



CENTRE FOR CONTEMPORARY CHINA STUDIES (CCCS)
CONSOLIDATED MONTHLY REPORT: FEBRUARY 2023

International Relations

1. **South East Asia.** High level engagement between China and the region continued with the visits to the former by the Cambodian Prime Minister, Thai Deputy Prime Minister alongwith his Foreign Minister (FM) and Singaporean FM. In the face of increased Chinese aggression in general, and a recent diplomatic row between the two countries arising out of Chinese Coast Guard's use of military lasers on a Philippine Coastguard vessel in South China Sea (SCS) in particular, Philippines continued strengthening its defence capabilities with measures like granting US access to four additional military sites under the existing Enhanced Defence Cooperation Agreement and signing Visiting Forces Agreement with Japan. Philippines and the US are also considering joint coastguard patrols, including in the SCS. On the other hand, China and Indonesia are deepening their cooperation, especially in trade and investment, which was emphasised in the Chinese FM visit to Indonesia and a recent meeting of the Joint Commission on Bilateral Cooperation between the two countries.
2. **Taiwan.** The island received Parliamentary delegations from Paraguay, Finland, Switzerland, the US and St. Lucia. Taiwan and the US continued bolstering security ties with the US visit of Taiwan's Foreign Minister and National Security Council Secretary. Cross-strait exchanges included Wang Huning, member of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee, meeting Andrew Hsia, Vice Chairman of the Chinese Kuomintang (KMT) party, in Beijing while Li Xiaodong, Deputy Head of the Shanghai office of China's Taiwan Affairs Office, visited Taipei for the Lantern Festival, at the invitation of the city government.
3. **Japan.** After the Chinese spy-balloon row in the US, China-related security concerns have grown in Japan as the island-nation has reported similar unidentified flying objects above its territory over the past three years, even as intrusions by the Chinese navy, in the form of a survey vessel continued. Japan joined Netherlands and the US in tightening export restrictions on shipments of chip-making tools and technologies to China. These issues were also discussed during the Sino-Japanese security talks, which were held after four years.
4. **West Asia.** China continues to court Saudi Arabia **to agree to oil trading in Yuan and also to help speed up efforts for China-GCC Free Trade Zone.** The balancing act by China in the region could be seen with Iranian President Ebrahim Raisi's recent tour to China, where the two countries agreed to accelerate bilateral cooperation in sectors like defence and trade. China also showed its willingness towards pursuing Iran's membership in the BRICS.
5. **Ukraine.** China has issued a position paper on the '*Political Settlement of the Ukraine Crisis*' which highlights that sovereignty, independence and territorial integrity of all

countries must be effectively upheld. It emphasised that the legitimate security interests and concerns of all countries must be taken seriously and also called for a balanced, effective and sustainable EU security architecture.

6. **EU.** The EU warned China over the Ukraine issue with its foreign policy chief, Joseph Borrell, stating that it would be a “**red line**” for the EU if China sends arms to Russia. Concerns over China’s actions continue to plague EU with Norway’s domestic intelligence service warning that Chinese investment in businesses and properties in the High North may form part of its espionage and influence efforts focused on the Arctic. Chinese worries about losing access to semiconductor technology were apparent in the Chinese FM’s discussions with his Dutch counterpart where he underlined the need to keep international industrial and supply chains stable.

7. **Australia.** Amidst talks for resetting the trade relationship with China, Australia remains cautious of data breach and Chinese interference, as was evident by its action to remove Chinese made security cameras from all government offices.

8. **US.** The recent shooting down of the suspected Chinese weather / spy balloon by the US saw the US-China bilateral relations going southward, leading to cancellation of the visit of the US Secretary of State to China and another round of sanctions by both countries against each other. However, the US Secretary of State met Wang Yi at the Munich Security Conference where both sides reiterated their concerns about each other.

9. **Africa.** Chinese Vice Premier Sun Chunlan visited South Africa during the month. China refuted World Bank’s accusation of China delaying Zambia’s debt restructuring negotiation and instead accused Western financial institution for the current problem. Chinese investment under OBOR in sub-Saharan Africa saw a 54% drop in 2022 amid cut in financing for some big-ticket projects arising out of debt concerns. No new Chinese funding for African railway projects was announced in 2022.

Neighbourhood

10. **Afghanistan (Afg).** Islamic State-Khorasan (IS-K) has threatened to attack Chinese, Indian and Iranian embassies in Kabul, apart from publishing a book on Uyghur issues in China. China is expected to become the second largest trading partner of Afg (after Pakistan) in 2023.

11. **Pakistan (Pak).** The K-3 (Hualong No.1) nuclear power unit was inaugurated in Pak while CPEC’s 330 MW coal power plant (Thal Nova) commenced operations. Asian Development Bank made its second offer to partially fund CPEC’s ML-1 project, however, China has reportedly not yet agreed to the terms of the financing. China Harbour Engineering Company is likely to commence de-silting operations at Gwadar Port. Pak’s seafood exports to China increased by 42% in 2022. China has rolled over its deposit of USD 700 mn with the State Bank of Pakistan on the existing terms. Pakistan Army has reported problems with China supplied CH-4 UAVs. Chinese company Wuhan Qingfa

Hesheng and Pak company Evyol group have agreed to jointly provide high-quality hybrid canola seeds for Pak farmers.

12. **Nepal**. China's new envoy to Nepal, Chen Song, increased political engagements, ahead of Nepal's Presidential elections. Sinohydro Corp and China Gezhouba Group Corp have been shortlisted for the Tamakoshi V hydropower project. Nepal Electricity Authority and the Chinese State Grid Corporation will hold the third round of discussions on cross – border transmission line. Chinese Language courses have re-commenced for Nepal's tourism professionals.

13. **Bangladesh (BD)**. China's apparel manufacturing company Handa Industries expressed interest in starting a man-made fibre factory in BD. High-level government officials, businessmen, investors from China will join the BD Business Summit' 23 to be held from 11-13 March. BD's largest exhibition of information & communication technology was partnered by Huawei.

14. **Myanmar**. A delegation from Yunnan Provincial Department of Commerce visited Myanmar. 126th Mekong River joint patrol commenced even as residents in Kachin demanded Chinese rare-earth mining companies to halt operations and leave.

15. **Sri Lanka (SL)**. China gifted and distributed 7 mn litres of diesel to farmers in Hambantota. EXIM - China has offered SL with a debt extension for two years and also expressed willingness to negotiate a medium and long-term debt disposal plan.

16. **Maldives (ML)**. China – ML Mutual Visa Exemption agreement came into effect this month even as China Southern Airlines announced plans to launch flights to ML. Hulhumale Hospital inaugurated the China-Maldives ophthalmology centre assistance and cooperation program.

Economy

17. **Internal**

(a) With various lending products available in the market, Chinese borrowers are taking advantage of the low interest rates to prepay mortgages or invest in stocks instead of buying goods.

(b) China's onshore debt market suffered the largest outflow in Jan'23, underscoring the relatively unattractive yields on Yuan-denominated debt as China keeps monetary policy loose to support growth.

(c) **Yuan Internationalisation**. For the first time, Iraq's trade (excluding oil) with China will be settled in Yuan though the impact is expected to be limited as trade in oil would be invoiced in US dollar only. Iran stated that "*certain part of exchanges in Iran's trade with China has been carried out in Yuan, since the beginning of the current Iranian year (21 March 2022)*". In another move, Brazilian central banks have signed an MoU on setting up Yuan clearing arrangements.

18. **External**

(a) **China-US**. The Chinese government has reportedly instructed state-owned companies to phase out contracts with KPMG, EY, Deloitte and PwC as authorities try to address security concerns and curb the influence of western-linked auditors. US has black-listed six Chinese entities (Beijing Nanjiang Aerospace Technology Co, China Electronics Technology Group Corporation 48th Research Institute, Dongguan Lingkong Remote Sensing Technology Co, Eagles Men Aviation Science and Technology Group Co, Guangzhou Tian-Hai-Xiang Aviation Technology Co, and Shanxi Eagles Men Aviation Science and Technology Group Co) over the Chinese spy balloon espionage episode. China meanwhile imposed sanctions and fines on Lockheed Martin and Raytheon on account of their involvement in selling arms to Taiwan.

(b) **China-Australia**. As a sign of further improvement in bilateral relations, the Australian government has approved a USD 1.4 bn iron ore project jointly developed by Australia's Rio Tinto and China's Baowu Steel Group. This is the biggest Chinese investment in Australia since 2019. The unofficial ban on Australian cotton is likely to be lifted in the near future.

Internal

19. **Development Pattern**. During the second group study session of the 20th CPC Central Committee Politburo, XJP stated that a "*new pattern of development*" is a strategic necessity to realise China's Second Centenary Goal.

20. **Covid-19**. XJP presided over a meeting of the Standing Committee of the CPC Central Committee Politburo on 16 Feb' 23 where he declared that China had achieved victory against Covid-19 and that the peak of the Omicron variant's infection was over.

21. **Second Plenum**. The second plenary session of the 20th CPC Central Committee, held from 26-28 Feb' 23, focused on the reform of Party and state institutions and a list of proposed candidates for the leading positions of state institutions which would be recommended during the Two Sessions in Mar '23.

22. **Tibet**. CCTV recently aired a TV series titled 'Tashilhunpo' which emphasised that the religious rituals applied in the search for the reincarnations of the Dalai Lama and Panchen Lama have been supervised by the Chinese central government and conducted within Chinese territory since the late 13th century. TAR plans to implement 1,337 rural revitalisation projects in 2023 including special focus on well-off border villages, with an estimated investment of approx. USD 2.15 bn.

23. **Xinjiang**. Xinjiang government plans to invest USD 12.3 bn in road construction in 2023. Erkin Tuniyaz, the Governor of Xinjiang, cancelled his controversial trip to Paris and Brussels after widespread concerns raised by European lawmakers and protests by activists.

24. **Hong Kong (HK).** HK's largest national security law trial opened on 06 Feb' 23 with 47 of the city's most prominent pro-democracy activists facing possible life imprisonment. HK courts will need the Chief Executive's permission before a foreign lawyer is allowed to take on a national security case and they will have to reject an application if the Chief Executive ruled against it. The border between HK and China fully reopened on 06 Feb '23.

Military

25. New Equipment/ Induction

(a) **Type 054 B Frigate.** Satellite imagery of Hudong shipyard, Shanghai indicates that PLAN is building a new frigate which is approx 147 m long, 18 m wide and has a displacement of 6000 T. The ship is likely to have electric propulsion, ship borne laser and high power microwave weapons.

(b) **Quadcopter Drone.** China has developed TJ-FlyingFish, a quad copter drone that can operate in air and underwater. The drone is currently a functional prototype.

(c) **Next-Gen Fighter.** AVIC released a promotional video displaying computer-generated clip of three unknown aircraft in formation. The diamond-shaped blended-wing aircraft, speculated to be China's next-generation fighter, has no canards, tails or fins.

26. Training, Exercises & Misc

(a) **Ex Mosi II.** South Africa hosted the second edition of 10 day joint military exercise 'Mosi II' which had participants from China and Russia.

(b) **Ex AMAN 23.** PLAN's guided missile destroyer *Nanning* participated in Pak's AMAN-23 maritime exercise.

(c) **Exercise Cobra Gold 2023.** China sent a PLA contingent from the Southern Theatre Command to participate in the Humanitarian Assistance Disaster Relief exercise in Thailand from 27 Feb to 10 Mar.

(d) **Escort Task Force.** The 43rd PLAN escort task force consisting of Type 052D destroyer *Nanning*, Type 054A frigate *Sanya*, and Type 903 supply ship *Weishanhu* took over duties in Gulf of Aden during the month.

(e) **L-15 Aircraft Export.** China has finalised a deal to export the domestically developed L-15 advanced trainer jet to the UAE. Latest Chinese aircraft including the Y-20 and the FC-31 stealth fighter were also displayed at the defence expo recently held in Abu Dhabi.

(f) **ADIZ Incursion.** During the month, Chinese aircraft intruded Taiwan's ADIZ on all days in varying numbers (total **325** aircraft). In addition to PLA aircraft, on an average three / four PLAN ships were observed daily off Taiwan during the entire month.

Technology

27. China became the third country after US and Canada to build a practical complete computer system using quantum technologies. Baidu Inc is working towards launching a

ChatGPT-style project called "Ernie Bot" in March 2023. Chinese scientists claim to have developed a hypersonic power generator to power future weapons.

Space

28. During the month, China conducted two launches and launched two satellites. Chinese private space company, CAS Space has opened a new industrial base rocket manufacturing facility at Guangzhou. China is searching for an AI based solution for removing space debris.

Social Media

29. Russian President Vladimir Putin's annual address to the Federal Assembly triggered online discussions about Russia, the Ukraine war, and China's position on the war. Online posts regarding social security contributions went viral in China. Senior citizens protested cuts to their medical benefits in Wuhan and Dalian cities and many hash tags related to the protests were taken offline by the State. German media reports about German Chancellor Scholz's meeting with PM Narendra Modi and discussion about joint cooperation in submarine construction garnered significant attention on social media.

Overall Assessment

30. There appears to be a perceptible hardening of stance by EU over China's role in the Ukraine crisis. China has been actively engaging various countries in the Gulf with the aim of getting access to the market and to internationalise Yuan. China seems to have re-structured debts owed to it from Pakistan and Sri Lanka, though what conditions may have been laid down for these countries is not known. XJP's call for a "new pattern of development" is interesting since till date his constant refrain has been that China has debunked the myth that "*modernisation means westernisation*" and that the Chinese model was an ideal paradigm for other developing countries to follow.

31. China's participation in Ex Mosi II is part of its efforts to project long distance deployment with the aim of securing its economic interests in the African continent. The sale of L-15 trainer aircraft and display of air assets at UAE indicates China's efforts at making inroads in the area are bearing fruit. China's decision to go for Ernie Bot, its own version of ChatGPT, is primarily because it wants to control the content that the AI based software churns out for the public.