



THE BIG PICTURE

China Re-Engages, But on Its Terms

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- President Xi Jinping's travels are helping China regain its international clout after Covid-19 limited top-level interactions for years.
- China's recent outreach includes Xi's first face-to-face meeting with US President Joe Biden in Bali last year and a grand trip to the Middle East in December.
- But a rumored Xi visit to Moscow this spring, if it takes place, could set back China's efforts to reset its policy in much the same way that last week's spy balloon accident in the US did.

China is busy re-engaging with the world after years of Covid-19 isolation and overly aggressive “wolf warrior” diplomacy. Sharply decelerating economic growth of only 3% in 2022 is forcing Beijing to seek a more benign international environment so that it can focus on its internal affairs. But China’s foreign policy reset may not outlast the country’s growth rebound. Beijing’s vision is ultimately one in which China holds a dominant position, in keeping with its growing economic and military power. This locks China in a strategic competition against the US and, together with the Ukraine invasion, brings it ever closer to Russia.

The US as Archenemy

The US military last week shot down hopes that the China-US relationship may improve soon when it took down an apparent Chinese spy balloon that had been hovering above the US for several days. Beijing’s insistence that the balloon was mainly for meteorological purposes and had derailed from its trajectory failed to impress the US side. US Secretary of State Antony Blinken canceled his trip to Beijing, and the tone between the two countries has since turned increasingly aggressive.

The incident, just days before the first visit of a top US diplomat to Beijing in five years, has raised some questions over Xi’s hold over his government and military. Equally, it could also be a sign that Xi does not believe in any rapprochement with the US, and that the Chinese military is continuing its preparation for an eventual confrontation even as China’s diplomatic corps pays lip service to following “guardrails” and re-engaging.

On the US side, the strong reaction by the vast majority of the US political establishment — after several similar incidents over the past few years went unnoticed — is a reminder of how deeply the relationship has deteriorated over the past few years.

At the same time, US-China trade ties are as robust as ever, in value terms if not sentiment. US imports of Chinese goods increased to \$536.8 billion in 2022, only slightly below 2018’s record levels. The US exported a record \$153.8 billion worth of goods to China last year, according to data from the US Department of Commerce. At a time when China’s economy is reeling from three years of Xi-imposed strict Covid-19 policies and a Xi-induced real estate debacle, Beijing is in no rush to give up on the US market.

Russia: A Friend in Need

If the US is China’s nemesis, Russia is its strongest friend. Signaling China’s continued support for Russia, Wang Yi, who was last year promoted from foreign affairs minister to China’s top diplomat, has made deepening the China-Russia relationship a priority for 2023.

China’s no-limits friendship with Russia — announced just weeks before Russia surprised the world, likely including China, with its invasion of Ukraine — has so far been an energy and economic boon for Beijing. With Europe turning away from Russian oil and gas, China has been able to buy more Russian crude at deepening discounts and is in a stronger position to negotiate a new gas pipeline agreement. Russia has also ramped up its imports of Chinese goods, such as cars, as many Western companies shy away from trading with Moscow.

China-Russia overall trade jumped to a record-high \$190.3 billion last year, up 29% from 2021, with China's imports surging by 44% to \$114.1 billion and Chinese exports to Russia at a record \$76.1 billion, up 13% from 2021, according to Chinese customs data.

But China's trade with Russia increasingly operates in gray areas because of Western sanctions, complicating dealings for China and stress-testing the relationship, Russia-China relations expert Alexander Korolev, from the University of New South Wales, tells Energy Intelligence. Russian oil is increasingly transported on older ships and traded through unknown entities, with crude trans-shipped in the Atlantic or offshore Malaysia, for instance.

Russia's invasion of Ukraine has also led many in the West to draw parallels with China's determination to "reunify" with Taiwan, and prompted broader Western support for the self-governed island. This is where Russia could prove to be a great support for China down the road. "Xi wants to remain in history as the leader who reunified China [and] this is where Xi will ultimately cash its check," Korolev says. "When there is a confrontation with the US, and there will be one at some point, China will expect Russia to provide support."

Fighting Encirclement

China reads Washington's alliance-building efforts in Asia and in Europe as a way to contain its rising power – and not without reason. Beijing is responding with veiled threats to North Asian neighbors Japan and South Korea, and entreaties when it comes to Europe.

The EU's growing concerns over China's domestic and foreign policies, and unease about China's growing economic clout including its grip on renewables supply chains, have seen some EU countries reconsider their engagement with China. Beijing's unwillingness or inability to bring Moscow to the negotiating table have further strained the China-EU relationship. But Beijing sees rebuilding relations with the EU as helpful in both driving a wedge between Europe and the US, and diversifying its export markets and investments.

And in the same way the US seeks to rally Asia-Pacific nations, China is keen to raise its profile in the Middle East, which accounts for about half of its oil imports, at the expense of the US – even as it remains a minor player in the region's security. That helps account for Beijing and Riyadh hyping Xi's trip to Saudi Arabia in early December as a great success, although James Dorsey, of Singapore's S. Rajaratnam School of International Studies, argues that "Xi's visit did not bring any qualitative change in relations between China and Mideast Gulf countries." Gulf governments, for example, have so far been reluctant to make commitments on trade in yuan.

Beijing this year celebrates the 10th anniversary of the Belt and Road Initiative, Xi's pet foreign-economic policy project. While investments have fallen from the record levels reached in 2016, renewed focus on new energy, digital developments and health care are providing new avenues for China to build its presence in new markets. "We wish to ... draw up the blueprint for a new decade of Belt and Road cooperation," Wang said last month. China's quest for rising influence is not ending anytime soon.

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