

## CONSOLIDATED MONTHLY REPORT: SEPTEMBER 2021

### China's International Relations

1. **South China Sea (SCS)**. Chinese Coast Guard (CCG) vessels and research / survey ships continued with their deployment in the SCS, including in the EEZ of Malaysia, Philippines and Indonesia. US, Japan, UK and others also maintained deployment of their naval vessels in the region.
2. **Indonesia**. A Chinese research / survey vessel, *Hai Yang Dizhi 10*, continues to remain in the Indonesian EEZ in the Natuna Sea undertaking surveys, accompanied by CCG vessels which also conducted intimidatory maneuvers in the vicinity of an Indonesia-contracted oil rig. **The absence of any protest by Indonesia seems to indicate its intent to keep a lid on the situation, possibly with the larger economic gains of eliciting Chinese investment in mind.**
3. **Vietnam**. The Chinese Foreign Minister Wang Yi's visit to Vietnam seems intended at garnering support to get early approval of the Code of Conduct and the OBOR initiative, while also attempting to wean Vietnam away from the US. Nevertheless, Vietnam remains wary of the Chinese, as seen from its protest against the recent troop-transporting operations from airstrips in the Chinese-controlled features of the SCS.
4. **Europe**. Europe's increasing wariness of China was evident in the recently published '*EU Strategy for Cooperation in the Indo-Pacific*' which highlighted China's "significant military build-up" while also flagging "intense competition, including tensions around contested territories and maritime zones". Frictions in the EU-China relationship are also increasing with **Members from the European Parliament (MEP) adopting a report that calls for a bilateral investment agreement with Taiwan**. Another report, which, while affirming the strategic importance of EU-China relations, makes it clear that until China lifts sanctions against MEPs and EU institutions, the approval process for the EU-China Comprehensive Agreement on Investment will not be resumed, was passed by the European Parliament. Meanwhile **smaller members of the EU, like Slovenia and Lithuania, are adopting a more muscular and aggressive approach against China**. China declined a German request for berthing of a warship *Bayern*, which is on deployment to the Indo-Pacific, at a Chinese port.
5. **USA**. US approach to China, while becoming more nuanced, is also gradually increasing the pressure on its allies to deny technology to China. US flagged the acquisition of South Korean chip maker Magnachip Semiconductor Corp by a Beijing-based private equity fund as a potential national security risk. US Securities and Exchange Commission has detailed the potential risks of putting money into US listed companies that have contracts with, but, no control over a Chinese entity. US naval vessels conducted a Freedom of Navigation Operation within 12 nm of Mischief Reef.
6. **Australia**. Despite the existing friction, China lobbied the Australian government to facilitate its entry into the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership. China, expectedly, opposed the recent AUKUS trilateral security partnership, claiming that it seriously undermined regional peace and stability.

## **Neighbourhood**

7. **Afghanistan.** China, one of the few countries overtly engaging the Taliban govt, announced an aid of USD 31 mn, COVID vaccines and related medical aid for Afghanistan. China is working behind the scenes for regional countries to provide legitimacy to the Taliban and is trying to form a consensus with Russia, Iran and Pakistan on Afghanistan in the Shanghai Cooperation Organization (SCO). **China has also reportedly been messaging that India is not letting the SCO be effective on Afghanistan.**

8. **Bangladesh.** Bangladesh has decided to join the Regional Comprehensive Economic Partnership (RCEP). It received 5.5 mn, of the 30 mn doses that it had agreed to buy, of China's Sinopharm vaccine.

9. **Maldives.** China's new Ambassador to the Maldives, Wang Lixin, cited the China-Maldives Friendship Bridge, the expansion and upgrading of Velana International Airport, and the construction of 7,000 social housing units in Hulhumale as examples of the successful projects of bilateral BRI cooperation.

10. **Myanmar.** Myanmar has received 16.6 mn doses of COVID vaccines from China of which 3.9 mn doses have been donated by the latter. **The two countries signed an agreement to conduct preliminary field investigation work for the *Kyaukphyu Special Economic Zone (SEZ) Deep Sea Port Project.*** The agreement envisages conduct of consultancy services and preliminary field investigation work in Rakhine State, where the project is located. The Chinese embassy asked the Myanmar junta to increase security for Chinese projects in Myanmar.

11. **Nepal.** Nepal formed a committee to study the border issue with China in the Humla district of Nepal, which China had encroached in Sep 2020. **The Nepalese Army has expressed interest in buying 48 APCs and associated ammunition from China.** China appears to be enforcing an undeclared blockade against Nepal by blocking over 1000 containers at major border points, including Tatopani and Rasuwa.

12. **Pakistan.** The first CPEC project in the power evacuation and transmission sector, the 660kV Matiari-Lahore transmission line, has started commercial operations. **The 10<sup>th</sup> meeting of the Joint Cooperation Committee on the CPEC was held and it is seen as critical for re-energising CPEC** and making the CPEC Long-Term Plan 2017- 30 effective. A Pakistan Senate panel expressed concern over the slow pace of development on the CPEC even as it unveiled an ambitious plan to rebuild Karachi's coastline under the CPEC with USD 3.5 bn direct Chinese investment.

13. **Sri Lanka (SL).** The IMF, Bank of China and Bank of Bangladesh have provided USD 1,237 mn as aid to strengthen SL's foreign reserves, of which, China's share is USD 300 mn. China Merchants Port Holdings has declared a dividend of SL Rs 1.05 bn to the Sri Lanka Port Authority. **The Sri Lankan cabinet has approved Sinosoar - Etechwin JV**

**to install three hybrid renewable projects in Nainativu, Delft and Analaitivu, located in the Palk Straits.**

## **Economy**

### 14. **Internal**

- In the backdrop of China's property giant Evergrande facing severe debt problems (worth USD 305 bn), Chinese regulators held meeting with 24 major banks to maintain stability in the housing market and ensure protection of consumer rights. **China is encouraging state-owned firms and government-backed property developers to buy assets from Evergrande to help it raise the money needed to meet its obligations.**
- **China's power problems, prompted by China's rising energy consumption, attempts to meet carbon emission targets and rising coal prices, have negatively impacted production and profits.** While energy intensive sectors such as steel, cement, aluminium and chemicals have been hit the most by the power cuts, light industries and some residential customers have also been affected in some regions. US companies operating in China have also been affected by the recent power rationing measures across the mainland, leading to lost business opportunities, cancellation of orders and wastage of raw materials.
- Chinese authorities have declared that **virtual currencies will no longer have legal tender status** and all crypto currency-related businesses (like transaction between sovereign currency and virtual currencies, providing services for virtual currency trading as agencies, overseas crypto currency trading exchanges that provide services to domestic residents via the internet etc) are illegal.
- China released a White Paper titled "China's Epic Journey from Poverty to Prosperity", featuring the country's achievements in building a moderately prosperous society. As per the White Paper, **the per capita disposable income ratio of urban and rural residents has decreased y-on-y, from 2.99 in 2010 to 2.56 in 2020**, implying reduction in rural-urban income gap. National Development and Reform Commission has stated that China will improve the mechanism of reasonable wage growth and will increase income among low-income groups and expand the middle class.

15. **External.** As per a study titled "*Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*", by AidData, **China's OBOR is in the danger of losing momentum as opposition in targeted countries rises and debts mount, paving the way for rival schemes to squeeze China out.** As per the study, China's annual international development finance commitments were double those of the US and rising pushback against China was evident through cancelled projects – USD 11.6 bn in projects in Malaysia over 2013-2021, USD 1.5 bn in Kazakhstan and more than a USD 1 bn in Bolivia.

## **Internal**

16. **Anti-corruption.** China's Central Commission for Discipline Inspection has launched a nationwide audit of major financial firms and regulators to eliminate risk in the sector, after

debt crises hit state-owned financial conglomerate Huarong and private property developer China Evergrande.

17. **Tibet**. The Department of Civil Affairs of the Tibet Autonomous Region and the Department of Finance of the Autonomous Region released 102 mn yuan and initiated the construction of homes in 34 border villages in 11 border counties. This is part of the “mutual assistance facilities for the elderly”, included in the “14<sup>th</sup> Five-Year Plan for Tibetan Civil Affairs Development” which focuses on border villages and aims to solve issues pertaining to the elderly population in the border villages.

18. **Hong Kong (HK)**. The Central Committee and State Council released the “*Plan for Comprehensively Deepening the Reform and Opening of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone*” with the aim of integrating HK deeper into the mainland economy and drive forth the Greater Bay Area’s development. HK’s Election Committee, which will choose the next Chief Executive, elected its members with just one opposition-leaning candidate out of 1500 members, after new electoral reforms were brought in to ensure candidates’ loyalty to Beijing.

## **Military**

19. **Airshow China**. The 13<sup>th</sup> China International Aviation and Aerospace Exhibition, also known as Airshow China, was organised from 28 Sep to 03 Oct 2021 in Zhuhai. More than 150 military equipment including models of J-20 stealth fighter, GJ-11 drone, Y-20 transport plane, FC-31 stealth fighter, PLA Navy’s next generation carrier aircraft and Z-20 helicopter were displayed. Other major attractions were the J-16D (electronic warfare variant), AG-600 amphibious aircraft, X-8L helicopter, CH-6 UAV, WZ-7 high-altitude reconnaissance drone, FB-10A & LY-70 surface-air missile system, WS-43 Strike System, TS-01 anti-tank guided missile, WS-3A, WS-600L, WS-35 missile system and the YJ-18 submarine-launched anti-ship cruise missile.

## 20. **Training & Misc.**

- **Ex “Shared Destiny-2021”**. China, Pakistan, Mongolia and Thailand participated in this UN peacekeeping field training exercise which included aspects of battlefield reconnaissance, security patrol, armed escort, civilian protection, responding to terrorist attacks, construction of temporary bases, battlefield first aid, and epidemic control.
- **Ex “Peace Mission-2021”**. This SCO exercise was held in Russia, with 4,000 personnel from countries, including China (558 personnel from Northern Theatre Command), Russia, Kazakhstan, Tajikistan, Kyrgyzstan, India, Pakistan and Uzbekistan participating in the same.
- **Exercises in Tibet**. The PLA’s Western Theatre Command (WTC) conducted night drills for units stationed in Tibet with the aim of familiarising its troops with new-generation weapons and equipment. In another exercise, PLA air defence brigade in Tibet used a HQ-16B surface-to-air missile system at a live-fire drill on the plateau located at 4,700m altitude.
- **PLA Navy**. PLA has conducted 20 naval exercises involving elements of island capture in the first half of 2021 amid tensions with the US. Last year during the same period it had conducted 13 exercises.

- **Promotions**. China's Central Military Commission issued order for promotion of five military officers to the rank of General. The promoted officers are Commander of the PLA WTC Wang Haijiang, Commander of the Central Theatre Command Lin Xiangyang, Commander of the PLA Navy Dong Jun, Commander of the PLAAF Chang Dingqiu and President of PLA National Defence University Xu Xueqiang.

21. **Incursions Into Taiwan's ADIZ**. Large scale infringement of Taiwan's ADIZ by PLA aircraft continued with spikes of larger numbers observed, possibly in response to events like the Taiwanese proposals to increase their defence budget and the operations of US Carrier Strike Groups. A total of 117 PLA aircraft violated Taiwan's ADIZ on 27 occasions during the month.

22. **China-Russia Defence Cooperation**. China and Russia signed a contract for 36 Ka-52K / Ka-52M heavy armed helicopters for equipping PLA Navy's Type 075 aviation amphibious assault ships.

## **Technology**

23. The 2021 Quantum Industry Conference displayed China's advances in the industrial application of quantum technology which included quantum satellite ground station and quantum key distribution equipment. The State Council and CPC Central Committee issued joint guidelines on "civilised cyber space", a three-year plan, that will require local governments to rein in the use of online content algorithms and companies would be held accountable for how their use of technology shapes online discussions.

## **Space**

24. China conducted four launches this month, of which one failed, and it launched four satellites. China has developed a prototype Mars drone to improve its ability to obtain imagery and analyse the landscape in future Mars missions.

## **Social Media**

25. Global Times published a widely read story in Chinese titled "*India wanted to obtain a nuclear submarine like Australia, but the US rejected*". Detained Huawei CFO Meng Wanzhou's triumphant return to China trended as a demonstration of 'motherland nationalism'. Guancha's article on the tussle between Indian merchants and US e-commerce giant Amazon, by Indian journalist Nilesh Christopher, was widely read and shared on Weibo.

## **Overall Assessment**

26. Deployment of Chinese ships in the SCS is a manifestation of China's aggressive assertion of its sovereignty claims in the region and an indication of Chinese attempt to establish and even consolidate control in the SCS. While Sino-German relations, especially economic, are quite robust, China does not seem very enthused with Germany's approach to the Indo-Pacific, which is perceived to be aligned with the US approach. Friction between Europe and China is likely to continue to increase with Europe's talk of

bilateral investment agreement with Taiwan, CAI deal resumption being linked to China's lifting of sanctions and even smaller members of the EU, like Slovenia and Lithuania, adopting a more aggressive approach against China.

27. Overall, China has displayed caution in Afghanistan - taken on regional leadership on Afghan affairs, while avoiding all the risks of major commitments. Nepal showing interest in procuring APCs from China is interesting since in 2018, Nepal had received 63 APCs which were found to *be 'technically'* ineffective to protect from rocket-propelled grenade attacks. Bangladesh agreeing to sign the RCEP and Myanmar agreeing to conduct preliminary field investigation work for the Kyaukphyu SEZ Deep Sea Port Project are signs of China reaping benefits of its long term investment in this region.

28. Even as China tries to contain the damage due to Evergrande, it is conducting a nationwide audit of major financial firms and regulators to eliminate risk in the property sector. The power problem in China will only worsen in the coming winters and will have an adverse impact on its industries. China continued with its efforts to further integrate Tibet using economic packages and conducting military exercises in the area. Acquisition of Russian naval attack helicopter is indicative of the ambitions of the PLAN for an expeditionary capability while also realising the limitations of the Chinese defence industry in this domain. China continued with its strategy of intruding into Taiwan's ADIZ with this month seeing an increase in the number of large aircraft packages.