

CONSOLIDATED MONTHLY REPORT: OCTOBER 2021

China's International Relations

1. **South China Sea (SCS)**. Continued deployment of Chinese research/survey ships in the EEZ of Malaysia, Philippines and Indonesia, despite official protests from Malaysia and Philippines, indicates Chinese intent of not letting up on the aggressive assertion of their sovereignty claims. Meanwhile, extensive naval exercises between the navies of the US, Japan, Australia and New Zealand with the UK's aircraft carrier group continued as the US and its allies look towards bolstering their military deterrence against untoward Chinese intentions.
2. **Indonesia**. Despite intimidatory and aggressive manoeuvres by the Chinese Coast Guard against Indonesian-hired oil rigs, Indonesia has not lodged any official protest, indicating a clear predilection for Chinese investment.
3. **Taiwan**. Large scale infringement of Taiwan's ADIZ by PLA aircraft (196 in October 2021), especially upto 04 Oct 21, was observed, possibly in response to the joint operations by aircraft carrier groups of the US, UK and Japan in the region. Concerns over these China's aggressive actions are increasingly being voiced by the West with the European Council and the European Commission emphasising that these are "not acceptable". Meanwhile, assurances of US commitment to defend Taiwan, in the eventuality of a Chinese invasion, have been reiterated by President Biden.
4. **Tajikstan**. The Tajik approval for the construction of a new Chinese base near the country's border with Afghanistan is demonstrative of Chinese intent to establish a larger security presence in the region, leveraging the current situation in Afghanistan.
5. **Europe**. The EU is gradually hardening its stance against China with a European Parliament report on Taiwan urging initiation of talks with Taiwan for a bilateral investment deal. A delegation from the European Parliament is scheduled to visit Taiwan in the first week of November, which will create further frictions.
6. **USA**. The US NSA, Jake Sullivan, met with CPC Politburo Member Yang Jiechi, in a closed-door meeting in Zurich though there was not much progress in resolving contentious issues between the two countries. Nevertheless, willingness to engage in discussions on trade was reflected in the telephone call between the US Trade Representative Katherine Tai and Vice Premier Liu He. US military pressure on China is continuing as seen in the deployment of aircraft carrier groups to the region complemented by near-daily flights of surveillance as also bomber aircraft.

China's Relations with India's Neighbourhood

7. **Afghanistan**. China handed over the first tranche of the promised aid of USD 31 million to the caretaker government as humanitarian assistance. China has mooted a four-point proposal and a zero-tolerance attitude on tackling terror in Afghanistan and requested international bodies to provide assistance for Afghanistan's reconstruction. Reassurances from the Taliban on deporting Afghan Uyghurs to China and cracking on the ETIM bolstered positive bonhomie.
8. **Bangladesh**. Bangladesh received one million doses of Chinese Sinopharm vaccine on 20 Oct 21 and another 5.5 million doses on 21 Oct 21. Prime Minister Sheikh Hasina inaugurated the newly built "Bangabandhu Bangladesh-China Friendship Exhibition Centre" at Dhaka on 21 Oct.
9. **Bhutan**. The virtual signing of an MoU between Bhutan and China to expedite the boundary negotiations was conducted on 14 Oct 21. This was attended by Bhutan's Foreign Minister, Lyonpo Tandi Dorji and Assistant Foreign Affairs Minister of China, Wu Jianguo.
10. **Maldives**. Maldives is the Official Island Travel Partner for the upcoming ITB¹ China, set to take place from 24 – 26 Nov as a physical event in Shanghai. Maldives will participate with its own pavilion to increase bookings and arrivals from China to the Maldives once travel restrictions are lifted.
11. **Myanmar**. Myanmar has a contract for purchase of 24 million doses of Chinese Sinopharm vaccine of which 16 million have been received while China has donated another 3.9 million. On 12 Oct 21 the Central Bank of Myanmar permitted exchange of Chinese yuan at the local foreign exchange market to boost border trade.
12. **Nepal**. Nepal's imports from China increased significantly, with USD 360.18 million during the first two months of the 2021-22 fiscal year (starting in mid-July), up 76% per cent year-on-year. On 19 Oct 21, Nepal's Foreign Minister Narayan Khadka held a telephonic conversation with his Chinese counterpart Wang Yi regarding COVID-19 vaccine cooperation, return of Nepali students to China and border management among others. China has decided to donate additional two million Vero cell vaccines to Nepal to fight against the pandemic.
13. **Pakistan**. A recent report indicates that Chinese development financing under the China-Pakistan Economic Corridor (CPEC) consists of loans that are at or near commercial rates as opposed to grants. China has demanded a compensation of USD 38 million for the deaths of Chinese engineers, working on Dasu dam project, who died in the attack on their bus on 14 Jul 21. Incidentally China commenced work at the Dasu dam site on 25 Oct 21. Special Assistant to Prime Minister Imran Khan on Maritime Affairs, Mahmood Moulvi stated that Pakistan has requested China to market Gwadar Port and at least utilise it for their transshipment cargo.

¹ ITB - Internationale Tourismus-Börse. ITB China is the largest B2B-Exclusive trade show focused on the Chinese Travel Market.

14. **Sri Lanka**. China National Energy Engineering and Construction Company Limited (CNEE), has offered to invest USD 800 million on 400 MW Renewable Energy Projects in Sri Lanka. Some bilateral tensions were witnessed as Sri Lanka banned import of organic fertilisers manufactured in China by Qingdao Seawin Biotech Group Co Ltd. after authorities detected harmful bacteria repeatedly.

Economy

15. **Internal**.

(a) China's economy witnessed the slowest pace of growth in 2021 in the third quarter, at 4.9%, mainly on account of power shortages and property sector woes as the policy makers rein in the real estate sector. It is expected to weaken further in the coming fourth quarter.

(b) Coal prices in China have been rising on account of strong demand for power in China coupled with a slowdown in local coal production along with a ban on Australian coal imports. Authorities are also cracking down against illegal coal storage and hoarding.

(c) Government inspections, announced in Sep 21, with few details, focus on whether state-owned banks, investment funds and financial regulators have close ties with private firms. These actions are in line with Xi Jinping's (XJP) push to curb capitalist forces in the economy.

(d) In an attempt to rein in their power and influence, China recently released "Market Access Negative List 2021" that aims to ban non-state capital (private companies) from the news and media sectors.

16. **External**.

(a) China's trade policies have come under strong criticism during a review at the World Trade Organisation (WTO). The US accused China of "skewing the playing field" by using "unfair trade practices" such as preferential treatment for state businesses. Meanwhile Australia said that China's behaviour was "inconsistent" with its WTO commitments.

(b) In a written statement delivered to the COP26 summit, XJP called on countries to focus on "concrete actions," set "realistic targets and visions", and harness innovations in science and technology to "accelerate the green transition". President Biden's National Security Advisor, Jake Sullivan, targeted China's "confounding" failure to "step up" on global action to manage the climate crisis as XJP was missing from the COP26 Summit.

Internal Developments

17. **XJP.** On 15 October 2021, *Qiushi* published an essay by XJP titled, “To Firmly Drive Common Prosperity”. The article lays down six focus areas, firmly placing ‘Common Prosperity’ as the cornerstone of the CPC’s agenda and Xi’s campaign ahead of the 2022 Party Congress.

18. **Anti-Corruption.** The anti-corruption drive continues with Guo Shengkun, secretary of the Central Political and Legal Committee, stating that it is necessary to “resolutely eliminate the black sheep, thoroughly eliminate the toxic influence, and continuously purify the political ecology.” The announcement is important considering reports of a foiled police plot against XJP during his inspection of Nanjing city, Jiangsu province in September 2021.

19. **New Media Guidelines.** The National Development and Reform Commission published a draft regulation barring private capital from investing in news media, import of foreign news, and a host of other activities. It virtually eliminates all non-state media outlets. Further, the Cyberspace Administration of China’s (CAC) newest media whitelist² removed well established outlets like Caixin and the Economic Observer. The apparent aim of the new media guidelines is to cement the grip of the CPC’s top leadership over the Chinese narrative.

20. **Hong Kong.**

(a) There have been reports that Hong Kong’s anti-sanctions law has been placed on hold after Hong Kong executives and mainland Chinese financial institutions raised concerns. HK’s representative at the NPC Standing Committee has urged the government to implement Hong Kong Basic Law Article 23, which would enable HK to enact laws on its own to prohibit acts of treason against the CPC.

(b) An annual report submitted to Hong Kong’s Legislative Council revealed the city’s HKD 8 billion national security budget, but no details were made public.

21. **Tibet.** The third “Tibetan Qin-Himalaya” forum was held on 16 Oct 21, co-sponsored by the Research Office of the People’s Government of the Tibet Autonomous Region, the China Tibetology Research Center, Renmin University of China, Nanjing University, and Tibet Nationalities University. The forum was focused on Tibet’s “stability, development, ecology, and strong frontier” and included presentation on sinicisation of Tibetan Buddhism.

22. **Xinjiang.** More than 40 Western-led countries criticised China’s widely reported atrocities against the Uyghurs in a statement issued at the United Nations on 22 Oct 21, calling on Beijing to allow independent observers into the Xinjiang region immediately.

² A formal list of sources that State media can republish.

Military

23. **Recent Developments.**

(a) The development and induction of all-terrain vehicles and unmanned high mobility vehicles are being progressed which will not only enhance PLA's capabilities in Xinjiang and Tibet but also improve logistics management in border areas.

(b) Development of new aircraft is continuing apace with the unveiling of the second prototype of the carrier-borne early warning aircraft and a two-seat J-20 stealth fighter.

(c) A Border Defence Regiment of the Kashgar Military Sub-District under the Xinjiang Military District (XMD) started aerial patrolling on more than 10 patrol routes by helicopters at an elevation of more than 5,600 meters.

(d) XMD had established approximately 40 support points & support groups such as ammunition, fuel and medical services.

24. **International Defence Cooperation.**

(a) Pakistan Army (PA) Liaison Officers have been posted in the headquarters of China's Western and Southern Theatre Commands. Colonel-rank officers of the PA have also been posted at the Joint Staff Department of the CMC.

(b) China and Russia conducted joint naval exercise 'Joint Sea 2021' in Russia's Peter the Great Gulf and the Sea of Japan (East Sea), off the Russian Far East from 14-17 Oct 21. Subsequently, the two navies conducted their first joint sea patrol in the West Pacific from 17 to 23 Oct 21.

25. **Passage of Laws.** Legislative session of the Standing Committee of the National People's Congress of China passed the land border law on 23 Oct 21. It will come into effect from 01 Jan 22. In addition, some amendments to the statutory provisions aimed to reform the national defence mobilisation system were also passed.

Technology

26. A Chinese research team has designed a 66-qubit programmable superconducting quantum computing system named "Zuchongzhi 2.1", which can significantly enhance China's quantum computational advantage. China released a document titled "*New Generation Artificial Intelligence Ethics Specifications*" which emphasises on user rights, data control and preventing risks that align with Beijing's goals of reining in Big Tech's influence and becoming the global AI leader by 2030.

Space

27. China launched three satellites as also the the *Shenzhou 13* spacecraft carrying three passengers including its first woman Taikonaut to *Tianhe*, the core module of the *Tiangong* space station that China is building in low Earth orbit. China has built a space refuelling vehicle which is expected to expand the life of the satellites.

Social Media

28. China's Land Border Law garnered over 58 million views and thousands of comments in which India was frequently mentioned. A section of netizens interpreted the new law as the legal ground to fight India and noted that the Chinese army could proactively fight those who violate China's borders. Many people warned India against provoking China at the borders again. However, quite a few people expressed their opposition to this interpretation and war as it would cost lives.

29. China's objection to the Indian Vice-President's visit to Arunachal Pradesh invited attention on social media and Weibo. The comments generally questioned why China was too weak and not asserting itself against India.

Overall Assessment

30. The theme of '*Common Prosperity*' is likely to gather momentum in the run-up to the CPC Party Congress in 2022. Coupled with the recently formulated '*Dual Circulation*' economic strategy, the thrust on reducing inequalities and income disparities in the population will be central to the Chinese economy even as the state tries to rein in private firms. With increasing global geopolitical pressures on China, the political economy will be under close scrutiny, more so, as Xi Jinping looks for an unprecedented third term.

31. The US's competitive approach to China continues to gather more traction while Europe is also becoming increasingly concerned with China's aggressive actions, especially vis-a-vis Taiwan. The South China Sea is witnessing an unprecedented level of multi-national military presence with China showing no signs of being intimidated by such activity. On the contrary, Chinese military activity in the 'near seas' (Yellow Sea, East China Sea and South China Sea) continues unabated. Increasing proximity with Russia in the military domain, especially in the Western Pacific over the past couple of years, has further emboldened China in adoption of the current aggressive outlook.

32. The ongoing pandemic and its aftermath have provided China with a window to consolidate its presence in South Asia as it remains a large supplier of pandemic-related relief efforts. With its current foothold in Afghanistan and a pliant partner in Pakistan, China will look to establishing an 'arc of influence' to India's west.

Keeping a sharp watch on the traction that such efforts may gain in this region, as also in Central Asia, will be crucial.