

## CONSOLIDATED MONTHLY REPORT: APRIL 2022

### International Relations

1. **South China Sea (SCS).** Friction between China and Philippines continued as Chinese Coast Guard vessels continue to aggressively track and shadow ships undertaking survey activity in the Philippines' claimed EEZ. Coupled with a warning from the Chinese Foreign Minister, Wang Yi (WYI), that "*improper measures which could disrupt or even damage bilateral relations and the stability of the South China Sea*", this appears to have forced the Philippines to freeze oil and gas exploratory activity in some maritime blocks of the disputed sea as it tries to strike a deal with China on a joint energy project.
2. **Thailand.** The sale of Chinese submarines has hit a hurdle with the German government not according approval for sale of engines which equip these submarines. While Thailand does not seem keen on acquiring these submarines without German engines, talks are still going on to find a way forward.
3. **Taiwan.** Members of European Parliament from Sweden, as also a group of six US lawmakers, including chairman of the US Senate Foreign Relations Committee visited Taiwan. Transit of US naval vessels in the Taiwan Strait continued.
4. **Central Asia.** The Tajikistan President traveled to the northern part of the country to oversee the opening of a new gold processing plant built by a Chinese investor.
5. **Africa.** Confucius Institutes are reported to be training military personnel in Sudan and the DRC with the aim of facilitating further training for these personnel in China. Chinese awareness of perceptions of a 'debt trap' appear to be behind the recent withdrawal of a Chinese company from a mining and construction contract with the Zambian government.
6. **EU.** The EU President drew attention to the "*seemingly unrestrained pact*" that China shares with Russia, especially in the light of the Ukraine crisis. The lack of common ground between EU and China was evident in the absence of a joint statement after the 23<sup>rd</sup> Bilateral Summit on 01 Apr 22. Countries, like Portugal, are also changing their approach, with the Chinese Ambassador in Lisbon stating that Portuguese companies with Chinese capital are facing long waits for bureaucratic procedures.
7. **Ukraine Crisis.** China remains cautious about the knock-on effects of sanctions imposed by the West on Russia, even as it continues to support Russia in various international forums with regard to the crisis. Interestingly, a major Western oil company, Shell, is in joint talks with Chinese state-run oil companies, CNOOC Ltd, China National Petroleum Corp (CNPC) and Sinopec, over its 27.5% holding in the Sakhalin-2 liquefied natural gas venture in Russia.
8. **USA.** The US Secretary of Defense spoke with the Chinese Defence Minister as a follow-up to the call between President Biden and President Xi Jinping (XJP). While the US readout of the call was rather perfunctory, the Chinese one clearly outlined Chinese

concerns on account of perceived US provocation on Taiwan, US military provocations at sea and usage of the Ukraine issue to smear China.

9. **Pacific Islands.** The signing of the Framework Agreement on security cooperation between China and the Solomon Islands has led to a chorus of opposition from Australia as also other Pacific Island countries like Micronesia. A US delegation, led by Kurt Campbell, had also visited the Solomon Islands, to convey their concerns.

## **Neighbourhood**

10. **Afghanistan.** The reconstruction on Khaf-Herat railway, connecting Iran and China through Afghanistan, will reportedly begin after Ramadan. China has accepted the credentials of diplomats sent by the Taliban government to the Afghan embassy in Beijing. Chinatown Industrial Park Project, planned for Kabul, has reportedly received Taliban regime's approval. China's reaction to Pakistan's air attack in Afghanistan, that reportedly killed 47 civilians, was muted.

11. **Pakistan (Pak).** Differences have emerged between Pakistan and China on the financing of ML1 project at the recently conducted CPEC review committee meeting. Pak PM requested China to support the planned revival of the Karachi Circular Railway (KCR) project. The K3 unit of the Karachi Nuclear Power Plant (using China's Hualong One reactor) started commercial operations. China's Wuhan Institute of Virology and Pak Defence Science and Technology Organization (DESTO) are jointly developing pathogens in Pakistan. Wang Yi condemned the terrorist attack, in which three Chinese were killed, inside the premises of a university in Karachi.

12. **Nepal.** China's top legislator, Li Zhanshu, discussed bilateral relations with Nepal Parliament speaker, Agni Sapkota. The Nepali version of the Mao's poems was released in Kathmandu, marking the UN Chinese Language Day. China's ambassador to Nepal, Hou Yanqi, stated that the policy changes in Nepal consequent to the regime change were creating problems for Chinese investors and entrepreneurs.

13. **Myanmar.** National Unity Government warned China on its engagement with the military junta even as China has reportedly pledged to provide USD 102 mn aid to Myanmar and to open a Myanmar consulate in Chongqing. China's ambassador to Myanmar met Union Election Commission head U Thein Soe to discuss the planned election.

14. **Bangladesh (BD).** A new weekly China-BD container vessel service named "Bengal Service", connecting South China and Chattogram, will be launched soon. BD has put the China Railway International Group in charge of a project to strengthen nationwide digital communications. China has reportedly allowed five more BD firms to export edible aquatic animals to China.

15. **Sri Lanka (SL).** China announced an emergency humanitarian aid of USD 31 mn to SL, which includes 5,000 tonnes of rice, pharmaceuticals, production materials and other essentials. SL commenced discussions with China on refinancing its debts. Chinese Premier Li Keqiang (LKQ) has sought re-commencement of the negotiation for the Free

Trade Agreement even as China gave the go-ahead for a batch of SL students to return to China to resume studies.

16. **Maldives.** Chinese Ambassador to Maldives, Wang Lixin, met the First Lady of Maldives, Fazna Ahmed, and briefed her on the festivities planned to mark the occasion of the 50<sup>th</sup> anniversary of the establishment of bilateral relations between the two countries. The speaker of Maldivian Parliament, Mohamed Nasheed, has warned against China's land grab and debt trap policy. Maldives and China signed a Certificate of assistance for Maldives Ministry of Foreign Affairs for the latter's infrastructure & training requirements.

## **Economy**

17. **Internal.** Facts support the slowdown in economic growth which is worrying China. National Bureau of Statistics data for Q1'22 showed China's economic growth at 4.8% (y-o-y) {Q1 growth in 2021 and 2020 was 18.3% (base effect) & - 6.8% (COVID19 impact) respectively}.

- **Mar'22 Economic Numbers.** Impact of zero COVID19 was visible in contraction in retail sales in Mar'22 for the first time since July'20. Manufacturing activity, as indicated by official and Caixin PMI, has shown contraction in Mar'22 with values as 49.5 & 48.1 respectively. Non manufacturing activity has also contracted with value as 48.4 in Mar'22. Even inflation in China is on the rise in Mar'22, with CPI rate of 1.5% (up from 0.9% in last two months). While China's Q1 foreign trade rose by 10.7% in yuan terms, Mar'22 figures indicate slowdown on external front as well. In the first two months of 2022, exports were up 13.6%, while imports grew by 13% in yuan terms. However, fall of imports in Mar'22 was due to unexpected factors in the international and domestic environment, combined with factors such as last year's high base.
- China's unemployment rate in urban areas grew by 0.1% points to 5.5% in Mar'22 from Feb'22. LKQ admitted that China faced challenges in job creation due to recent virus outbreaks and stated that the total number of new job seekers this year would reach 16.6 mn, including a record 10.6 mn university graduates.
- **Measures To Halt Slowdown.** As COVID restrictions and property downturn drag down economic growth, XJP called out for focus on infrastructure facilities (construction of waterways and railways, facilities for cloud computing etc) that were said to be conducive to China's industrial development and national security. Towards attaining food security amid zero COVID strategy and growing geopolitical tensions, China enlarged its list of state-sponsored seed breeding and production bases for the first time since 2013.

18. **External**

- Foreign investors have sold Chinese equities and bonds at a rapid pace over the past two months, while the yuan has come under strong depreciation pressure. The last time China experienced such severe capital flight was between 2015-17 and it was only halted by heavy capital controls and the release of forex reserves.
- **China-USA.** The US Securities and Exchange Commission (SEC) added the fifth batch of US-listed Chinese firms on its so-called provisional list for possible delisting.

A total of 17 US-listed Chinese firms were added to the list, including BEST Inc and Li Auto Inc. So far, the SEC has added five batches of Chinese firms on the provisional list, citing the Holding Foreign Companies Accountable Act, which came into effect in Dec'20.

## **Internal**

19. A number of cities went into lockdown in Apr'22 due the largest COVID-19 outbreak in China since 2020. The restrictive policies in Shanghai saw pushback from some residents who complained against the arbitrary nature of the policies, immense food shortages, loss of income, the poor state of quarantine and hospital facilities, the separation of parents and children, etc. Party has been at pains to defend Zero Covid policy, which has come under criticism repeatedly this year.

20. **Tibet and Xinjiang.** An 81-year-old man in Sichuan died from self-immolation to protest against Chinese policies in Tibet. This follows the self immolation of Tsewang Norbu, a Tibetan pop singer in Lhasa before the Two Sessions in Mar'22. China ratified two International Labour Organization (ILO) conventions on forced labour may be with a view to give a push to the investment deal talks with the EU.

## **Military**

### 21. **New Equipment / Induction**

- **Prototype Helicopter with Innovative Designs.** China has reportedly developed a prototype of next generation high speed helicopter, details of which have not been disclosed.
- **Third Aircraft Carrier.** PLAN released a promotional video on China's aircraft carrier program, which indicated resumption of work and likely launch of the third aircraft carrier by end 2022.

### 22. **Training & Misc**

- **Mountain Offensive Exercise.** An undisclosed formation from the Xinjiang Military District (XMD) undertook a mountain offensive exercise in the Kunlun hinterland to assess efficacy of PLA's combat support equipment.
- **Integrated Training.** The Eastern Theater Command conducted an integrated training of destroyers, frigates, bombers and fighters in the East China Sea. The exercise coincided with the US lawmakers delegation visit to Taiwan.
- **Invisibility Cloak.** Chinese scientists have created an 'invisibility cloak' that can help hide equipment from spy satellites. It can be used over a wide range of items such as tanks, artillery, radar stations etc.
- **National Forum on Aerospace Security and Development.** The PLA Air Force held a forum on National Aerospace Security and Development which focused on topics such as future warfare, war command and capabilities improvement.
- **AI Exhibition by Joint Logistics Support Force.** PLA Joint Logistics Support Force reportedly organised an exhibition of unmanned intelligent equipment systems to promote AI driven systems for enhanced combat efficiency.

- **Aerial Incursions in Taiwan's ADIZ.** Eight Aerial incursions by Chinese aircraft were reported during the month, wherein a total of 55 aircraft intruded into Taiwan's Southwest ADIZ. Flights of the Y-8 ASW aircraft remain conspicuously absent from the near-daily intrusions, after last month's crash of the aircraft. However, China has yet to publicly acknowledge this loss.

### 23. **Defence Engagement/ Cooperation**

- **China-Cambodia.** A key defence agreement is reported to have been signed through video conferencing, the details of which have not been made public.
- **China – Serbia.** China is reported to have delivered three surface-to-air missile systems (FK-3) to the Serbian military using Y-20 transport aircraft.

### **Technology**

24. China has set a new record in terms of distance (102.2 km) for sending quantum enabled secure signals over a fibre cable at a transmission rate of 0.54 bps. China established its first metaverse culture laboratory to promote the study and development of the growing metaverse space. China is reportedly developing an AI system that could convert low-cost commercial satellites, already orbiting the Earth, for acquisition of information.

### **Space**

25. During the month, China conducted five launches and launched ten satellites. Chinese engineers claim to have developed a space based laser communication system that allows satellites to communicate over long distances at significantly faster speeds. China has set up a satellite data centre in Hainan to serve as an important hub for international exchange and cooperation in the field of satellite data and its application. China claims to have built OntoCSA4Sat, a new cyber defence system that is capable of automatically detecting security weaknesses in orbiting satellites.

### **Social Media**

26. Chinese social media was dominated by audio-visual content from the lockdown in Shanghai. A video called 'Voices of April' that highlighted the struggles of residents went viral and was removed later. Chinese netizens also began to use state media initiated hash tags directed at US to highlight the situation in Shanghai which led to the eventual removal of these hash tags as well. Authorities resorted to geo-locating posts related to Shanghai epidemic, claiming that it was intended to avoid rumor mongering. On Qingmingjie (Tomb Sweeping Day), Chinese state media released emotional videos on the 'martyrs' of Galwan while Provincial Museums and multiple prominent social media accounts praised the 'sacrifices' made by the Galwan 'heroes'.

### **Overall Assessment**

27. While EU is getting louder in chastising China for its perceived support to Russia in

the ongoing crisis in Ukraine, the strategic dilemma that EU faces is increasingly coming in to focus as it re-calibrates its approach towards China.

28. The economic outlook for Mar'22 indicates a slowdown in China's economy. Manufacturing and non-manufacturing activities have contracted while inflation and unemployment figures have risen. The measures to control the economy, brought out by XJP, point towards continuation of China's reliance on government led growth. China's decision to ratify the ILO conventions comes ahead of a visit by United Nations Human Rights chief Michelle Bachelet. The measures imposed in Shanghai to curb COVID 19 resulted in some backlash against the government in the social media.