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PAMIR Executive Brief

China Update

4 April 2023

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Executive Summary

- Presidents Xi and Putin met in Moscow and pledged to reshape the world order to replace the US-led global order. They also signed agreements on trade, nuclear power, and military cooperation.
- China's 12-point position paper on the war in Ukraine indicates concern over disruption to post-Covid economic recovery. Beijing apparently is positioning China to help reconstruct a post-conflict Ukraine.
- In a diplomatic snub, China's top authority in Hong Kong omitted US representatives from an event promoting foreign investment in southern China.
- Chinese authorities arrested five Chinese employees of the New York-based due diligence firm Mintz Group and closed its Beijing office on suspicions of "illegal business operations."

China-Russia Relations

Xi-Putin Summit

On 22 March Chinese President XI Jinping concluded a three-day state visit to Moscow that saw China and Russia sign 14 joint statements and agreements. In addition to formal talks, Xi and Vladimir Putin reportedly held 4½ hours of one-to-one "in-depth and candid" talks and reached a "broad new consensus." Chinese state media hailed the visit — Xi's first foreign trip since starting his third term as president — as "historical," and some Chinese analysts viewed the Xi-Putin meeting as the "most important" and "consequential" among some 40 prior encounters.

Xi sees the Putin regime as an asset and partner that needs to be supported in the struggle against the US and its allies. Collapse of Putin's regime would result the West's laser-like focus on China and lead to chaos and uncertainty along the 2,600-mile Sino-Russia border. Xi told Putin that close ties to Russia are "China's strategic choice and will not change from time-to-time or because of any individual event." Xi tried to boost Putin's political standing at home and said he believes the Russian people will support Putin's reelection in 2024.

In his farewell to Putin, Xi said, "Changes are coming that haven't happened in 100 years. When we are together, we drive these changes." Putin replied, "I agree." Putin accepted Xi's invitation to visit Beijing later this year to attend the 3rd Summit of the Belt and Road Initiative.

In testimony to a Senate Appropriations Committee hearing on 23 March, Secretary of State Blinken commented on the Xi-Putin summit and described the renewed China-Russia bond as a "marriage of convenience."

Russia reacted angrily to the portrayal in Western media of Russia as the "junior partner" in China-Russia relations. Chinese and Russian analysts view the US characterization as an attempt to drive a wedge between the two countries.

The joint statement covers the international political order, world trade relations, nuclear nonproliferation, prevention of space militarization, Iran, North Korea, the Middle East, Africa, climate change, and pandemic control. Russia reiterated its One China position and expressed its support for China's policy on Taiwan.

Joint statements

Pledge to shape a new world order to replace the US-led global order

The nine-chapter joint China-Russia statement on "Deepening the Comprehensive Strategic Partnership of Coordination in the New Era" implies that the US is the root cause of world trouble.

China views the geopolitical environment in the New Era as "all-round encirclement, containment, and suppression" by the US and its allies in a world undergoing significant security and economic stress.

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The joint statement only briefly mentions the Ukraine war and does not broach Russian military withdrawal, respecting Ukraine territorial integrity, or a ceasefire.

It stressed "responsible dialogue" as the best way to settle the Ukraine crisis and emphasized that "the legitimate security concerns of all countries must be respected, bloc confrontation should be prevented, and fanning the flames avoided."

China's 12-point "Position on the Political Settlement of the Ukraine Crisis"

Avoids placing any responsibility for the war on Russia but voices concern for nuclear security.

The position paper underlines the need for economic and food security and affirms China's aim to benefit from the aftermath of the conflict:

- China opposes attacks on nuclear facilities and threats to use nuclear weapons.
- China does not want the Ukraine war to disrupt its own economic recovery. The proposal calls for keeping industrial supply chains and grain exports stable while opposing unilateral sanctions.
- When the dust settles, "China stands ready to provide assistance and play a constructive role to support post-conflict reconstruction in conflict zones."

DEVELOPMENT PLAN FOR KEY CHINA-RUSSIA ECONOMIC COOPERATION BEFORE 2030

Eight key agreements point to expanded trade and infrastructure development:

1. **Increase trade**

   China-Russia trade in 2022 was $190.271 billion, up 29.3% YoY; in 2012 trade slightly exceeded $80 billion. In the first two months of 2023 bilateral trade jumped 25.9% YoY to $33.69 billion, and the two sides expect trade will exceed $200 billion this year.

2. **Expand transportation networks**

   Covering rail, highway, river, and oceangoing.

3. **Upgrade financial cooperation**

   Both countries agreed to use their own currencies for investments, trade, and banking as much as possible.

4. **Enhance long-term energy cooperation**

   In 2022, 70% of China's imports from Russia were energy products: oil increased 8% (1.72 million barrels/day); pipeline natural gas and LNG imports increased 2.6 and 2.4 times, respectively; and coal jumped 20% (68.06 million tons). In the first two months of 2023, Russia replaced Saudi Arabia as China's largest oil supplier (1.94 million barrels/day).

5. **Raw materials**

   Increase long-term cooperation in metallurgy, fertilizer, chemical products, and mining.

6. **Technology exchange**

   Assist each other in technology advancement

7. **Supply chain**

   Upgrade supply chains and synchronize related industry standards.

8. **Agriculture**

   Promote agricultural cooperation to increase grain supply security.

Natural Gas

Probable disagreement over cost sharing and prices, as well as Mongolia's objections, led to both sides' failure to sign an expected deal for the Power of Siberia 2 natural gas pipeline. The $95 billion project is designed to transit Mongolia and provide China with 55 billion cubic meters of natural gas each year (equivalent to Nord Stream 2) — this would double Russia's gas exports to China and represent more than half of China's import market.

Nuclear Power Cooperation

The heads of the two countries' nuclear agencies signed a long-term comprehensive agreement to develop fast breeder reactors and "closed nuclear fuel cycle" systems.

There has been wide speculation that China plans to use the supply of Russian nuclear materials to produce plutonium for an expanded nuclear arsenal.

Military Cooperation

The two sides agreed to increase intelligence sharing against "color revolutions" and military cooperation in joint training and strategic patrols.

Prior to the summit, on 16 March Russian media reported that the Russian government decided to establish a special economic zone (SEZ) in the Zabaykalsky Krai region in the Far East. The Zone covers 700 square km and will mirror China's special economic zones with special laws and tax privileges for foreign investors, mostly Chinese. Chinese media reported that China and Russia are discussing the possibility of 79 projects, involving infrastructure, mining, agriculture, and auto with a total investment of $160 billion from China. The SEZ will not only help Russia's economy in the face of Western sanctions but also facilitate rejuvenation of China's northeast rustbelt region comprised of Liaoning, Heilongjiang, and Jilin provinces.

US-China Relations

Diplomatic Tensions

On 19 March the highest mainland authority in Hong Kong, the Commissioner's Office of China's Foreign Ministry, invited more than 100 representatives from foreign consulates, business organizations, and multinational companies in Hong Kong to tour the Greater Bay Area (GBA) to promote foreign investments. However, in a breach of diplomatic norms, representatives from the US Consulate, the largest foreign diplomatic mission in Hong Kong, were excluded. US investment also is the largest foreign investment in the city. GBA covers Guangdong Province, Hong Kong, and Macao and has a combined population of 71.2 million and a GDP of about $2 trillion. China envisions integrating the economies of the three areas by 2035. Pamir judges that the Chinese snub reflects an increasing salience of Beijing's animosity toward the US.

On 24 March overseas Chinese media reported that US ambassador to China, Nick Burns, visited three Americans jailed in China. Chinese authority had denied face-to-face US consular visits to jailed Americans for the past three years on Covid grounds.

The three Americans were:

- **Kai Li:** New York businessman arrested in 2016 for espionage and sentenced in 2018 to 10 years.
- **Mark Swiden**: Texas businessman arrested in 2012 on drug trafficking and sentenced in 2019 to death, suspended for 2 years.
- **David Lin**: a California pastor working in Chinese underground churches arrested in 2006 for contract fraud and sentenced in 2009 to life in prison. His sentence was commuted in November 2022 until April 2030.

On 20 March the US State Department issued its annual Country Reports on Human Rights Practices. Secretary Blinken highlighted that China "continues its abuse, including genocide and crimes against humanity, against Uyghurs, repression of Tibetans, crackdown on basic rights in Hong Kong, and targeting individuals on the mainland for exercising fundamental freedoms." China's Foreign Ministry responded by saying, "the China-related content is fraught with political lies and ideological prejudice."

- China's Foreign Ministry and State Council issued their own reports – "State of Democracy in the United States: 2022" and a White Paper on US human rights – that cite a long list of human rights violations and failures of the dysfunctional US political system and accuse the US of promoting democracy around the world, leaving "a trail of havoc and disaster."

Economy & Technology

On 20 March Chinese authorities arrested five Chinese employees of the Mintz Group and closed its Beijing office without notice. Mintz is a New York-based due diligence firm with 450 employees in 18 offices around the world.

Chinese government media did not report the incident, but news spread on Chinese social media. Chinese reporting highlighted that Randal Phillips is the Mintz head for Asia operations. Phillips worked in the CIA for 28 years and was a CIA Beijing station chief. In 2018 Phillips testified before the US Congress on China's growing influence around the world. The Mintz Group statement expressed concerned about the safety of its employees and stated, "We are ready to work with Chinese authorities to resolve any misunderstanding that may have led to these events." On 27 March China's Foreign Ministry said "the company is suspected of illegal business operations. Further investigation is underway."

On 17 March China's Ministry of Finance (MOF) fined the Beijing office of Deloitte China a record $30.8 million for "seriously" mishandling audit and other work at China Huarong Asset Management (Huarong) during 2014-2019. Deloitte's Beijing office also was ordered to suspend operations for three months. The MOF fined Huarong and its seven subsidiaries $116,000 and 13 of its employees a total of $36,000.

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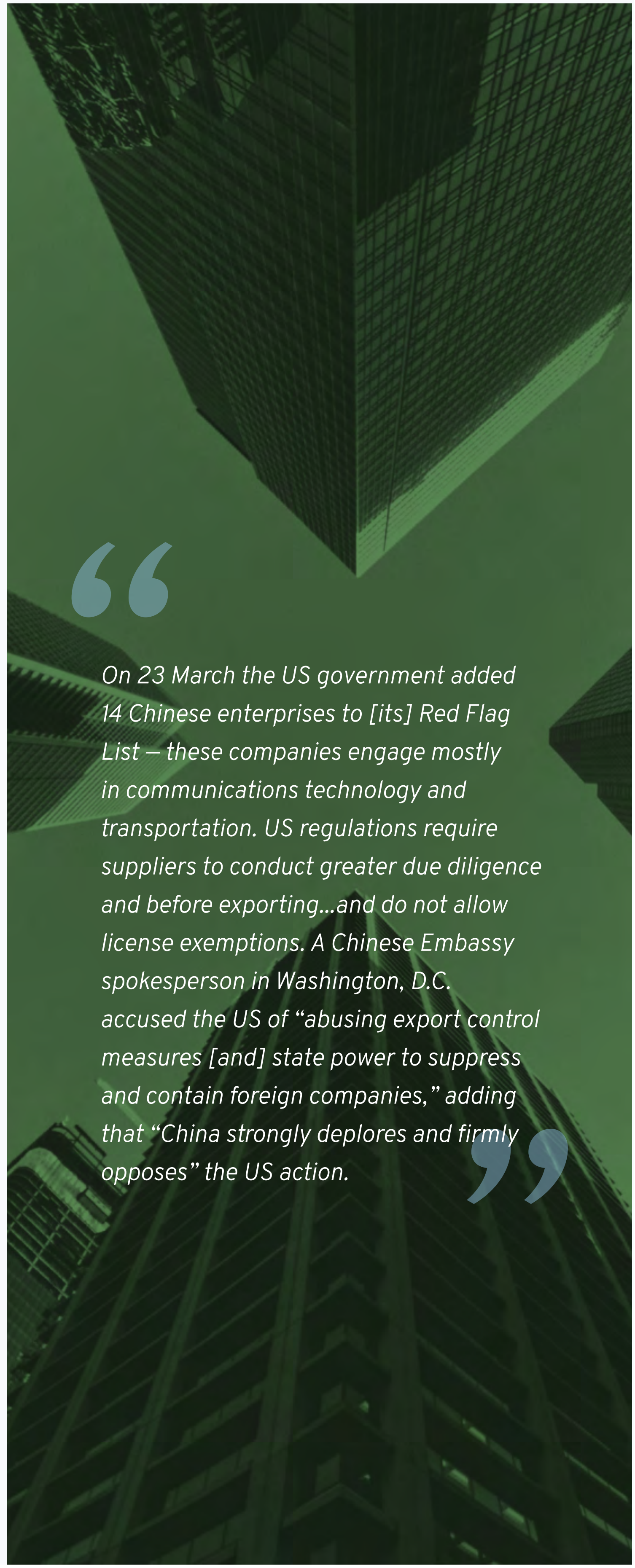
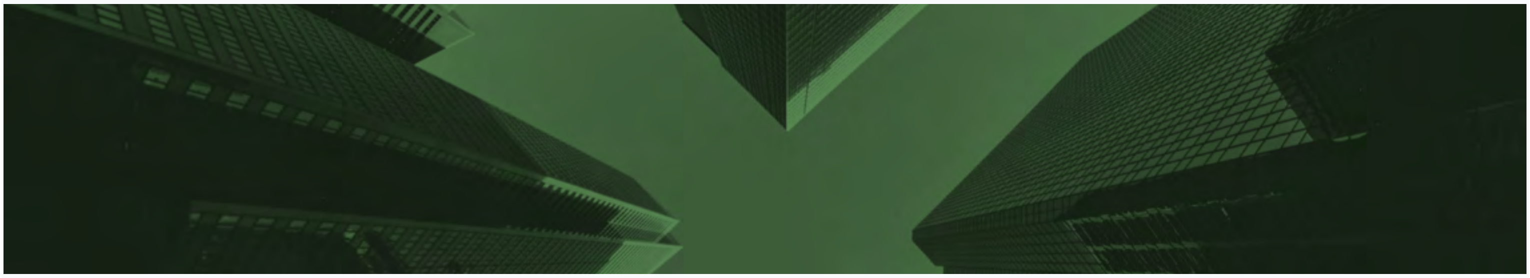
- Deloitte said it respects and accepts the MOF decision, and "We regret, in this matter, the MOF considers certain aspects of our work fell below required standards." In September 2022 the US SEC fined Deloitte China $20 million for breaking US rules from 2016 to 2018 when it worked for nine US and three Chinese companies trading on the US exchange.
- Huarong is a state-owned enterprise (SOE) engaged in non-performing asset management and other financial services. Huarong failed to release its 2020 earnings on time and later reported a $15 billion loss. In 2021 another SOE bailed it out with $6.6 billion. Huarong's former Chairman was executed in 2021 for embezzlement and taking bribes. Huarong estimated a $4 billion loss for 2022.

Chinese media refuted February reporting that the Chinese government had instructed SOEs to avoid using the Big Four US auditing firms and said that in January and February large SOEs had awarded the Big Four at least 12 major auditing contracts.

However, a new rule goes into effect on 31 March 2023 that covers bookkeeping and information security by Chinese companies traded overseas.



> *"On 23 March the US government added 14 Chinese enterprises to [its] Red Flag List – these companies engage mostly in communications technology and transportation. US regulations require suppliers to conduct greater due diligence and before exporting...and do not allow license exemptions. A Chinese Embassy spokesperson in Washington, D.C. accused the US of "abusing export control measures [and] state power to suppress and contain foreign companies," adding that "China strongly deplores and firmly opposes" the US action."*



US Sanctions

On 23 March, during US House hearings on TikTok, China's Ministry of Commerce said "China will resolutely oppose" a forced sale. Observers believe the Chinese government has two concerns:

- A pressured sale will make China look weak in the current confrontation with the US and undermine the government's nationalist appeal to the Chinese public; and
- A TikTok sale may compromise the algorithm of ByteDance, TikTok's parent company which operates in Beijing, and thereby undermine China's data security.

According to Sensor Tower, a US company specializing in intelligence and analytics in the mobile app market, in the first three weeks of March four of the six top apps in the App Store were Chinese-owned:

- Temu, a shopping app. Its Chinese parent company, PDD Holdings, is in Shanghai; Temu's US operations are headquartered in Boston.
- CapCut, a video editing app owned by ByteDance, also parent company of TikTok.
- TikTok
- Instagram
- YouTube
- Shein, an apparel shopping app; its parent company is in Nanjing.

On 23 March the US government added 14 Chinese enterprises to its Unverified List (UVL), also known as the Red Flag List — these companies engage mostly in communications technology and transportation. US regulations require suppliers to conduct greater due diligence and before exporting goods to UVL enterprises and do not allow license exemptions.

A Chinese Embassy spokesperson in Washington, D.C. accused the US of "abusing export control measures [and] state power to suppress and contain foreign companies," adding that "China strongly deplores and firmly opposes" the US action.

On 28 March the US Commerce Department sanctioned five Chinese companies for their alleged roles in "persecution of ethnic minority Muslims" in Xinjiang. Four of the companies are subsidiaries of China's surveillance camera manufacturer, Hikvision, which was sanctioned by the US in 2019. Under the sanctions, US companies are not allowed to have business relations with these companies without US government permission.

Over the past few years, it's been getting more difficult to get reliable data on China. CNKI access withdrawal is just the latest blow. If it's permanent, that means academics, policymakers, and businesspeople lose yet another reliable source of info on China. Then decisions are increasingly driven instead by rumors, baseless conjecture, and motivated reasoning that fill the empty gaps.

Mark Witzke,
Senior China Analyst, Rhodium Group,

China's Economy

The 2023 China Development Forum, China's counterpart to the Davos World Economic Forum, was held 25-27 March in Beijing with a theme of "Economic Recovery: Opportunities and Cooperation" focusing on China's market opportunities, global industrial supply chain stability, and green transition. Over 100 overseas representatives attended the meeting, including more than 50 Western business leaders.

China sought to assure the world that China's economy is on stable footing and recovering fast, and despite US-China tensions, China remains committed to opening to the outside world. China's Foreign Minister arranged a special meeting with US business leaders attending the forum, asked them to help overcome difficulties in China-US relations, and pledged a better business environment for US businesses.

On 17 March China's Tongfang Knowledge Network (TF), the sole operator of China National Knowledge Infrastructure (CNKI), notified libraries around the world that overseas access to CNKI will be suspended starting 1 April. The company is working to ensure its "cross-border services are in compliance with the [PRC] law." TF did not say if the service suspension is temporary or permanent.

CNKI provides online access to 95% of China's academic research papers and documents for 20 million users around the world. TF's global customers include 76% of the world's Top 500 universities. In May 2022 the Chinese government launched an antitrust investigation into TF, and in June, a cyber security review. Observers noted that the investigations stemmed from information security concerns amid growing tensions with the West, particularly with the US.

East and SouthEast Asia

Japan

In a break with previous practice and protocol, the Japanese government denied a request by Chinese Ambassador KONG Xuanyou to make a farewell call on Japan's Prime Minister, according to Chinese and Japanese media reporting. Kong made the request in January, but the Japanese government rejected the request due to "conflicts of schedule." Kong left Japan at the end of February. Japan's Foreign Minister is expected to visit China in early April.

China has increased opposition to Japan's planned discharge of contaminated water from the earthquake-damaged Fukushima nuclear plant. According to Japanese media, on 17 March Japan activated some devices related to water discharge, signaling that the discharge may happen in another two months. Japan has said the water is within safety standards.

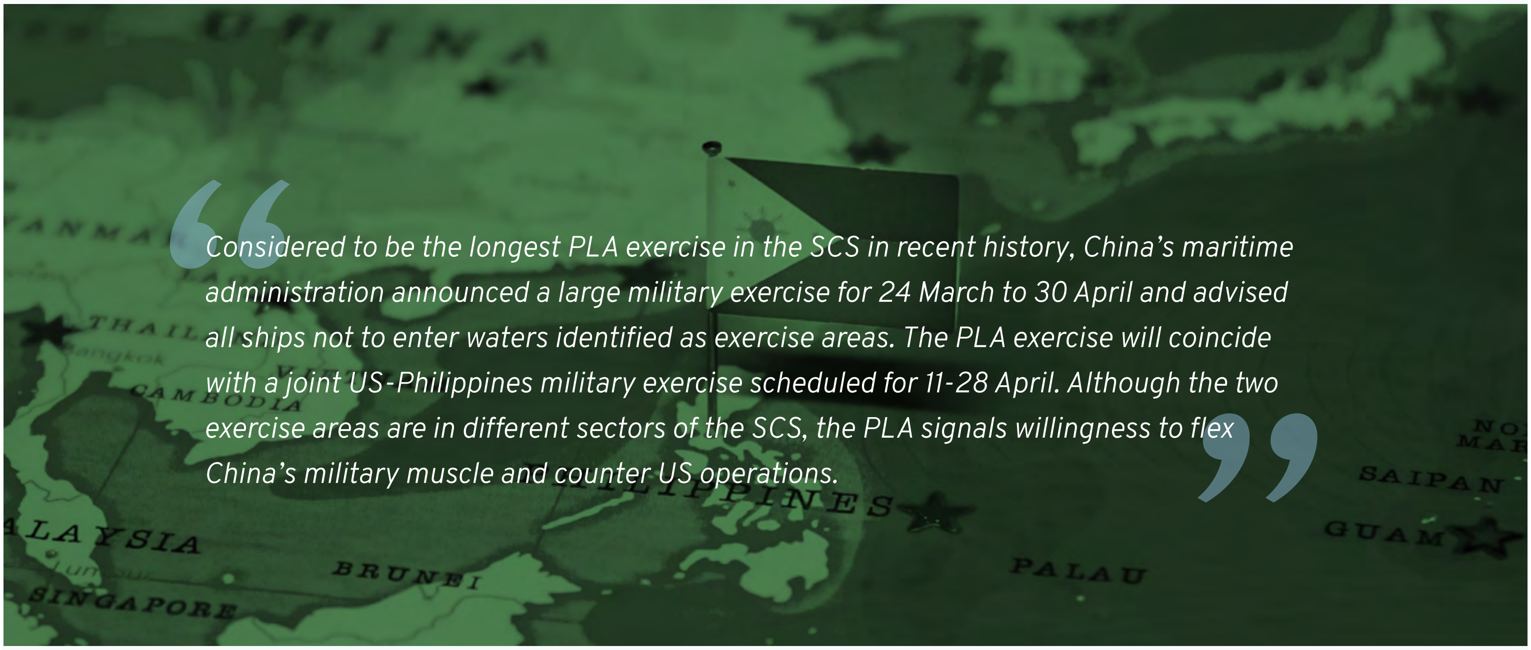
- On 21 March China's Foreign Ministry demanded that Japan not start the discharge "before all stakeholders and relevant international organizations can confirm the discharge plan is safe." China threatened that the international community has the right to hold Japan accountable if Japan goes ahead with its discharge plan. China is working to rally Russia, South and North Korea, and Pacific island countries to oppose the discharge plan.

On 21 March, China's Foreign Ministry responded to Japan Prime Minister Fumio Kishida's Ukraine visit, stating that China hopes Japan will "do more things that can help deescalate the situation, not otherwise."

Japan's strategy to counter China's growing geopolitical influence and closer cooperation with Russia reflect Tokyo's efforts to mitigate rising risks of conflict in East Asia, as Kishida expressed at the 2022 Shangri-La Dialogue, "Ukraine today may be East Asia tomorrow".

On 25 March Japanese media reported Chinese authorities had arrested a senior manager of a Japanese company in China early this month for espionage. The Japanese government is asking for his immediate release. At least 16 Japanese nationals have been arrested in China since 2015 for alleged spying.

On March 31 Japan announced that a hotline between Japanese and Chinese military authorities had become operational. The new system has been in the works since late 2021 and is part of a maritime and aerial communications system that aims to "foster trust" and "avoid incidents."



Considered to be the longest PLA exercise in the SCS in recent history, China's maritime administration announced a large military exercise for 24 March to 30 April and advised all ships not to enter waters identified as exercise areas. The PLA exercise will coincide with a joint US-Philippines military exercise scheduled for 11-28 April. Although the two exercise areas are in different sectors of the SCS, the PLA signals willingness to flex China's military muscle and counter US operations.

South China Sea

On 23-24 March the guided missile destroyer USS Milius entered what China claims to be its territorial waters of the Paracel Islands. A US Seventh Fleet spokesperson said the ship "asserted navigational rights and freedoms in the SCS near the Paracel Islands, consistent with international law…The operations demonstrate that the US will fly, sail, and operate whenever international law allows — regardless of the location of excessive maritime claims and regardless of current events." China's Defense Ministry called the transit "more ironclad evidence of the US pursuing navigational hegemony and militarizing the SCS" and threatening that the US would "bear the serious consequences of unexpected incidents caused by this."

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On 24 March in Manila, China's Vice Foreign Minister and his Philippine counterpart chaired the first face-to-face Bilateral Consultation Mechanism (BCM) meeting in three years.

According to China's press release, "The two sides agreed to exercise restraint, make good use of the hotline between the two foreign ministries, improve communication and dialogue mechanisms… and handle emergencies at sea through friendly consultations." Chinese reports said the meeting was attended by representatives from defense, coast guard, energy, and fisheries from both countries and produced 10 items of consensus and outcomes.

Strategic outcomes

Cooperation with Russia

LEVEL OF CONCERN

5 4 3 **2** 1

China-Russia cooperation seems symbiotic, but Beijing's anodyne 12-point plan for the Ukraine war suggests Xi's private admonition to Putin to avoid inflicting economic harm on China. Sustained trade would ensure China's demand for Russian energy, which would fuel Moscow's war machine. The position paper lays out Beijing's longer-term objective of winning contracts for Chinese state-owned enterprises to help Ukraine's post-war reconstruction.

Additional scrutiny of foreign firms

LEVEL OF CONCERN

5 4 **3** 2 1

Arrests of China-based employees as in the recent Minsk Group incident highlight Beijing's concerns about foreign firms scrutinizing Chinese business practices and serve as a warning to all similar foreign due diligence activity. Chinese employees always face greater risk for their frontline investigative function and lack of government accountability. Alibaba founder Jack Ma's recent reemergence from overseas serves as a reminder that CCP authorities will go after all levels of businesspeople with impunity. Combined with the decision to limit foreign access to Chinese research publications, building a wall around China's business activities seems to be intensifying.

Pamir position

Pamir assesses that Beijng's long-term calculus is to foster Moscow's growing economic, financial and geopolitical dependence on China. As junior partner in the relationship, Russia's decision-making must increasingly factor in China's interests and leverage.

Pamir judges that foreign companies and nationals, as the Mintz Group and Japanese company arrest cases indicate, face a higher risk of investigation or detention as US-China relations deteriorate.

Strategic outcomes

Level of Concern indicators - what they mean

1 - indicates no change to the status quo

2 - indicates escalating tensions

3 - indicates aggressive escalation

4 - indicates high probability of impending crisis event

5 - indicates a full-scale crisis or conflict situation.

How we calculate them

- Frequency of references to subject in Chinese-language official government statements, credible press reporting, and social media
- Frequency of references to subject in English-language official government statements, credible press reporting, and social media from the US, EU, UK, Australia, Japan, etc.
- Consistency of historical, current, and emerging trendlines related to the subject
- Aberrations in official Chinese-language policy formulations
- Strategic shifts in official Chinese government and military signaling through diplomatic, information, military, and economic actions and behavior

Analytic Methodology: internal monitoring with quantitative and qualitative analysis of Chinese media and propaganda; comparative trend analysis, intelligence tradecraft; other proprietary methods.

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