Russia-Ukraine Conflict:
China’s geopolitical and geoeconomic scoop

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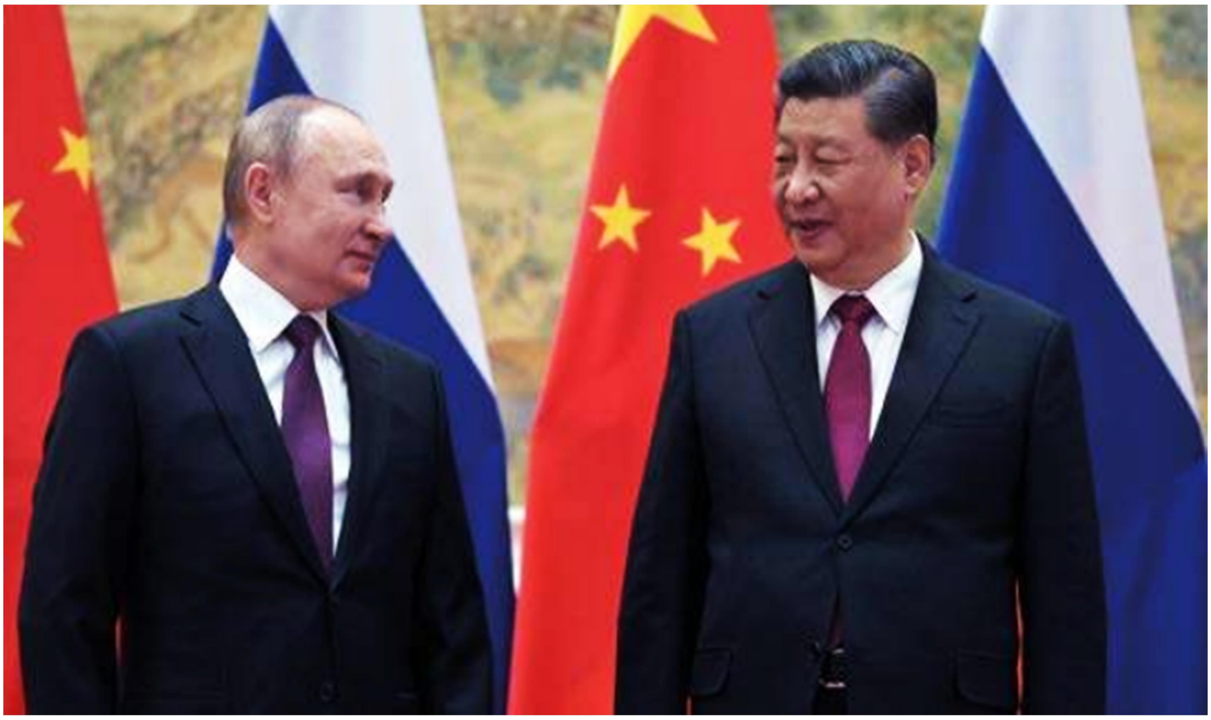

Russia's military operation in Ukraine started on 24 February 2022. Europe is in turmoil. NATO is expanding. It is gearing up preparedness to confront Russia. A wider European war is at risk, Europe is at the crossroads of long-lasting trouble. At this delicate geopolitical juncture, China, the Asian powerhouse and the ally of Russia, have remained coolly elusive. China's responses match Deng Xiaoping's foreign policy dictum, “Observe calmly; secure our position; cope with affairs smoothly; hide our capacities and bide our time; be good at maintaining a low profile, and never claim leadership.”

Since the early stage of the Russia-Ukraine conflict, China has kept itself limited to issuing messages in diplomatic subtlety blaming the West, especially the USA, for luring Ukraine to join NATO, ignoring Russia's concern for security and pulling it into the tension; urging conflicting parties to observe maximum restraint; backing de-escalation of the conflict and so forth. But the situation continued to worsen.

US President Joe Biden, in anticipation of China's military role in support of Russia, warned Xi Zin Ping of the consequences of coming to Russia's aid and reminded him of the degrees of the Chinese economy’s dependence on the West. Biden did not elaborate on ‘China's aid’ to Russia. Understandably, he might have meant military material support, which Russia requested. China has not committed military aid to Russia. It did not condemn Russia for military operation in Ukraine. China refrained from voting in the UN General Assembly criticizing Russia. In the UNSC, China voted in favor of a Russian-drafted resolution on “humanitarian aid access to Ukraine", which the remaining 13 members of the Council abstained as the draft did not condemn Russia.

It is incredibly tricky to bet if China will involve militarily, even indirectly. So far, it has not; instead, it is continuing trade and economic engagements with Russia. China seems to be endeavouring a triangular geopolitical and geoeconomic balance with Russia, NATO member countries and the USA. The West has piled up sanctions against Russia. Russia needs money to fund its military campaign. To offset the adverse impact of sanctions, Russia reduced oil prices. This conflict has opened opportunities for large economies like China and India as well as smaller economies. China's import of oil from Russia increased by 55%, In the first 100 days of the military operation, China became the largest importer of Russian crude oil, worth USD 13.2 billion, up by 55% relative to 2021. NATO member countries in Europe are receiving Russian oil and gas contrary to sanctions they imposed upon Russia, as they could not do without Russian energy supplies. They are considering putting a price cap on Russian oil and gas imports into NATO member countries and other non-tariff barriers. Trade between Russia and NATO members could continue for critical resources despite animosity and sanctions.

China has a couple of sensitive issues with the USA in its backyard. Taiwan, Korean Peninsula and the South China Sea are long-standing problems. Contending parties presumably have been at ‘State-1’ readiness, Even an inadvertent error could trigger catastrophic consequences. Besides militaristic issues, China and USA were at a trade war beginning in 2018, intensified through 2019 and subsided after Donald Trump left office, but the cloud hung over.

The economic/trade war seems to have resurfaced in intensity on a global spectrum with new complexities after the USA blocked Russia's 600 billion dollars held in US banks and excluded Russia from the global financial system controlled by the West. Freezing others’ assets by the major powers is not new. Such measures were inflicted upon smaller countries and individuals, But actions against Russia seem to be changing old settings.

Countries across the globe might have viewed the US’ economic clash with Russia and exclusion from the global financial system as a forewarning. Russia retaliated with the Ruble as the official settlement currency in bilateral energy trade with Europe. NATO members conceded Russia's terms on energy trade.

Countries and enterprises worldwide might have been perturbed by the West's dominance over the international financial systems. But alternative options were also available. India's largest cement maker Ultra

Tech has paid 172 million Yuan for the import of 157,000 tons of Russian coal. More businesses worldwide could be turning to Yuan to trade with Russia and as an alternative currency to the dollar. Subash Chandra Garg, a former Indian economic affairs Secretary, said, “if the rupee-yuan-ruble route turns out to be favorable, the businesses have every reason and incentive to switch over. This is likely to happen more.” “Yuan-ruble trade volumes have surged 1,067% since the beginning of the conflict, putting pressure on the dollar's reserve currency status. Central banks around the world are increasing Yuan reserve." China is discussing with more countries on alternative currencies to settle international trade.

Saudi Arabia and China have discussed the Yuan-based oil deal. Myanmar and China have accepted the Yuan as an official settlement currency in border trade, gradually expanding to maritime trade, Many countries faced political challenges for their attempt to have energy trade agreements in Ruble, which many governments worldwide could have noted as an exemplary call.

‘In 2019, approximately 90 percent of foreign-exchange transactions were in the dollar compared to just over 4 percent for the Yuan, per Bank for International Settlements’ indicates the scale of China’s dependence on the dollar that China has to find an alternative to the dollar. China, Chile, Hongkong, Indonesia, Malaysia and Singapore are building up a Yuan reserve of 75 billion with the Bank for International Settlements. China is reportedly creating an alternative global financial system driven by the Yuan.

Last but not least, the post-pandemic world is unlikely to return to pre-pandemic days after two years of global socio-economic downturn. So in the post-Russia-Ukraine conflict, the global financial system is unlikely to return to the pre-conflict scheme. In the post-Russia-Ukraine conflict, the world might have to deal with two financial systems in the settlement of international trade. China could lead a system alternative to the dollar.

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