

CONSOLIDATED MONTHLY REPORT: NOVEMBER 2021

China's International Relations

1. **South China Sea (SCS).** The return of large numbers of Chinese fishing vessels, including maritime militia, to the Whitsun Reef has led to both, Vietnam and Philippines, lodging protests with China, even as the two countries have agreed to resume joint marine scientific research in the SCS. The Philippines' protest against the Chinese Coast Guard's (CCG) blocking of Filipino vessels involved in re-supply of a military detachment on Second Thomas Shoal seems to have led to a step-down from China, which agreed not to interfere. The Philippines has also rejected a Chinese call for removal of a grounded ship from the Second Thomas Shoal. Meanwhile, China's military presence as also that of the US and its allies remains unabated in the region. CCG ships and survey vessels also continued operating in the Indonesian EEZ, albeit without any public protest by Indonesia.
2. **ASEAN.** The ASEAN-China Summit meeting Joint Statement reaffirmed the principles of the ASEAN Outlook on the Indo-Pacific, **possibly the first time that China has acknowledged the term Indo-Pacific in an external document.** Xi also professed support for the Treaty on Southeast Asia as a Nuclear Weapon-Free Zone. China appears to be trying to ameliorate differences with the bloc, given the espousal of ASEAN centrality in the Indo-Pacific strategies of India and the US while also trying to leverage fears of nuclear proliferation on account of the recent AUKUS agreement.
3. **Taiwan.** The US commitment to Taiwan was further underlined by two separate visits of Senators and Congressmen in the month. Another visit by EU MPs from the Baltic countries seems to indicate a gradual change of policy in the West towards Taiwan. China responded angrily by increased violations of Taiwan's ADIZ on both occasions. Chinese economic pressure on Taiwan is increasing with punishment of a Taiwanese firm. China has also stated that Taiwan's firms operating in China need to draw a line between themselves and supporters of independence.
4. **UAE.** Media reports indicated that warnings by US intelligence agencies about the construction of a secret military facility, at the Chinese-operated port of Khalifa, led to halting of this activity by the UAE.
5. **Europe.** The EU's increasing wariness and suspicion of China is manifesting in closer scrutiny of its bilateral trade. The EU's increasing concern over the SCS was witnessed in its opposition to the blocking and firing of water cannon by the CCG at Filipino supply boats. Even the German Chancellor, Angela Merkel, has accepted that Germany may have been "naive in some areas of cooperation with China".
6. **USA.** The first virtual meeting between Presidents Biden and Xi, while not bringing about any major changes to the relationship, appears to have recognised

the need for communication and preventing emergence of a conflict which has since led to an agreement for high level military talks. Nevertheless, US pressure on China, with military deployments in the SCS and the Pacific and the condemnation of Chinese action on the Filipino supply vessel, remains. Constriction of technology to China also continues with the addition of more Chinese companies to the list of entities prohibited from doing business with the USA.

China's Relations with India's Neighbourhood

7. **Afghanistan.** China continues to engage the Taliban interim government while also emphasising stability, imminent humanitarian crisis and the release of Afghan financial reserves in various multilateral fora. China also resumed Afghan imports and offered 1,000 tons of humanitarian aid while also proposing a visit to Afghanistan for an on-site inspection of potential Lithium projects.

8. **Pakistan.** The growing Sino-Pak economic engagement across domains was evidenced in the Pakistan Railways' agreements with China on an AI based project and on 'high speed' passenger coaches, 60% growth in bilateral trade in the first three quarters, the delivery of Chinese Type 054A/P frigate, PLA's survey of the border posts in PoK and delivery of 15 million Sinovac doses to Pakistan. Nevertheless, protests by locals at Gwadar against China's OBOR projects also occupied media space.

9. **Nepal.** Nepal imported 15,000 tons of fertiliser from China and took delivery of 1.6 million Vero Cell Chinese vaccines. Reports of the presence of Chinese intelligence agencies in Nepal even as the former Foreign Minister Pradeep Kumar Gyawali's refuted Chinese encroachment.

10. **Bhutan.** China has reportedly constructed four Chinese villages in a mutually agreed disputed territory between Bhutan and China in Western Bhutan. Bhutan's conspicuous silence on the issue, along with the recently declared MoU between China and Bhutan on the 'Three Step Road Map' for the resolution of the border dispute, is a matter of importance.

11. **Myanmar.** The visit by Sun Guoxiang, Special Envoy of Asian Affairs to Myanmar, delivery of 5 million Chinese COVID vaccines to Myanmar and the resumption of trade on China-Myanmar borders seems to indicate growing normalcy of relations. However, the resentment among local farmers towards the Kyaukphyu SEZ and port project remained a point of concern in local media.

12. **Bangladesh.** QW-18A Man Portable Air Defence Missile System and VT5 light tanks were delivered as part of the defence cooperation. However, the regularly reported defects in the Chinese military equipment were adversely commented upon by the Bangladesh media. Meanwhile, Chinese involvement in infrastructure development continued with a Chinese consortium being chosen for construction of the Rampura-Amulia-Demra Expressway.

13. **Sri Lanka**. The ongoing fertilizer imbroglio between China and Sri Lanka ended with the company's (Qingdao) agreement to take back rejected fertiliser & send a new shipment. Sri Lanka has reportedly roped in China Harbour Engineering Company (CHEC) to construct the second phase of the Colombo Port's East Container Terminal (ECT), which was earlier to be developed jointly by Sri Lanka, India and Japan.

14. **Maldives**. An expanded apron at the Velena International Airport, built by a Chinese company. was inaugurated on 07 Nov 21.

Economy

15. **Internal**.

(a) China's economic performance remained steady in October 2021 with rising industrial output, retail sales, fixed asset investment and increase in trade. Challenges to the economy including the COVID19 flare-ups, energy shortages, extreme weather and real estate sector developments remained. Further, China's total debt as a percentage of GDP fell to 264.8% in Q3, from 265.4% in Q2, primarily due to decline in GDP output which in turn dilutes the effects of China's deleveraging.

(b) China's property tax plan (to adjust "excessive income" through changes to personal income tax) is said to be a part of XJP's common prosperity campaign to redistribute wealth and to address widening social inequality.

(c) Regulatory crackdown and antitrust measures have intensified in China as China inaugurated the new National Anti-monopoly Bureau and fined technology firms such as Alibaba and Baidu for old deals that violate antitrust regulations.

(d) China has established a special relending facility of USD 31 billion to support the clean use of coal.

(e) China has launched the new Beijing Stock Exchange to allow Small & Medium Enterprises (SMEs) to raise capital.

(f) China's rare earth price broke a 10 year record on account of growing demand and tight supplies. Given tight supply from Australia's Lynas and shrinking of Myanmar's rare earth exports, China's export of rare earths has increased.

(g) To better protect its trade security, China's Ministry of Commerce announced that it will **diversify the imports of food, energy and tech sectors**.

16. **External**.

(a) **India-China Trade**. The General Administration of Customs (GAC) of China trade data showed that international trade volume between China and India reached USD 102.3 billion, exceeding the milestone of USD 100 billion for the first time in 2021, a year on year increase of 33%.

(b) **China-US Tech War**. US President Joe Biden on 11 Nov 21 signed legislation to prevent companies like Huawei Technologies Co and ZTE Corp that are deemed security threats from receiving new equipment licenses from US regulators. Further, US has put 12 Chinese high-tech companies on its Entity List, blocking US businesses from selling materials or equipment to them.

(c) **RCEP**. China's state media GT published a report by the Chinese Academy of International Trade and Economic Cooperation that RCEP will boost regional GDP by 0.86% by 2035.

(d) **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**. XJP said on 05 Nov 21 that China is open to negotiations on industrial subsidies and state-owned enterprises in order to be accepted into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Internal Developments

17. **6th Plenum of 19th Central Committee**. The CPC held (December 8-11) the 6th Plenary Session of the 19th Central Committee which also saw the passage of a '*Resolution of the Central Committee of the CPC on the Major Achievements and Historical Experience of the Party over the Past Century*'. The Plenum and the Resolution appear to have clearly consolidated the 'core position' of Xi Jinping, without any challenge, and his thoughts as the guidelines for policies for the second century goals of the Party.

18. **Post Plenum Propaganda**. Post Plenum propaganda effort is encapsulated in the "Two Establishes" slogan i.e. (i) uphold the core position of Xi Jinping and (ii) uphold Xi Jinping's Thought for the New Era, first written by Chen Yixin, Secretary General of the Political and Legal Affairs Commission. Political leaders are taking initiatives in organising events and speeches in order to show their loyalty to Xi Jinping.

19. **Personal Information Protection Law**. China's Personal Information Protection Law (PIPL) (put in force on 01 November) does not place limits on the state's role in data collection or data privacy. Further, it requires companies in China to store their data locally. This has led to the exit of some large companies such as LinkedIn and Yahoo from the country.

20. **Peng Shuai.** There was an international outcry regarding the safety of the Chinese tennis star Peng Shuai, following her Weibo post on 02 Nov 21 accusing the former vice premier Zhang Gaoli of sexual harassment. It was initially countered by showing her photos and videos through state run media outlets. Later the Chinese government organised a video meeting with her and the Olympic officials.

21. **Hong Kong.** Incitement to boycott the polls would be punishable by up to three years in prison and a fine of up to HKD 200,000.

Military

22. **Recent Developments.**

(a) **Third Aircraft Carrier.** China's third aircraft carrier is expected to be launched in the next three to six months with satellite images suggesting many sections have been completed.

(b) **H-6K Bomber.** PLA has re-deployed long-range strategic H-6K bombers along the Line of Actual Control. The aircraft was observed armed with short-range KD-63 missiles. Presence of H-6 bombers was earlier reported in Sep 2020.

(c) **Maiden Flight of Twin-Seat J-20.** China has reportedly conducted the maiden flight of the twin-seat prototype of the J-20 fifth-generation multirole fighter aircraft.

(d) **Hypersonic Aerodynamic Wind Tunnel.** China's Aerodynamics Research Institute under the Aviation Industry Corp of China (AVIC) has built a one-metre-class hypersonic aerodynamic wind tunnel, named FL-64. It is designed to simulate speeds from Mach 4 to 8 under 900 Kelvin (626.85 C) at an altitude of 48,000 metres.

23. **International Defence Cooperation.**

(a) **China-Pakistan.** The first Type 054A/P frigate, *PNS Tughril*, was handed over to Pakistan on 08 Nov 21.

(b) **China-Bangladesh.** China supplied 44 reinforced VT5 light tanks to Bangladesh. Bangladesh plans to set up at least three light tank regiments.

(c) **China-Russia.** The third joint air patrol by the Russian and Chinese air forces, comprising two H-6K bombers from China and two Russian Tu-95 M was conducted on 19 Nov 2021. The aircraft flew over the Sea of Japan and the East China Sea.

Technology

24. China unveiled the “Internet of Things New Infrastructure Development Three-Year Action Plan (2021 – 2023)” targeting more than 2 billion connections for its Internet of Things (IoT) by 2023 with special focus in three major areas namely social governance, industry application, and people’s consumption. China created two exascale computing system capable of processing one quintillion, or one billion billion, calculations per second. China developed a naval vessel for operation of drone swarms to counter enemy drone threats.

Space

25. China conducted eight launches wherein 24 satellites were launched including 10 from Argentina. An industrial zone has been launched for construction of over 20 billion satellites during the 14th Five-Year Plan. China's first Martian satellite started conducting remote-sensing surveys of the Red Planet.

Social Media

26. Propaganda from the 6th Plenum and daily reports of the coronavirus, and new regulations of celebrities’ social media behaviour dominated the social media space through November. With respect to India, comedian Vir Das’ remarks, the launch of INS Visakhapatnam, and an Indian columnist, Vijay Parshad, calling out the West on climate change caught the interest of netizens.

Overall Assessment

27. The 6th Plenum and the ensuing Resolution seem to have confirmed the foregone conclusion of Xi Jinping for an unprecedented third term at the helm of affairs of the CPC. Current Chinese economic policy centred on the theme of ‘*Common Prosperity*’ and girded by the ‘*Dual Circulation System*’ is unlikely to see any change, notwithstanding the challenges in the wake of the pandemic.

28. On the external front, Chinese sensitivity to the interests of ASEAN nations seems to be undergoing a change, possibly brought on by the efforts of the US, its allies and EU. Nevertheless, Taiwan will remain a ‘red line’ for China that the West may not cross deliberately. Europe is increasingly tilting towards an alignment of views with the US, vis-a-vis China, which has, to a large extent been brought about by China itself, due to its actions against nations like Lithuania as also Taiwan.

29. China is still attempting to consolidate its foothold in Afghanistan but is increasingly realising that it may not want to go it alone. Nevertheless, with Pakistan and Sri Lanka under its umbrella, it continues to look for opportunities for expanding influence in South Asia.