the Czech Republic in 2014 may also dissuade others from following in the footsteps of Hungary and Slovakia.

Russia's vaccine diplomacy does not come without risks. In 2021 the country will struggle to deliver as many vaccines as it has pledged because of production delays and shipment capacity. In addition, convincing recipient countries that the Sputnik V vaccine is both safe and effective may be difficult. In April, Slovakia raised concerns about the Russian jab when the Slovak drug agency declared that some Sputnik V samples it had tested were different from the vaccine used in a Lancet study that showed the shot to be 91.6% effective. However, this may not matter in the long term if Russia manages to increase its footprint in countries where the vaccine is being used and, eventually, produced.

Spotlight: China's vaccine diplomacy

The Chinese government has attached similar importance to its domestic vaccination programme as to its vaccine diplomacy efforts. By early April, the country had administered the same number of Covid-19 vaccines at home—115m doses, worth Rmb 11.9bn (US$1.8bn)—as it had exported or donated to other countries. The Chinese authorities are able to pursue domestic and overseas vaccination drives in parallel because they face less urgency to vaccinate their own residents; China has consistently kept new daily cases under 200 since April 2020.

Chinese companies have 17 candidate vaccines for Covid-19, of which seven are in late-stage (phase three or four) clinical trials. China's largest Covid-19 producer and exporter is Sinovac, a private firm, followed by Sinopharm, which is state-owned and has been leading China's so-called vaccine-donation efforts.

China has shipped or plans to export or donate Covid-19 vaccines to a total of around 90 countries (as at April 22nd). The number of countries that China supplies will expand if a Chinese vaccine candidate is approved by the WHO and can therefore become part of the COVAX programme. In March the WHO said that Sinovac and Sinopharm's candidates meet the WHO requirement of minimum 50% efficacy, meaning that the organisation could approve them soon (although there is no timeline for this). Many Chinese candidates are easy to transport and store because they are inactivated vaccines, making them especially attractive for the many developing countries that do not have robust cold chains.

The vast majority of Chinese vaccines being sent abroad have been purchased. Indonesia has signed a particularly large purchase agreement, of around 125m doses. Chile (60m doses over three years), Turkey (50m), Egypt (40m), Mexico (35m doses) and the Philippines (25m) have also placed significant orders. Some countries, such as Indonesia and Brazil, gained supplies in exchange for carrying out clinical trials of Chinese vaccines in their domestic populations and building local production facilities. Export restrictions imposed by other vaccine-producing countries, such as India, are likely to have reinforced these governments' decision to buy Chinese vaccines. This dynamic could shift when Western countries start exporting vaccines in large quantities. In that case, we expect Chinese pharmaceutical companies to cut prices to win market share.

China's robust manufacturing capacity, and the speed at which production has recovered after the initial pandemic phase, have enabled the country to expand its market share in other parts of the vaccine supply chain; China is a major exporter of the active pharmaceutical ingredients (API) that are needed to make jabs. Brazil, for instance, will produce the Sinovac vaccine locally but source its ingredients from China.

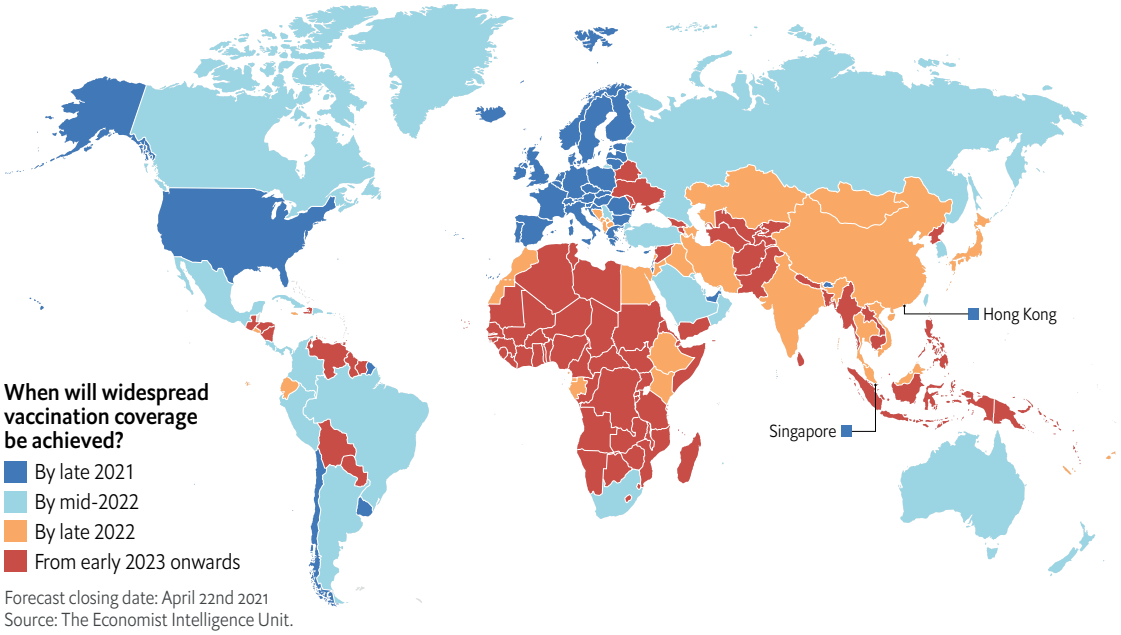
When it comes to donations, which are led by state-owned Sinopharm, the Chinese government has prioritised participants of its Belt and Road Initiative (BRI). The Chinese authorities have not released complete data as to where vaccines have been sent, probably in an attempt to prevent comparisons among countries. News reports indicate particularly large donations have been pledged to Cambodia (1.7m doses) and the Philippines (1m). China will also provide loans for recipient countries to purchase vaccines; the Chinese government has pledged to extend a US$1bn loan to Latin American and Caribbean countries for this purpose. Such donations serve several purposes. They aim to create a positive environment for future bilateral economic and political co-operation, facilitate the economic recovery of BRI countries (which are in some cases suppliers of commodities for China), and expand China's soft power through positive local media coverage.

Will Russia and China deliver?

Russia and China's vaccine diplomacy strategy is not without risks: both countries will struggle to vaccinate their own populations while meeting their ambitious export targets this year. Russia was the first country in the world to authorise a vaccine, Sputnik V, in August 2020. However, the country's vaccination campaign has had a slow start so far because of production-related constraints and high vaccine hesitancy; in late April Russia was administering only 0.2 coronavirus shots per 100 people per day (about three times less than France and the UK, and five times less than the US), and the number of people who want to get vaccinated is declining. The Economist Intelligence Unit believes that mass immunisation will only be achieved in Russia during the first half of 2022.

Meanwhile, China's vaccination programme also faces a daunting challenge, given the size of the population and the seemingly low efficacy of some of the Chinese-made vaccines (recent data suggest that the Sinovac shot may be around 50% effective, just marginally above the WHO-set threshold for coronavirus vaccines). Vaccine hesitancy and the limited number of healthcare workers are also holding back the pace of the rollout. In late April China was administering only around 0.2 coronavirus shots per 100 people per day. For these reasons, we do not believe that China will achieve widespread immunisation coverage before the second half of 2022 (although vaccination in some urban areas could be completed by end-2021). However, successful pandemic containment means that vaccine deployment is not so urgent in China.

Rich countries will get access to coronavirus vaccines earlier than others



Forecast closing date: April 22nd 2021
Source: The Economist Intelligence Unit.

In Russia, and to a lesser extent also in China, conflicting priorities between vaccinating the domestic population and exporting shots will remain acute throughout 2021. To tackle this issue, both countries are opening additional factories at home and abroad. Sputnik V will be produced in a dozen countries,

including Brazil, Egypt, India, Iran, Serbia and South Korea. Meanwhile, there will be production lines for the various Chinese shots in around ten countries, including Indonesia, Malaysia and the UAE. However, it is unlikely that extra production lines will help to ease supply issues before the second half of 2021 (at the earliest); setting up vaccine factories is technically challenging and takes a minimum of six months before they are operational.

Are Western countries engaging in vaccine diplomacy?

The EU, the US and the UK have so far mostly been absent from the vaccine diplomacy scene. This reflects intense political pressure in these countries to vaccinate their own population first. It also reflects the recent controversies over the UK-developed AstraZeneca vaccine, which was originally intended—and priced—as a crucial vaccine for emerging markets. Widespread hesitancy around this vaccine has left a gap for Russia and China to exploit.

This does not mean that Western states are doing nothing to help emerging countries access affordable vaccines; most rich countries are donors to the WHO-led COVAX fund. In some countries, such as Cambodia, COVAX deliveries could surpass those from China and Russia. However, the recent decision of the Indian government to drastically reduce exports of coronavirus vaccines will temporarily complicate the rollout of COVAX-sponsored vaccines (Indian factories are meant to supply more than 80% of COVAX-delivered shots).

Is the damage done to the reputation of Western powers?

G7 states are increasingly concerned about being perceived as unreliable partners by developing countries. However, we expect Western countries to engage in vaccine diplomacy only later this year (once the bulk of their populations have been vaccinated). The recent initiative from the Quad (an informal alliance between the US, Australia, Japan and India) to supply vaccines to South East-Asian countries illustrates the delayed timeline for such ventures. In March Quad members announced that the US and Japan would finance the production of 1bn Johnson & Johnson (US) coronavirus vaccines. These would be produced in India, but Australia would support their distribution. However, no vaccine is expected to be shipped before late 2022.

Overall, the vaccine diplomacy efforts of Western states are likely to begin too late to catch up with those of Russia and China, which are so far winning the public relations battle. It is likely that the damage to the reputation of Western countries has already been done and will be hard to repair. In the coming years, this will reinforce the global standing and leverage of Russia and China in emerging countries, helping both countries to gain influence and pursue their interests around the world. The longer-term consequence of today's vaccine diplomacy will be a further fragmentation of the global order.

China-produced Covid-19 vaccines

Producer	Type	Doses	Phase*
Sinovac Biotech (Chinese private company)	Inactivated virus	2	4
Pfizer (US private company), BioNTech (German public limited company), Fosun Pharma (Chinese private company)	mRNA	2	4
Sinopharm, China National Biotech, Wuhan Institute of Biological Products (all Chinese state-owned companies)	Inactivated virus	2	3
Sinopharm, China National Biotec, Beijing Institute of Biological Products (all Chinese state-owned companies)	Inactivated virus	2	3
CanSino Biologics (Chinese private company), the Academy of Military Medical Sciences Institute of Biotechnology (Chinese military research institute)	Viral vector	1	3
Anhui Zhifei Longcom Biopharmaceutical (Chinese private company), Chinese Academy of Sciences Institute of Microbiology (Chinese public research institute)	Protein sub-unit	2-3	3
Chinese Academy of Medical Sciences Institute of Medical Biology (Chinese public research institute)	Inactivated virus	2	3
Inovio Pharmaceuticals (US private), International Vaccine Institute (independent non-profit), Advaccine (Suzhou) Biopharmaceutical (Chinese private company)	DNA-based vaccine	2	2/3
Clover Biopharmaceuticals (Chinese private company), Dynavax (US private company)	Protein sub-unit	2	2/3
Beijing Minhai Biotechnology (Chinese private company)	Inactivated virus	1, 2 or 3	2
West China Hospital (Chinese public hospital), Sichuan University (Chinese public university)	Protein sub-unit	2	2
University of Hong Kong (Hong Kong public university), Xiamen University (Chinese public university), Beijing Wantai Biological Pharmacy (Chinese private company)	Viral vector (replicating)	2	2
Academy of Military Science (Chinese military research institute), Walvax Biotechnology (Chinese mixed-ownership company), Suzhou Abogen Biosciences (Chinese private company)	mRNA-based vaccine	2	2
Guangdong Provincial Centre for Disease Control and Prevention, Gaozhou Centre for Disease (both Chinese local government bodies)	Protein sub-unit	2	2
Shenzhen Geno-Immune Medical Institute (Chinese state-owned company)	Viral vector (non-replicating) and antigen presenting cell	1	1/2
Shenzhen Geno-Immune Medical Institute (Chinese state-owned company)	Viral vector (replicating) and antigen presenting cell	3	1
Jiangsu Rec-Biotechnology (Chinese private company)	Protein sub-unit	2	1

Sources: World Health Organisation (WHO); The Economist Intelligence Unit.

Note. There are four phases of clinical trials. According to the WHO, the definitions are:

- Phase one studies assess candidate vaccines for the first time in a small group of people to evaluate a safe dosage range and identify side effects.
- Phase two studies assess candidate vaccines in a larger group of people to monitor for adverse effects.
- Phase three studies are conducted on large populations and in several countries. These are often the final step taken before a vaccine is approved.
- Phase four studies take place after a vaccine candidate has been approved and is distributed to the general population.

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