

Weekly Commentary 46 – Nov 2022

How One Week at G20 turned the world around

Normally, international conferences like last week's Bali G20 are boring, and nothing really important gets decided. Most people don't even know that they have been convened.

Last week's meeting was totally different. It has signalled the start of a global reset. The world took a step backwards, away from confrontation and war. And also from recession.

The prime moving event was a Xi-Biden meeting just before the G20 officially started, on the sidelines of the conference in Bali.

Up until last week, the situation in the world was based on big power rivalry and contest. From 2016 when Donald Trump became president, the American policy on China was based on containing its economic expansion and perceived geopolitical assertiveness. From the time Trump imposed import tariffs on China, the long time collaborative relationship between the two superpowers has been worsening. It has even been thought that the Chinese and the Americans will soon be fighting a naval war in the Taiwan Straits.

By last Monday, that has significantly changed as a result of a top level meeting between Xi Jinping and Joe Biden. The meeting was at the request of Biden, but there was no doubt that the Chinese were willing to meet and change the course of the bilateral relationship. Can this be a new *détente*?

Is there some other or new dynamic driving these reassessments of the global order?

In this commentary, let's examine what is really going on.

A report from Bloomberg after the talks had this to say:

“Biden, Xi Chart Path to Warmer Ties With Blinken China Visit”

By

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Joe Biden and Xi Jinping agreed to a series of goodwill gestures intended to improve ties between their countries after the first in-person meeting between the leaders of the US and China since the pandemic began.

The two men met for about three hours on the sidelines of the Group of 20 summit in Bali, Indonesia, greeting each other with a handshake and conciliatory remarks in which they both called for calming tensions.

“Good to see you,” Biden said to Xi before they joined US and Chinese officials. The two sides sat at long conference tables with a display of flowers between them.

The White House said in a statement afterward that Secretary of State Antony Blinken would travel to China, in a sign of a thaw. The US will work with China to organize a visit tentatively planned for early next year, according to a senior State Department official.

The countries will also resume talks between senior officials on issues including climate change, economic stability and debt relief, and health and food security, according to the White House and a statement from China’s Ministry of Foreign Affairs.

Biden said Xi was “direct and straightforward” in their meeting, and -- in another sign of progress in the relationship -- declared that there was no “imminent” threat that China will invade Taiwan, the self-governed island that’s become the biggest flashpoint between Beijing and Washington.

“I absolutely believe there need not be a new Cold War,” Biden said at a news conference at his hotel in Bali.

In another key point of agreement between them, Biden and Xi said that “a nuclear war should never be fought” and that they oppose “the use or threat of use of nuclear weapons in Ukraine,” according to the White House statement. Xi and the Chinese government have been reticent to publicly criticize Russia for its invasion of Ukraine.

But China’s foreign ministry, citing Xi, cautioned in its statement that “suppression and containment will only strengthen the will and boost the morale of the Chinese people.”

“Starting a trade war or a technology war, building walls and barriers, and pushing for decoupling and severing supply chains run counter to the principles of market economy and undermine international trade rules,” the statement added, referring to existing or proposed US policies. “Such attempts serve no one’s interests.”

And the White House statement noted points of disagreement, saying that Biden “raised concerns about PRC practices in Xinjiang, Tibet, and Hong Kong, and human rights more broadly.”

Biden told Xi that the US remains committed to its One China policy in which Taiwan is not recognized as an independent country. But he “raised US objections to the PRC’s coercive and increasingly aggressive actions toward Taiwan, which undermine peace and stability across the Taiwan Strait and in the broader region, and jeopardize global prosperity.”

‘Elevate the Relationship’

China broke off many routine contacts with the US earlier this year after House Speaker Nancy Pelosi made a visit to the self-governing island. Biden’s repeated pledges that the US would defend Taiwan in the event of a Chinese attack have also alarmed Beijing.

Biden and Xi each kicked off their meeting with statements that noted the imperative of peaceful relations between their countries.

"We share responsibility, in my view, to show that China and the United States can manage our differences, prevent competition from becoming anything ever near a conflict, and to find ways to work together on urgent global issues that require our mutual cooperation," Biden said.

"The world expects, I believe, China and the United States to play key roles in addressing global challenges, from climate changes to food insecurity, and for us to be able to work together," he added. "The United States stands ready to do just that, work with you -- if that's what you desire."

Xi told Biden, "It's good to see you."

"Currently, the China-US relationship is in such a situation that we all care a lot about it, because this is not the fundamental interest of our two countries and peoples and it's not what the international community expects of us," Xi said, through a translator. He said the two sides "need to find the right direction" and "elevate the relationship."

"A statesman should think about and know where to lead his country. He should also think about and know how to get along with other countries and the wider world," Xi told Biden. "Humanity is confronted with unprecedented challenges. The world expects that China and the United States will properly handle the relationship."

Hua Chunying, a spokeswoman for China's Foreign Ministry who was in the meeting, said Xi called on both countries to work together to avoid a collision. The success of both nations should be celebrated, she said, adding that China is committed to peaceful development.

"The world is big enough for the two countries to develop themselves and prosper together," she said on Twitter. She added: "China-U.S. relations should not be a zero-sum game where one side out-competes or thrives at the expense of the other."

Cambodia Prelude

Before meeting Xi, Biden talked with the leaders of Japan, South Korea and Australia on Sunday, sessions that White House officials described as a prelude for the much-anticipated gathering with the Chinese leader. The president explained his approach and asked the US allies their concerns.

Biden separately used a summit in Cambodia with the 10-member Association of Southeast Asian Nations to firm up relationships in a region where China is by far the top trading partner.

US officials said negotiations about the meeting's format went late into the night Sunday, predicting a highly scripted affair. Biden and Xi met at the Chinese delegation's hotel, and the Chinese side required extensive precautions against Covid-19, including PCR tests for the virus and N-95 masks for US journalists accompanying Biden.

Xi has left his country only twice since the pandemic began.

Senior Biden administration officials said Monday that relations have warmed somewhat simply by planning for the meeting with their Chinese counterparts, a process that's taken about a month.

Xi was under some pressure at home to look tough, particularly in the run-up to a twice-a-decade Communist Party meeting in October at which he secured a third term in office -- and potentially more.

On top of the sensitivities over Taiwan, the US and China have also been divided over Russia's invasion of Ukraine and US efforts to deny Beijing access to advanced semiconductors that are key to dominating technologies that will drive growth in the 21st century."

That's a pretty positive description of what has happened. Here are my additional comments:

- 1) What is obvious is that the warming of relationships came after both China's 20th CCP Party Congress and the US's midterm elections. Both leaders are looking stronger after their respective domestic political accomplishments. In China, there is no question that Xi is politically unassailable after having been voted in as leader of the CCP for the third term. He is there for at least another five years; and his decision making will determine policy in the country.
- 2) Half-way around the world, the midterm elections demonstrate that Biden, while deeply unpopular, has no near-term effective political opposition from the Republican party. Both political parties have strident elements that want to promote their own primacy in the contest for power. But for the moment, Biden has it.
- 3) In short, the fact of an international détente between the two countries is a sign that the disruptive elements that may challenge either Xi in China and Biden in America are being suppressed. That's a good sign.
- 4) It demonstrates that the administrative and military services in both countries are not ideologically obsessed with nationalistic or warmongering agendas. China wants to take back Taiwan but not at the expense of fighting a war with the US, and more importantly, the Americans want to use the Taiwan card to maintain American influence in the western pacific but not to the point of starting a naval war. If belligerence is limited to talk only, it won't get people killed. That's also good.
- 5) Most importantly, it tells us that the Americans have in fact come to recognize that a weak China is a thing of the past. When facing down China back in the 1990's, Bill Clinton just had to sail two aircraft carriers down the Taiwan Straits and China had to back down. Now, as demonstrated during the post Pelosi face off, when within four HOURS of Pelosi's departure, the People's Liberation Army navy and air forces had established military exercise zones surrounding Taiwan Island on all sides, demonstrating how a blockade can happen, it's no longer the same adversary. The aircraft carrier, USS Ronald Reagan, dispatched by the Pentagon to escort Pelosi, sailed away to the west of the Philippines and then Japan to avoid any confrontation and accidental run-in with Chinese forces on exercise. Now, in this meeting between Xi and Biden, all the language used is about a China recognized as a military power that the Americans do not want to go to war with. Did the Americans do this with Saddam Hussein or the Taliban? Obviously not, as the Americans only treat equal partners with due respect. To that extent, the Xi-Biden talks are an American

recognition of Chinese military power in the western Pacific. That's new. And it shuts up the jingoistic talk on the American side.

- 6) Given this acknowledgement of military parity, I think it is unlikely that there will ever be a war over Taiwan. In my humble opinion, the US military does not put boots on the ground unless it has absolute advantage, not because it does not have the military power but because the American political system cannot tolerate a long war, as demonstrated in Vietnam, and again in the Middle Eastern conflicts. Because Taiwan is never going to be able to take on China on its own, and America will not risk conflict with the PLA, especially after this latest meeting in Bali, the eventual reunification of Taiwan and China must be through economic integration. I have made this point in many commentaries before.

If there is no further deterioration in the security situation in the western Pacific, then how will the declared "competition" between the US and China roll out? Economic containment obviously won't work anymore. This can be seen from the great interest among all of America's allies to catch a meeting with Xi in Bali. First there was Albanese, Australia's Prime Minister who has in a few months reversed the hawkish position pursued by previous PM, Scott Morrison.

Here is another Bloomberg report on the meeting between Anthony Albanese and Xi Jinping:

By

Ben Westcott and

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Australian Prime Minister Anthony Albanese hailed a meeting with Chinese President Xi Jinping on Monday as a move toward normalizing ties that have spiraled in recent years.

"This was another important step towards the stabilization of the Australia-China relationship," Albanese said in a statement after meeting Xi in Bali on the sidelines of the Group of 20 summit for about 30 minutes. "We are always going to be better off when we talk to each other, calmly and directly. There are many steps yet to take."

*Xi said there have been difficulties in China-Australia ties in recent years, a situation he doesn't want to see, according to state-run CCTV. **There are no fundamental conflicts between the two countries and there's huge potential for trade cooperation**, he added.*

It was the first face-to-face meeting between leaders of China and Australia in almost three years, after relations rapidly deteriorated between Beijing and Canberra during the Covid-19 pandemic. Former Prime Minister Scott Morrison's call for an international investigation into the origins of Covid-19 in April 2020 prompted China to place trade sanctions on a number of Australian exports, including wine, barley and coal.

The disagreement escalated to the World Trade Organization, and Albanese has previously said the lifting of the sanctions on Australia would be a precondition for any major warming in the relationship with China.

Yet both countries have maintained a close economic relationship despite the long-running diplomatic tensions. China is Australia's largest trading partner, particularly when it comes to Beijing's large, lucrative demand for iron ore.

When asked several times by reporters about any progress in China lifting trade sanctions against some Australian exports following his meeting with Xi, Albanese said he has raised the issue "clearly" while noting discussions were not at a "commercial level."

"It was a positive discussion," Albanese said. "We put forward our position. It was not anticipated that a meeting such as that you get immediate declarations."

Since coming to power in May, Albanese's center-left Labor government has worked to stabilize the relationship with Beijing, with the prime minister saying they would "cooperate where they can" while still standing up for Australia's domestic interests. The new prime minister has maintained his predecessor's move towards strengthening security ties with the US, including the Quad and Aukus security groupings.

The arrest of a number of Australian citizens in China has continued to be an irritant between the two nations. China has detained Cheng Lei, a Chinese-born Australian journalist who worked for state broadcaster CGTN, while Australian writer Yang Hengjun was arrested in 2021.

Albanese said he brought up the cases involving Yang and Cheng, saying he didn't expect results immediately.

The Australian leader's foreign and defense ministers have met with their Chinese counterparts over the past six months, while the Australian leader had a brief face-to-face encounter with outgoing Premier Li Keqiang at the ASEAN meeting in Phnom Penh.

According to Chinese state-run news agency Xinhua, Li told Albanese that China was willing to meet Australia "half-way."

Note the words in red above, highlighted by me. No fundamental conflicts, Albanese said. Imagine, just a few months ago, Australia wanted to spend like \$400 billion or whatever number to build 8 nuclear submarines that would have no other purpose than to help the Americans contain China, twenty years from now. After this Bali meeting, I figure they will likely cut back on that submarine budget. That's good, too.

In my humble opinion, the trade problems between Australia and China have been resolved. The rest of the language expressed by the two leaders are just diplomatic garnishing.

The other major G20 country that seems to know where the wind is blowing is France. Macron met with Xi and China and this is what Xinhua News has to say:

BALI, Indonesia, Nov. 15 (Xinhua) -- Chinese President Xi Jinping met with French President Emmanuel Macron here Tuesday morning.

“Xi pointed out that in the past three years, the two sides have communicated closely through various means, so that China-France relations have maintained positive momentum of development, and the two countries have made positive progress on important cooperation.

Noting that at present, the world has entered a new period of turbulence and transformation, Xi said as two important forces in the multipolar world, China and France, China and the EU should adhere to the spirit of independence and autonomy, as well as openness and cooperation to push bilateral relations for steady progress on the right track and inject stability and positive energy into the world.

China's unswerving efforts to promote high-level opening-up and its stride to advance the Chinese modernization will provide new opportunities for all countries in the world, including France, the Chinese president stressed.

For his part, Macron extended warm congratulations on Xi's re-election as general secretary of the Communist Party of China (CPC) Central Committee and the full success of the 20th CPC National Congress.

France upholds independent diplomacy and opposes bloc confrontation, Macron said.

In the face of the current turbulent international situation, the French side hopes to continue to uphold the spirit of mutual respect, equality and reciprocity with the Chinese side, strengthen high-level exchanges and dialogues, and deepen cooperation in such fields as economy and trade, aviation, as well as civil nuclear energy, and welcomes Chinese enterprises to carry out cooperation in France, Macron said.”

With this rapprochement, I think it is safe to say we can look forward to a reduction of trade tensions between the US and China, and also between US allies and China. This will hopefully move in the direction of re-establishment of the global supply chains that broke down with the pandemic as well as trade tensions that turned virulent since Trump imposed tariffs and Biden called for a united front among allies to confront China.

My conclusion from the developments in Bali last week is that domestic politics in the US have influenced global geopolitics negatively for too long. It is time for a change for the better.

The midterm elections last week turned out to be much better for Biden than the world had expected. As it turned out, the media had given far more clout to Donald Trump than he actually had. It was thought that with Biden's political weakness, the reported re-emergence of the Trump MAGA movement would be a powerful force to continue confrontational policies against China. As it turned out, the midterm elections showed that two years is too short a time for the electorate to forget the tumultuous presidency of Trump, and however you think about it, a weak Biden is probably better than a strong Trump. A revival of Trumpian policies would likely push the American economy into a shape that would be even more bifurcated than it is now. It ended with candidates that Trump supported lost badly, and it will end all talk that the 2020 election was “stolen”. And that is not exactly a bad thing, from the point of view of the international economy.

The Democrats losing the House of the Representatives is expected in American electoral politics. The electorate prefers a check and balance style of government rather than a united and decisive government, so whoever occupies the White House has to live with the opposition holding congress. The fact that the House was lost in these midterms is totally expected. What is in fact not expected is that the loss of congressional seats did not turn out to be as large as was expected by the press, and that was claimed as a victory of sorts by Biden. The red Republican wave turned out to be ripple...Biden was obviously quite pleased with the results. And emboldened him to act in a way with China that may be unpopular with the Republican base.

Biden now has to focus on repairing the American economy. The higher interest rates which have been enacted by the US Federal Reserve will impose a greater debt burden on the US government. If unchecked, this will mean higher mortgage rates, business borrowing costs and higher inflation. To prevent further loss of political power, the Democrats need to reduce inflation and bring the economy back on a proper footing before 2024. This must inevitably mean that the US needs to regain control of the supply chain, and get Chinese help to reduce the cost of imports. I think this is the prime reason why Biden does not want to worsen relations further with Beijing.

And over in Europe, the governments definitely want to re-engage with China. First Scholz, then Macron, and we have seen the two largest economies in Europe try to be friends with Xi in the course of just about ten days. Meloni also met Xi in Bali, and here is the Bloomberg report on the Meloni-Xi meeting:

By
Chiara Albanese

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Italy is seeking to boost exports to China as part of a strengthening of trade ties between the two countries, Prime Minister Giorgia Meloni told President Xi Jinping in a meeting on the sidelines of the Group of 20 summit in Bali, Indonesia.

The pledge comes as European governments are reexamining the risks of maintaining key commercial relations with China amid growing concerns about reliance on Beijing. Still, German Chancellor Olaf Scholz traveled to Beijing earlier this month to underscore close economic ties.

Meloni and Xi also discussed how to revive EU-China relations and cooperation on the biggest global challenges, including Russia's war in Ukraine and the need to avoid an escalation of the conflict, according to an Italian statement. The Italian prime minister accepted Xi's invitation to visit China.

The cordiality among the two countries build on signals from Xi that he has taken his most significant steps to create space between Beijing and Moscow since Russia invaded Ukraine almost nine months ago. During the G-20 summit China signed off on a communique Wednesday saying that "most members strongly condemned the war in Ukraine."

If this is the path chosen by the three largest EU member states, it must precede closer ties between the entire EU and China. The EU economies need the time out from joining a more belligerent America which was confronting China so that they can also expand trade and investment ties to reduce their inflationary problems and industrial collapse.

As such, we can surmise that there is no possibility of a policy of containment of China's growth by the collective west. Already, the Netherlands have also joined the chorus of European voices to tell the Americans they want to keep politics out of business, in the context of American restrictions on the sale of Dutch lithography technology to China. I think that ASML would like to stay out of the chip wars.

There is also a price to be paid by China. On the surface of it, China has to agree to help the west get Russia to scale back on its ambitions in Ukraine, whatever these may be. At this time, Russia has overall control of the war there, and the west does not like that. With that said, it is also beginning to look like the US is getting Ukraine fatigue. It is significant that Biden was the first western leader to say, the missile that fell on Poland last week was not Russian, which is contrary to expectations of how he would have responded when the US was keeping a high level of pressure on Russia. Then General Milley, the highest ranked soldier in the American military, said very publicly that Ukraine is incapable of defeating Russia on its own. And Jake Sullivan was reported to be in Kyiv to tell the Ukrainian government not to reject negotiations with the Russians. These are indications that the US wants the Ukrainians to go for peace talks and end the war of attrition which is costing a lot of money for both the Europeans and the Americans, quickly. And they want China to put pressure on Russia to end the war.

As we can all see, everyone is walking on a tight rope. The west wants to do business but do not want to look like they lost the so-called Ukraine proxy war which is supposed to reduce the perceived threat from Russia. The Chinese want to resume commercial ties with the west but cannot continue to stand aloof of the Ukraine conflict even if their most important partner is largely dominant on the battlefield. But at least, the state of the relationships all the big powers are moving into is much better than the previous state of confrontation.

Given that I have long expressed the view that higher interest rates will not on their own reduce inflationary pressures, but that, together with a tampering down of geopolitical tensions may do it, I am happy to acknowledge that it is beginning to happen. If it continues down this desirable path, it is all good, and we should all look forward to that. And if inflation recedes, then Fed and ECB policies which cause recessions will moderate and things may return to normal sooner. At that time, we will find that Chinese, US and European stocks as well as bonds will be investable again. The dollar need not keep going up.

Let's wait for the Blinken visit to China in January and see how the US and China position themselves. There will obviously be intense preparation in the next month on both sides for this meeting, and we may get to see signalling from them on how they intend to negotiate.

I am hopeful it will all be positive because the economics dictate it.

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Un-Influencer in a World full of Hubris