

CONSOLIDATED MONTHLY REPORT: JULY 2022

International Relations

1. **South East Asia**. In the meeting of the Foreign Ministers of the Lancang Mekong Cooperation (LMC), in Myanmar, the Chinese pledged to share more data on the Mekong River with downstream nations. In his address to the ASEAN Secretariat, the Chinese Foreign Minister Wang Yi (WaYi) underlined the need to “*insulate the region from geopolitical calculations and the trap of the law of the jungle, from being used as chess pieces in major-power rivalry*”.
2. **South China Sea (SCS)**. China continues to consolidate its military posture in the region with the creation of permanent facilities for Search and Rescue in the Spratly Islands even as the US deployed an aircraft carrier group and flew EW aircraft mission.
3. **Indonesia**. Notwithstanding its differences with China in the Natuna Sea, Indonesian engagement with China appears to be getting a boost with the President visiting China close on the heels of the meeting of the China-Indonesia High-level Dialogue Cooperation Mechanism. The leverage exerted by Chinese investment appears to be relegating Indonesian security concerns about China to the background, as it subscribes to the Chinese-sponsored Global Development Initiative (GDI) and dovetails its Global Maritime Fulcrum (GMF) with the One Belt One Road (OBOR).
4. **Taiwan**. Tensions on account of the visit of Nancy Pelosi, Speaker of the US House, to Taiwan, have resulted in lot of angry statements from the Chinese side, restriction on import of certain Taiwanese items and increased intimidatory military activity by China vis-à-vis Taiwan.
5. **Japan**. Incursions of Chinese vessels around Senkaku islands continued. A Chinese UAV was also detected crossing the Miyako Strait before patrolling the east coast of Japan and Taiwan.
6. **Africa**. Chinese diplomacy was quite active in Africa, with the Chinese special representative to Africa concluding an eight-nation tour of Rwanda, the Democratic Republic of Congo, Burundi, Congo-Brazzaville, Namibia, Madagascar, Mauritius and Seychelles. Meanwhile, the second China-Africa Peace and Security Forum Ministerial Meeting was concluded online.
7. **EU**. China’s attempt to improve the currently strained relations with EU is evident in reports of President Xi Jinping (XJP) extending invitation to the EU leaders for a meeting in China in Nov 2022. WaYi also held extensive meetings with his counterparts from EU on the sidelines of the G-20 meeting in Bali. US attempts to bring about a convergence in concerns about China led to an unprecedented joint address by the British MI5 Director General and FBI Director who warned about a growing threat posed by the Chinese Communist Party to US and British interests.

8. **USA.** The month saw a slew of engagements between the US and China, with meetings between General Li Zuocheng, Chief, Joint Staff Department of the PLA and General Mark Milley, Chairman, US Joint Chiefs of Staff, between the Chinese Foreign Minister and the US Secretary of State Antony Blinken (in Bali on the sidelines of the G-20), as also a phone call between President Biden and XJP. Nevertheless, tensions continue to haunt the relationship with the Chinese clearly expressing their discomfort with the competition approach adopted by the US.

Neighbourhood

9. **Afghanistan (Afg).** China claimed completion of aid worth USD 37.5 mn even as China's Special Envoy, Yue Xiaoyong, met the Pak Foreign Secretary to discuss the political and security situation in Afghanistan. A Uyghur separatist group has reportedly rebuilt bases in Badakhshan, Northeast Afghanistan.

10. **Pakistan (Pak).** China asked Pak to allow deployment of its private security companies for the protection of its projects and workers, which Pak refused. Chinese built Karot hydro power plant (CPEC project) became operational. Chinese investors have sought to maintain their bank accounts in Gwadar SEZ in RMB due to fast depreciation of Pakistani Rupee.

11. **Nepal.** China's head of International Liaison Department, Liu Jianchao visited Nepal and met PM, FM and the leaders of communist parties (apparently to attempt unification of communist forces). China and Nepal have agreed to initiate bilateral mechanisms to solve border issues, including joint inspection.

12. **Bangladesh (BD).** China's top legislator Li Zhanshu conducted virtual meeting with the speaker of BD Parliament for enhanced parliamentary exchanges. China has proposed to build the Dhaka-Chattogram Expressway.

13. **Sri Lanka (SL).** Amid political upheaval and economic crises, China has remained non committal on SL request for a billion dollar loan, while it continues its aids like donation of 10,000 metric tons of rice for SL school lunch program. XJP has offered his support to the newly elected SL President even as Yuan Wang 5, a Chinese satellite tracking ship, is expected to dock at Hambantota port from 11 to 17 Aug' 22.

14. **Bhutan.** Bhutan FM Tandi Dorji has assured that India's interests will be preserved on the Doklam issue, while finalising any border agreement between Bhutan and China. The recently constructed Chinese villages in the disputed territory between China and Bhutan have been fully occupied.

Economy

15. **Internal.**

- Official economic numbers for Q2'22 showed a growth of 0.4% on yearly basis, down from a growth of 4.8% in Q1'22 mainly on account of impact of COVID controls. With

H1'22 economic growth of 2.5% (y-o-y), media reports suggest that China is expected to miss its 2022 target of 5.5%. The IMF July'22 report has downgraded China's growth by 1.1% to 3.3% in 2022 and by 1.3% to 4.6% in 2023.

- Amid economic slowdown, China is adopting supportive measures for the real estate sector as evident through the announcement of a real estate fund worth USD 44 bn to help debt laden property developers. China has also indicated that it will set up infrastructure investment fund worth USD 75 bn by Q3'22 to push infrastructure led growth.
- For H1'22, bad loans increased by almost CNY 107 bn reaching CNY 3 tn. The problem is severe in case of small to medium sized lenders who account for 29% of banking sector's total assets.
- An estimated thousand people protested at the local branch of People's Bank of China in Zhengzhou after a reported USD 5.9 bn scam involving five rural banks in Henan and Anhui.
- China's debt woes continue to grow with China Railway's debt nearing USD 900 bn under expansion push.

16. **External.**

- **China-USA.** From the beginning of the trade dispute in July 2018 to the end of 2021, US businesses paid more than USD 32 bn in tariffs to import Chinese technological products. In light of US's highest inflation rate in 40 years, the Consumer Technology Association argued for the removal of tariffs on consumer technology products and inputs. In a contradicting development, President Biden has received over 400 requests calling on the government to maintain all "Section 301" tariffs imposed by the former President Trump on China, which cover a value of CNY 370 bn.
- **India-China.** As per India's official data, India's total imports from China increased by nearly 29% in the past five years (from USD 89.7 bn in 2017-18 to USD 115.4 bn in 2021-22). In Apr'22 and May'22, India's exports to China declined by 31%, while imports grew by 12.7%.

Internal

17. **Xinjiang.** XJP visited Xinjiang for the first time in eight years to signal victory against '*separatism*' in the region.

18. **XJP Study Workshop.** CPC organised a study workshop on "Learning the spirit of General Secretary Xi Jinping's important speech and welcoming the 20th National Congress of the Communist Party of China" for provincial and ministerial level cadres. XJP spoke about the economic risks facing the country and stressed on 'self-revolution' of the party.

19. **Shanghai data leak.** A hacker reportedly sold more than 23 terabytes (TB) personal information of one bn Chinese citizens procured from the Shanghai police for 10 bitcoin, equivalent to about USD 200,000. It appears that the leak was due to the poor security practices followed by the Shanghai police.

20. **Relaxation of Hukou.** The National Development and Reform Commission announced the relaxation of hukou for cities with less than 3 mn people. However, in cities with more than 5 mn population, there is no change to the policy except directions asking the local government to improve their hukou points systems.

21. **Li Zhanshu Visit to Tibet.** Li Zhanshu, Chairman, National People's Congress Standing Committee, an XJP ally, conducted a study tour of Tibet reportedly related to 'ecological protection'. He visited residential communities, the Potala Palace and temples and delivered speeches on the need to follow CPC's ethnic and religious policies for the long-term security of the nation.

Military

22. **New Equipment/ Induction.**

- **Hypersonic Flight Simulation.** Chinese researchers simulated flight of a hypersonic vessel launched from Jinan to New York via Arctic Ocean using Beidou navigation system.
- **Type 039C Submarine.** Online images reveal that PLAN has commissioned a type 039C conventionally powered submarine with new fin design.
- **Gravity Detector.** China is developing gravity detectors which may be used for underwater navigation, mobile missile launch and which could aid in aerial detection of underwater submarines. Other civilian applications may include geological exploration, earthquake detection and groundwater monitoring.
- **Rocket Engine Demonstration.** Researchers demonstrated a kerosene combined cycle ramjet / rocket engine capable of smooth transition between at least four different propulsion configurations.

23. **Training & Misc.**

- **Joint Training by Amphibious Brigade.** An amphibious brigade under the PLA 74th Group Army recently participated in a joint exercise with the navy landing ships to validate its combat capabilities related to embarkation / disembarkation, long-distance ferrying and assault landing.
- **Joint Training by PLA Aviation Brigade.** A PLA Army Aviation Brigade under XMD carried out joint operations with special forces. Deviating from the earlier precedence, Z-10 were also utilised to support patrol missions and provide air support to ground forces.
- **Ex Sea Guardian - 2022.** The exercise was carried out between China and Pakistan off Shanghai in two phases. Three ships, one submarine, one early warning aircraft, two fighter jets and one helicopter from PLAN and the Frigate Taimur, from Pakistan Navy, participated in the exercise.
- **Pilot Training.** The first batch of cadet pilots, who were trained on J-10 aircraft under a new model training program have graduated recently.

- **Live Exercise.** PLA conducted live firing exercises near Pingtan islands off Fujian province which can be attributed to the visit of Nancy Pelosi to Taiwan.
- **ADIZ Incursion.** 22 aerial incursions by PLA aircraft were reported during the month, wherein a total of 70 aircraft intruded into Taiwan's ADIZ. In one of the incidents, PLA's reconnaissance drone went unnoticed around Taiwan, exposing loopholes in their air defence system.

Technology

24. China launched an AI based solution for electricity distribution that can restore power in three seconds, compared to 10 hours before. China's FH-95 medium-range, armed reconnaissance drone completed a performance test that examined its ability to conduct complex combat missions, including battlefield reconnaissance, electronic warfare, and precision strikes.

Space

25. During the month China conducted five launches and launched 12 satellites. BDS-3's short message communication services have moved from industrial to public use and can supplement the ground mobile communication network in areas without ground network coverage. China is building "China Fuyan", a high-definition deep-space active observation facility, for monitoring near-Earth asteroids and understanding the Earth-Moon system.

Social Media

26. Chinese social media was filled with stories and outrage over the Henan bank scandal, the fine imposed on Didi and the Shanghai Data leak, which were all quickly removed. Another topic that went viral was the death of former Japanese Prime Minister, Shinzo Abe – with Chinese ultra nationalists celebrating the assassination as they see Abe as a right wing leader who championed Japan's invasion of China. Trending topics on Weibo included "Capture Tsai Ing-wen alive", "Taiwan implements Socialism" and "One Country, One System". A number of netizens' comments expressed disbelief that China had not gone to war as they expected and cynical jokes about China's perceived weaknesses. With respect to India, there were mentions of the new Indian President Droupadi Murmu as well discussion on IT raids at Vivo offices in India.

Overall Assessment

27. A perception of the US changing its 'One China' policy, in its current approach to Taiwan, has increased frictions between the two countries with the visit of Nancy Pelosi to Taiwan, adding the proverbial fuel to the existing fires. While no direct military action was taken by the PLA, however, they seem to be increasing military exercises in / near Taiwan's airspace and in its maritime territory. In the recent past there has been a distinct increase in China's engagement with African countries. XJPs visit to Xinjiang and his earlier trip to Hong Kong (June 2022), can be seen as projecting his successes ahead of the 20th Party Congress. The reform in the hukou system is expected to have very little ground level impact since cities with less than 3 mn population are not the major drivers of China's

economy.

28. Besides the impact of COVID19 strategy, spreading housing crisis and rising bad loans have been worrisome for China on the economic front. Its Zero COVID strategy has adversely impacted both consumer and corporate sentiments. The Henan banking scandal not only shows the precarious state of rural banks in China but also the lack of public's confidence in governance and economic stability.