



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

International Relations

1. **West Asia.** In the China-engineered talks held in Beijing, Saudi Arabia and Iran agreed to resume their diplomatic relations after a gap of seven years. China also has shown its willingness in hosting a summit between the Gulf Cooperation Council and Iran in Beijing later this year. Meanwhile, underscoring its growing military and political links with countries at loggerheads with the US-led West, China conducted a five-day joint training exercise with Russia and Iran in the Gulf of Oman.
2. **Central Asia.** In order to develop an international logistics platform and secure supply chains, Kazakhstan, China and the EU signed a memorandum of trilateral cooperation.
3. **South East Asia.** Amid China's aggressive activities in South China Sea, the China-Philippines Bilateral Consultation Mechanism held its seventh meeting. Meanwhile, in order to actively engage countries in the region, China conducted the Boao Forum for Asia which saw attendance by the Prime Ministers of Singapore and Malaysia as well as the ASEAN Secretary-General.
4. **East Asia.** In the wake of growing China-related security concerns, Japan and South Korea held their first summit after a gap of 12 years and also restored their military intelligence-sharing. Chinese coastguard vessels continued their intrusion around the Diaoyu / Senkaku islands in East China Sea. China's support to North Korea at international forums continues, as it recently scuttled US plan for holding an informal UN Security Council meeting on human rights abuses in North Korea.
5. **Taiwan.** The island saw visits of Parliamentary delegations from the US, Austria, Kosovo, North Macedonia, Romania and Czech Republic as well as that of Eswatini PM. Meanwhile, China's attempt to reduce the international diplomatic space for Taiwan saw Honduras severing its ties with Taiwan and establishing diplomatic relations with the PRC. Former Taiwan President Ma Ying-jeou became the first Taiwanese leader to travel to mainland China in eight decades.
6. **Australia.** With the resumption of Australian timber imports, the economic rapprochement between China and Australia seems to be making progress even as China continues to voice opposition to the AUKUS treaty.
7. **USA.** Continuing with its sanction policy, the US blacklisted a China-based network for supplying parts to an Iranian manufacturer selling drones to Russia and 17 Hong Kong-based firms for their role in a "shadow banking" system led by Iran. Meanwhile, a legislation

allowing the US President to ban the Chinese-owned video app TikTok nationwide, has been recently approved.

8. **Russia.** President Xi Jinping (XJP) visited Russia, where he clarified that the ties between China and Russia were “*not aligned, not confrontational and not targeting third parties*”. China also signaled more currency cooperation with Russia.

9. **EU.** This month witnessed visits of the Belarusian President and Spanish Prime Minister to China. While countries like Hungary and Belarus showed their support for China’s position paper for peace in the Ukraine war, Germany warned China about “*consequences*” if it sent weapons to Russia. The EU is gradually moving to reduce its economic dependency on China while accepting that complete decoupling is not possible. China expressed its concern over reports of Germany banning Huawei and ZTE from its telecommunications networks even as it threatened Netherlands over restriction on its exports of high-end chip technology to China.

10. **Africa.** Chinese presence in the infrastructure sector in Africa remains strong with the award of USD 650 mn road in Zambia to a Chinese firm, which had been cancelled last year on grounds of inflated cost of construction. Nevertheless, concerns over Chinese activity have manifested in protests against a Chinese supermarket in Kenya with allegations of counterfeit. Attacks on Chinese nationals have also continued in the continent, with the recent killings of nine Chinese labourers at a gold mine in the Central African Republic. China National Nuclear Corporation signed a deal with Uganda for optimising its Uranium reserves while China is constructing East Africa’s first nuclear plant in that country. Projecting itself as a voice for the Global South, China has again proposed membership of the G20 for the African Union.

11. **Other.** Advocating for the need of tolerance, coexistence, and mutual learning among different civilisations, XJP proposed the **Global Civilisation Initiative (GCI)** at the “CPC in Dialogue with World Political Parties” Meeting in Beijing.

Neighbourhood

12. **Pakistan (Pak).** The third round of Pak-China bilateral political consultations was held in Beijing. Pak received a rollover of USD 2 bn from China and it plans to spend USD 1.5mn on consultancy of ML-1 project. Chinese insurers have expressed unwillingness to insure new financing for CPEC power projects. Pak officials participated in a Seminar on China’s Poverty Alleviation Practices under the Global Development Initiative (GDI) at Beijing.

13. **Nepal.** Nepal and China agreed to fully resume cross border trade through Rasuwagadhi point. China added Nepal to its second list of outbound tourist destinations. Nepal’s PM flagged gaps in committed and actual investment from China. Nepal’s envoy to China is yet to secure appointment to present his credentials in Beijing.

14. **Bangladesh (BD).** BD is set to receive an investment of USD 8.7 mn from China's IHM Garments Company. Huawei donated smart classrooms in a college in Chandpur. BD-China Chamber of Commerce and Industry and BD Economic Zones Authority signed an MoU to promote Chinese investments in BD. Federation of BD Chambers of Commerce and Industry organised "BD Business Summit 2023", with China as one of the participants. Chinese built Sheikh Hasina Submarine Base was commissioned.

15. **Myanmar.** China and Myanmar resumed work on Muse-Kyaukphyu railway line even as the two countries agreed to develop Myanmar's first wind power projects.

16. **Bhutan.** Bhutan's PM Lotay Tshering stated that China has an equal say in resolving the Doklam plateau dispute. He also stated that negotiations on the tri-junction issue must be done with India's involvement, even as he expressed hope that Bhutan will be able to demarcate some of its boundaries with China in a "meeting or two".

17. **Sri Lanka (SL).** The 21st Annual General Meeting of the SL-China Business Council of the Ceylon Chamber of Commerce was held in Colombo. The SL cabinet granted approval for China's Sinopec to enter SL's fuel retail market while the People's Bank of China indicated renewal of its swap arrangement with the Central Bank of SL in 2024 for another three years.

18. **Maldives (ML).** China commenced construction on 150-hectare artificial island as an extension project to the existing Thilafushi island. ML plans to extend Sinamale Bridge maintenance contract to China Communications Construction Company. China is training ML's table tennis players for the forthcoming Indian Ocean Island Games 2023.

Economy

19. **Internal**

(a) China's economic activity accelerated in Feb'23 with key indicators (manufacturing and retail sales) recording a positive growth y-o-y due to opening up of the Covid-19 restrictions imposed previously and improved domestic demand. However, trade continued its downward trend in 2023 as external demand remained weak.

(b) The real estate continued to struggle with fall in real estate investment although home sales rose for the first time in 20 months in Feb'23.

(c) During the "Two Sessions" held on 04 Mar'23, China set targets for key economic indicators for 2023. **Growth rate was set at around 5%** (y-o-y) although it was acknowledged that achieving it would not be an easy task. **Deficit-to-GDP ratio was set at 3%** (y-o-y) which was 0.2 percentage points higher as compared to 2022, highlighting the use of fiscal policy to support economic growth. China also put an emphasis on **expanding domestic demand** as one of its key areas for driving economic growth.

20. **External**

- (a) **China – US.** As per a survey by the American Chamber of Commerce, China is no longer seen as one of the top-three markets for the majority of member companies. In 2022, the US approved about 70% of 40,000 export license applications involving China and clarified that the goal of the US was to protect national interest and not to completely decouple from China. With the aim to diversify supply chain and reduce dependence on China, Japan and the US are due to sign an agreement on trade related to critical minerals for EV batteries.
- (b) **China – EU.** Amidst calls from the EU to decouple from China, a report from the Kiel Institute for the World Economy stated that the decoupling will reduce Germany's GDP by 1% (y-o-y) in the long term.
- (c) **China – Australia.** The Australian government blocked China's Yuxiao Fund, the largest shareholder of heavy rare earths producer, from increasing its investment in Australia's Northern Minerals Ltd, citing national security issues.
- (d) **Yuan Internationalisation.** In continuation of efforts to increase the use of yuan in international transactions, China and Brazil have reached a deal to trade in their own currencies. China completed its first purchase of liquefied natural gas from the UAE using yuan.
- (e) **China - SL.** China offered a two-year loan moratorium to SL to relieve the latter from short-term debt repayment pressure.

Internal

21. **Two Sessions.** XJP was re-elected as President for the third time and Chairman of the Central Military Commission (CMC) at the 14th National People's Congress (NPC). XJP placed his loyal Party allies in all key State positions, including Li Qiang as the Premier of the State Council. At this closing speech XJP identified **economic recovery after the end of Zero Covid; unabated geopolitical tensions with the US; low agricultural yield; and de-risking the domestic financial sector as major challenges faced by China.**
22. **State Restructuring.** China carried out a number of reforms in the State structures at the Two Sessions, which included abolishing / weakening some Ministries and creating new Ministries.
23. **Key High-Level Visits.** Visits by senior Chinese leaders in Mar'23 indicate the Central Government's future course of action. XJP chose Russia as his first destination of 2023 while Premier Li Qiang visited companies in Hunan including electric car maker BYD Co. and Lens Technology Co, underscoring the role of the manufacturing sector as an integral part of China's real economy. In his maiden speech at the Boao Forum, Li Qiang promised to support businesses.
24. **Tibet.** A Mongolian boy raised in the US was named by the Dalai Lama (DL) as the tenth reincarnation of the Khalka Jetsun Rinpoche (KJR), the third highest spiritual leader in the Gelug sect and head of Tibetan Buddhism in Mongolia.

Military

25. New Equipment/ Induction

(a) **New Helicopters.** China is aiming to develop a 40-ton-class heavy transport helicopter and a 5th gen high speed helicopter with capabilities to include AI, IoT, and 5G. China is also planning to include aerial refueling and stealth capabilities in its future helicopters.

(b) **WS-15 Engine.** China has started mass production of WS-15 engine intended for the J-20.

(c) **Mooring Trials by Fujian.** PLAN's aircraft carrier Fujian reportedly made progress in its mooring trials ahead of its expected maiden voyage later this year.

26. Training, Exercises & Misc

(a) **Amphibious Assault Ex.** A brigade of the PLAN Marine Corps conducted an amphibious assault exercise which involved amphibious ships, helicopters, air-cushioned landing craft, all-terrain assault vehicles and light tanks.

(d) **Defence Budget.** China announced a yearly defense budget of USD 224.8 bn, marking a nominal 7.2% increase from the 2022 budget. This continues a recent trend of nominal yearly percentage increase in the defence budget.

(c) **Military Communications Network Development.** A member of the PLA delegation to the 14th NPC stated that that different armed services and branches should be integrated into a system via improved communications network. He also asked for AI to be integrated into command chains for making efficient and accurate decisions.

(d) **ADIZ Incursion.** 31 aerial incursions by Chinese aircraft were reported during the month, wherein a total of 333 aircraft intruded into Taiwan's ADIZ. In addition, on an average, three / four PLAN ships were observed daily off Taiwan during the month.

Technology

27. The Ministry of Science and Technology (MoST) would now play a bigger role in steering the pursuit of technological breakthroughs and it will be supervised by a new Party unit called the Central Science and Technology Commission. A Chinese research team has developed a new method for quantum communication, achieving secure communications over more than 615 km. Huawei Tech has reportedly developed an EDA tool used for chips larger than 14 nm. Chinese defence industry engineers claimed to have developed a low-cost fibre-optic gyroscope that can be mass-produced in an old-fashioned computer chip plant, speeding up the delivery of tactical missiles and other guided weapons.

Space

28. During the month China conducted seven launches and launched 14 satellites. It began construction of the first prototype of LM-9 rocket which is expected to be similar to SpaceX's Starship. Chinese scientists are developing medium / high-orbit quantum communications satellites, which combined with the low-orbit satellites, would form a wide quantum communications network.

Social Media

29. A few themes that were propagated and highlighted as hashtags in multiple posts on Weibo during the “Two Sessions” were: Taiwan; military advancement; technological self-reliance; and XJP as a powerful leader. The debate on the roots of the Covid-19 pandemic trended on Weibo after recent statements by the FBI. Discussions about China’s local authorities taking measures to encourage couples to have more children in light of China’s dropping birth rates garnered significant attention. Several posts raised concerns about China potentially losing its primary role in Apple’s manufacturing supply chain to India after reports that Apple supplier Foxconn Technology Group planned to invest about USD 700 mn on a new plant in India.

Overall Assessment

30. The developments in West Asia are a clear indication that China intends to replace the US as a mediator in regional conflicts. The memorandum signed between China, EU and Kazhakstan opens up the opportunity to carry out cross-border trade in the Eurasian space and organise an international logistics corridor for e-commerce from China to the EU countries through Kazakhstan. The visit of the former Taiwan President to China comes as his party seeks to play a peacemaking role with mainland, with an eye on the 2024 elections.

31. The two year moratorium from China to SL will help the latter secure a USD 2.9 bn bailout from the International Monetary Fund. Identification of the 10th reincarnation of the The reorganisation of the MoST and other steps have been taken with the primary aim of attaining self reliance in key technologies.