

CONSOLIDATED MONTHLY REPORT: MAY 2022

International Relations

1. **South China Sea (SCS)**. China appears to be bolstering its infrastructure on Subi Reef with new construction observed in open source satellite imagery. Indonesia is looking to turn its Natuna Islands in the SCS into an SEZ to reinforce maritime security and entice investment in the local fishing and tourism industries. Indonesia may conduct a joint exercise, *Garuda Shield*, with the US in the Natuna Islands in early August, which could elicit protests from China, considering the proximity to the Nine Dash Line. Meanwhile, China's announcement of its annual unilateral fishing moratorium, for three months, in the SCS, has drawn vigorous protests from Vietnam.
2. **Taiwan**. Even as Taiwan looks to the US for supplies of weapons, which could be delayed on account of supplies to Ukraine, President Biden has stated that the US was willing to get involved militarily to defend Taiwan, in the event of China using force to take over Taiwan.
3. **Japan**. The Japanese parliament has passed an economic security bill, which includes strengthening supply chains for important materials, protection of non-public specific patents while empowering the administration to control imports / exports and adjust resource supplies. The legislation appears to be targeted at mitigating risks from China.
4. **Russia**. While China continues to tacitly support Russia in the ongoing crisis in Ukraine, Chinese technology companies are quietly pulling back from Russia, most likely under pressure of US sanctions. On the other hand, Russian export of natural gas to China increased by 60 % in the first four months of this year indicating the continuing strength of this relationship.
5. **Central Asia**. The Chinese embassy in Kazakhstan has reportedly issued a security risk alert to Chinese companies advising them to closely monitor the worker unrest across the country. Earlier a Chinese road project witnessed workers downing their tools amid accusations of poor working conditions and salaries. China's thrust on infrastructure projects in the region continues with the China – Kyrgyzstan - Uzbekistan railway project receiving support from Uzbekistan.
6. **EU**. President Xi Jinping (XJP), in separate conversations with President Macron and Chancellor Scholz, urged EU to take their security issues “in their own hands”, an idea that the Chinese have been propagating from the onset of the Ukraine crisis. It is a not too subtle attempt to wean EU away from the US and weaken the trans-Atlantic alliance. At the same time, XJP also pushed for EU to accept the Global Development Initiative (GDI) and his recent espousal of the Global Security Initiative (GSI). Interestingly, UK's cooperation with China, in new fields like Hydrogen Energy etc, has found steam with the recently held China-UK Hydrogen Energy Cooperation Forum.
7. **USA**. US State Department's quiet removal of statement that the US “does not support Taiwan independence” from its fact sheet on Taiwan elicited the obvious angry retort from China. The US seems fixed on a trajectory of constraining China with sanctions on

Hikvision, a surveillance-technology giant, which are potentially the harshest measures so far against a major Chinese company.

8. **Pacific Islands.** China's attempt to gain greater influence in the Pacific Islands has seen a boost with the ongoing visit of the Foreign Minister, Wang Yi (WaYi), to eight countries in the region. Reports of attempts to negotiate security pacts, in line with the agreement signed with the Solomon Islands in April this year, have been rife in the media. Concurrently, China has issued a Position Paper on "Mutual Respect and Common Development" with the Pacific Island countries. However, China's efforts to get a security agreement signed during the visit failed.

Neighbourhood

10. **Afghanistan.** China attended the meeting of SCO's Regional Anti-Terrorist Structure (RATS), hosted by India, wherein, Afghanistan was a major issue of the discussion. National security advisers and secretaries from China, India, Iran, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan attended the fourth Regional Security Dialogue on Afghanistan in Dushanbe.

11. **Pakistan (Pak).** China has demanded setting up of military outposts in Pak for the safety of its citizens. Optima Integration Group of China has signed an agreement with a Pak firm to make an investment of USD 50 mn in Gwadar for an end-to-end supply chain facility for the export of seafood to China. Pak's export to China crossed USD 1.039 bn in the quarter ending Mar'22, registering nearly 17% increase. Chinese power companies, operating in Pak, have demanded that Pak authorities clear their outstanding dues of USD 1.6 bn. Chinese Premier Li Keqiang (LKQ) had a telephonic conversation with Pak PM Shahbaz Sharif in which LKQ expressed concerns over the recent terror attack on Chinese citizens in Karachi. Pak's FM Bilawal Bhutto Zardari made a two day visit to China and discussed bilateral issues with WaYi.

12. **Nepal.** The 14th meeting of the Nepal-China Diplomatic Consultation Mechanism was held virtually on 15 May' 22. The Chinese built Gautam Buddha International Airport in Nepal's Lumbini Province was inaugurated during the month. Nepal's Ambassador to China raised the issue of giving full membership of the SAARC to China during a hearing of a Parliamentary Committee. XJP congratulated Nepal for successful culmination of local body elections.

13. **Myanmar.** China and Russia reportedly blocked the UN Security Council from issuing a statement on the crisis in Myanmar. Myanmar began administering locally filled-and-packed doses of China's Sinopharm vaccines.

14. **Bangladesh (BD).** BD has sought USD 938.27 mn in loan from China to implement the Teesta River Comprehensive Management & Restoration project even as it unilaterally decided to cancel China's funding for a railway project. Due to the COVID-induced lockdown in Shanghai, many major infrastructural projects in BD are facing supply chain strain. A tax evasion case has again emerged against a Chinese company Sino Kemmed Trading Co. in BD.

15. **Sri Lanka (SL)**. China has decided to provide USD 44.5 mn loan to SL amid economic crisis. However, China remained non committal on the SL's request of restructuring of SL debt to China. In another case, Chinese envoy to SL stated that a sum of USD 76 mn will be granted soon to SL. Chinese embassy's ration distribution to the SL Foreign Ministry witnessed widespread outrage in SL.

Economy

16. **Internal**.

- **China's Economic Performance**. China's zero COVID-19 strategy was held responsible for weak economic data for Apr'22. LKQ urged local government officials to immediately take action to "stabilise" the situation in China amid anger over the fallout from its commitment to zero COVID strategy. Nomura estimates reduction of about USD 895.5 bn in revenues due to tax refunds, weaker economic production and lost land sales revenue. To support the economy, over USD 502.2 mn worth of consumption coupons were distributed to residents of 20 Chinese provinces and municipalities in Q1'22, amid low mobility caused by COVID-19 outbreaks.

- The National Immigration Administration has unveiled measures to facilitate production and operations for foreign-related businesses, in the latest push to steady and smooth supply chains and stabilise the foreign trade and investment landscape amid China's COVID-19 containment efforts.

- The Chinese yuan has been awarded a higher weight in the International Monetary Fund's (IMF) five-yearly review of the special drawing rights currency basket, which has increased to 12.28% (1.36% points higher than the 2016 assessment).

17. **External**.

- **China-USA**. President Biden stated that US would consider removing tariffs on Chinese goods in an effort to reduce the price of goods in the US.

- **India-China**. For FY'22, US surpassed China as India's largest trading partner with bilateral trade at USD 119.4 bn and India China trade at USD 115.4 bn during the period. Chinese media explained the development attributed to different statistical standards. In another development, India's anti-money laundering agency in Apr'22 seized assets worth about USD 725 mn from the local bank accounts of Chinese smartphone vendor Xiaomi for allegedly breaching the country's foreign exchange laws.

Internal

18. **Party / Government**. The National People's Congress (NPC) standing committee held a meeting chaired by Li Zhanshu to review a draft amendment to the Anti-monopoly Law and a draft amendment to the procedural rules of the NPC Standing Committee. Li Xi, a loyalist of XJP, was re-elected as Secretary of the Guangdong Provincial Committee of the CPC, and is likely to get inducted into the Politburo Standing Committee at the 20th Party Congress.

19. **Chinese Youth League (CYL).** XJP delivered a speech on the 100th anniversary of the founding of the CYL of China, stressing the role of youth in driving China's goals. Hundreds of students protested at the weekend on the campus of Peking University after a fence was put up segregating them from the rest of the university restricting their movement as an anti-COVID measure.
20. **Anti- Corruption.** Sun Guofeng, 49, head of monetary policy at the People's Bank of China, is being investigated for "serious violations of discipline and the law" by the Central Commission for Discipline Inspection, CPC's top anti graft watchdog.
21. **Tibet.** During his visit to Gansu's Gannan Tibetan Autonomous Prefecture, Wang Yang, Chairman, National Committee of the Chinese's People's Consultative Conference and a member of the Standing Committee of the Political Bureau of the CPC Central Committee, stressed on the importance of advancing high-quality development and ensuring lasting stability in China's prefectures and counties with large Tibetan populations.
22. **Xinjiang.** United Nations High Commissioner for Human Rights Michelle Bachelet visited China's Xinjiang province during the month amid reports of human rights abuses in the province.
23. **Hong Kong.** John Lee, was officially designated the winner in Hong Kong's sixth Chief Executive poll. A known Beijing loyalist, he comes from police background, and was also the Chief of Security of Hong Kong.

Military

24. **New Equipment / Induction**
- **Operational Plan Assessment System.** The PLA has reportedly developed a digital platform known as the "*Army Combined Arms Unit Operational Plan Simulation and Assessment System,*" for optimising combined arms operational planning.
 - **Drone Ship.** China has launched a huge 'drone ship,' ostensibly designed for marine research purposes. The vessel, which is claimed to feature an advanced AI operating system that allows for at least semi-autonomous operation, could also be employed in military context as a hub for various unmanned weapons and surveillance systems.
25. **Training & Misc**
- **Far Seas Training / Integrated Exercise.** As part of the far seas deployment, China deployed eight ships, including the aircraft carrier *Liaoning*, 180 nm East off Taiwan. The aircraft carrier conducted approx 300 training sorties of J-15 and other aircraft during the exercise.
 - **Air Assault Exercise.** PLA Navy Marine Corps conducted an air assault training exercise at an unknown location. The exercise included day / night flying and emergency drills by helicopter.

- **Second Bridge over Pangong Tso.** As per open source satellite pictures, China has commenced construction of 10 m wide and 450 m long second bridge over Pangong Tso.

- **Taiwan's ADIZ Incursion.** During the month, 22 incidents were reported wherein 119 Chinese aircraft intruded into Taiwan's ADIZ. This included a 30 aircraft package (six J-16 , eight J-11, four J-10, two KJ-500, one Y-8 anti-submarine aircraft, one Y-8 electronic warfare and surveillance aircraft, four Y-8 ELINT, two Su-35 and two Su-30) which entered the Taiwan ADIZ on 30 May 22.

26. **Defence Engagement/ Cooperation**

- **China-Oman.** Wei Fenghe, China's minister of defence held talks with Omani officials in Muscat wherein both sides pledged to strengthen their strategic partnership and include joint military cooperation.

- **China Russia.** The air forces of the two countries carried out the fourth joint air patrol in the Western Pacific.

- **China - Gulf of Guinea Countries.** The Chinese navy hosted a webinar on the maritime security situation in the Gulf of Guinea. Leaders / representatives from the navies and coast guards of 19 countries around the Gulf, and the heads of the Inter-regional Coordination Center for the maritime security in the Gulf participated in the webinar. The reported aim of the webinar was to implement the GSI towards strengthening maritime security cooperation with countries from the Gulf of Guinea.

Technology

27. China Telecom unveiled a smartphone (Tianyi No.1 2022) which uses quantum tech to ensure that the user chat on the device is not hacked. Chinese scientists have developed a mechanism that facilitates quantum teleportation between nodes in a quantum network that do not neighbour each other, paving the way for complex network configurations. China released a draft "*Technical Guideline on Personal Information Cross-Border*" which provides some clarification regarding the certification process for cross-border transfer of personal information.

Space

28. During the month, China conducted four launches, including one failed launch and one launch for supplying their space station, and launched eleven satellites. The BRICS Joint Committee on Space Cooperation was officially launched, opening a new chapter on cooperation in the remote sensing satellite observation and data sharing fields. Chinese military researchers have published a study calling to develop capabilities which could disable Elon Musk's Starlink satellites (soft / hard kill) if they threaten national security. A surveillance team at China's Jiuquan Satellite Launch Centre reported that they found a jamming device, installed in a car outside the base, which can interfere with navigation systems of a space rocket.

Social Media

29. Luo Changping, a Chinese online celebrity and journalist, was sentenced to seven months imprisonment in Hainan Province, China. Luo, who has more than 2 million followers on China's Twitter-like Sina Weibo, allegedly posted humiliating remarks on Chinese People's Volunteers martyrs and their families in October 2021 in context of then newly released patriotic movie *The Battle at Lake Changjin*. Chinese netizens promoted a conspiracy theory on social media blaming the US for creating and leaking the monkey-pox virus currently spreading around the world.

Overall Assessment

30. The US is clearly beefing up its support to Taiwan, not just through supplies of weapons and statements by leaders but also in policy. China's attempts to engage France and Germany bilaterally, as opposed to its engagement of these countries in the EU, continued. Despite China's best efforts, due to existing concerns, EU, especially Western Europe may not be too enthused with the GDI and GSI. China's attempts at boosting relations with countries in the Pacific Ocean are marked by a focus on pushing the concept of 'common, comprehensive, cooperative and sustainable security' as also dovetailing the OBOR with regional cooperation initiatives. There has been a distinct increase in flights to the SE of Taiwan, by Y-8 ASW and H-6 bombers, possibly for operations with the *Liaoning* aircraft carrier group, which was deployed to the East of Taiwan during the month.

31. Sun Guofeng's investigation is the latest sign that Beijing's sweeping disciplinary crackdown on the nation's financial sector has accelerated at the upper levels of the central bank. Awarding of higher weight by the IMF will definitely enhance the role of the Chinese currency in global markets and further accelerate its internationalisation. Protests, like the one at Peking University, come as XJP seeks to eliminate public dissent, especially criticism of his flagship Zero-COVID policy, ahead of the 20th Party Congress later this year, when he will seek a third term in office.