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PAMIR Executive Brief

China Update

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Executive Summary

- The G7 Summit affirmed the importance of engaging China but presented a unified front in repelling the country's antagonistic behavior and economic coercion. China called it "the most anti-China G7 summit ever."
- US Department of Justice disclosed five criminal cases against company insiders who targeted sensitive and proprietary information for China's benefit.
- Chinese sanctions against US semiconductor manufacturer Micron were circumscribed but raise the risk of escalating retaliation.
- Microsoft uncovered Chinese state-sponsored cyberattacks that have been targeting critical US infrastructure organizations since mid-2021.
- Xie Feng, China's new ambassador in Washington, stressed his priority of properly managing US-China relations, though he was instrumental in suppressing Hong Kong's pro-democracy movement.
- China's ongoing refusal to open military-to-military lines of communications with the US reduces channels to mitigate miscalculations and avoid crisis situations.



International Relations

G7 Summit

China was a dominant topic of the annual G7 Summit held on 19-21 May in Hiroshima, Japan. The expanded summit with six Indo-Pacific invitees – Australia, the Cook Islands, India, Indonesia, South Korea, and Vietnam – produced a joint communiqué and five standalone statements on Ukraine, nuclear disarmament, economic reliance and security, energy economy, and food security.

Hiroshima concurrently hosted the US-Japan-Australia-India QUAD summit.

Summit participants formulated a joint policy that expressed the desire for continued engagement with China but directly addressed problematic issues: Taiwan; South and East China Seas; human rights in Hong Kong, Xinjiang, and Tibet; and China's alleged efforts to undermine G7 societies.

Without naming China, other issues were directed at China's behavior: safeguarding the rules-based international order; fighting economic coercion; enforcing critical technology export control; reducing supply chain reliance; and ensuring critical mineral supplies.

Other topics had implications for China, such as nuclear disarmament, antisatellite testing, fair trade practices, and resolving Third World debt.

G7 joint communiqué

"We stand prepared to build constructive and stable relations with China, recognizing the importance of engaging candidly with and expressing our concerns directly to China. We act in our national interest. It is necessary to cooperate with China, given its role in the international community and the size of its economy, on global challenges as well as areas of common interest... Our policy approaches are not designed to harm China, nor do we seek to thwart China's economic progress and development. A growing China that plays by international rules would be of global interest. We are not decoupling or turning inwards."

One significant agreement was the G7 Leaders' Statement on Economic Resilience and Economic Security, which spelled out actions squarely aimed at China:

- Enhancing global economic resilience, to include “building resilient supply chains and building resilient critical infrastructure.”
- Responding to harmful practices that undermine international rules and norms, including (a) Responding to non-market policies and practices to secure global economic resilience; (b) Addressing economic coercion; (c) Countering harmful practices in the digital sphere; and (d) Cooperating on setting international standards. The summit launched a “Coordination Platform on Economic Coercion” to improve collective assessment, preparedness, deterrence, and response to economic coercion, and to further promote partnerships beyond the G7.
- Addressing shared concerns regarding threats to international peace and security – “preventing leakage of critical and emerging technologies.” The summit affirmed the G7’s convergence on coordinating the prevention of cutting-edge technologies from being used for military purposes. The G7 further emphasized “cooperation on export controls on critical and emerging technologies such as microelectronics and cybersurveillance systems to address the misuse of such technologies by malicious actors and inappropriate transfers of such technologies through research activities.”

“On the nuclear weapons issue: “China is firmly committed to a defensive nuclear strategy. We have honored our pledge to ‘no first use’ of nuclear weapons and always kept our nuclear capabilities at the minimum level required by national security. China is the only one among the five nuclear weapon states to have made those pledges. China’s position is above board and should not be distorted or denigrated.”

China rebuts G7

“China firmly upholds the UN-centered international system, the international order underpinned by international law, and the basic norms governing international relations built around the purposes and principles of the UN Charter.

China will never accept the so-called rules imposed by the few. The international community does not and will not accept the G7-dominated Western rules that seek to divide the world based on ideologies and values, still less will it succumb to the rules of exclusive small blocs designed to serve ‘America-first’ and the vested interests of the few.

G7 needs to reflect on its behavior and change course...gone are the days when a handful of Western countries can just willfully meddle in other countries’ internal affairs and manipulate global affairs.”

China characterized the summit as “the most anti-China G7 summit ever”. China’s Foreign Ministry issued a statement on 20 May:

- “The G7 makes high-sounding claims about ‘promoting a peaceful, stable and prosperous world,’ but what it does is hinder international peace, undermine regional stability, and curb other countries’ development...The G7 used issues concerning China to smear and attack China and brazenly interfere in China’s internal affairs. China strongly deplores and firmly opposes this and has made serious démarches to the summit’s host Japan and other parties concerned.”
- It reiterated China’s positions on Taiwan, Hong Kong, Xinjiang, Tibet, and the South and East China Seas.
- Concerning economic coercion: “The massive unilateral sanctions and acts of decoupling and disrupting industry and supply chains make the US the real coercer that politicizes and weaponizes economic and trade relations. We urge the G7 not to become an accomplice in economic coercion.”
- On the nuclear weapons issue: “China is firmly committed to a defensive nuclear strategy. We have honored our pledge to ‘no first use’ of nuclear weapons and always kept our nuclear capabilities at the minimum level required by national security. China is the only one among the five nuclear weapon states to have made those pledges. China’s position is above board and should not be distorted or denigrated.”

US-China Relations

Intellectual Property Theft

On 16 May the US Department of Justice (DOJ) disclosed five criminal cases involving China that targeted sensitive US technologies – further confirmation that Chinese industrial espionage has ramped up aggressive collection of US companies' proprietary information.

- Liming Li, 64, was arrested in California on 6 May and accused of stealing from two previous employers sensitive technology that could be used in the manufacturing nuclear submarines and military aircraft. Li sought participation in China's Thousand Talents program and had agreed to provide export-controlled technology and trade secrets to the Chinese government and businesses in China.
- Xiangjiang Qiao, aka Joe Hansen, 39, is a Chinese national and employee of China-based Sinotech Dalian Carbon and Graphite Manufacturing Company, which is blacklisted by the US for its involvement in Iran's ballistic missile programs. Wang is accused of conspiring to provide Iran with isostatic graphite for use in the nose tips of intercontinental ballistic missiles. Qiao allegedly used a front company to conceal Sinotech's identity to transfer money via a US bank.
- Weibao Wang, 35, a former Apple software engineer. Four months before quitting his job with Apple in April 2018, Wang took a job with a US-based subsidiary of a self-driving car technology company headquartered in China. In June 2018 the FBI searched his home in California and found devices containing thousands of Apple proprietary files, including data on self-driving cars. On the night of the FBI search, Wang fled to China. Prosecutors say Wang is believed to be working at a China-based autonomous vehicle competitor to Apple.
- Two more Apple former employees were indicted for stealing Apple's proprietary information. Xiaolang Zhang was arrested in July 2018 and Jizhong Chen in January 2019, both while attempting to return to China.

On 17 May China's Foreign Ministry responded to the DOJ announcement saying, "The US has politicized, instrumentalized and weaponized tech issues, and sought to thwart other countries' technological advancement. All these are clear examples of hegemonic, high-handed, and bullying acts...China will do what is necessary to firmly safeguard the lawful rights and interests of Chinese citizens."

Sanctions & Restrictions

After seven weeks of investigation, and just hours after the G7 voiced sharp criticism of China's economic coercion, Beijing announced sanctions against US chipmaker Micron in the latest escalation of semiconductor industry tensions. Cybersecurity Administration of China (CAC) said on 21 May that its investigation found Micron's products "have relatively serious cybersecurity risks that pose significant security risks to China's critical information infrastructure supply chain and would affect national security."

CAC directed Chinese operators involved in China's critical information infrastructure projects to stop purchasing Micron products. The US Commerce Department called the Chinese accusation groundless and "inconsistent with China's assertions that it is opening its markets and committed to a transparent regulatory framework." The dispute could evolve in several ways:

Contagion: CAC could undermine Micron's China operations by broadening its original prohibition to include other users. In 2022 Micron derived about 11% of its global revenue from China.

Escalation: The US Commerce Secretary called the Chinese sanctions "plain and simple, economic coercion. We won't tolerate it, nor do we think it will be successful." In retaliation for China's actions against Micron, House Representative Mike Gallagher proposed a total ban on Changxin Memory Technologies, a similar move as the US employed against China's Huawei. The US already has sanctioned Yangtze Memory Technologies, another leading Chinese chipmaker.

Dissent: The US has warned Micron's South Korean rivals, Samsung and SK Hynix, not to fill the market gap left by Micron due to the Chinese ban. Samsung and SK Hynix, the first and second ranking memory chipmakers in the world respectively, have significant operations in China. Under the US CHIPS Act, the US granted them a one-year reprieve through October to supply their production facilities in China.

On 22 May South Korea's Vice Minister of Trade said, "Regarding what the US tells us to do or not to do, it is actually up to our companies. Both Samsung and SK Hynix, with global operations, will make a judgment on this." The firms have requested extensions of their waivers.

Acceleration: Regardless of how Korean firms or the US proceed, China will put more effort into becoming self-reliant in chip supply. Sanctions against Micron assume that domestically produced semiconductors, although not the most advanced, can meet China's basic needs. A Chinese media report of 22 May said China hopes its progress in photon and quantum chip development will free China from "Global West" restrictions on microelectronic chips and help it leapfrog to the next electronic revolution.



“Volt Typhoon has been active and has targeted critical infrastructure organizations in Guam and elsewhere in the United States. In this campaign, the affected organizations span the communications, manufacturing, utility, transportation, construction, maritime, government, information technology, and education sectors.”

Cyberattacks

On 24 May Microsoft announced that a state-sponsored actor based in China had been conducting cyberattacks against critical US infrastructure organizations since mid-2021. The actor, known as Volt Typhoon, typically focuses on espionage and information gathering, but Microsoft assessed with moderate confidence that Volt Typhoon was pursuing capabilities that could disrupt critical communications infrastructure between the US and Asia region during future crises. Following Microsoft’s announcement, cybersecurity authorities from the Five Eyes countries – US, UK, Canada, Australia, and New Zealand – issued warnings against Volt Typhoon.

On 25 May China’s Foreign Ministry responded, “We noted this extremely unprofessional report – a patchwork with a broken chain of evidence... This has been a collective disinformation campaign launched by the US through the Five Eyes to serve its geopolitical agenda...Whatever their subterfuge, it will not change the fact that the US is the champion of hacking.”

“On 25 May US Commerce Secretary Raimondo met with China’s Commerce Minister WANG Wentao in Washington. Wang met with US Trade Representative Katherine Tai the following day on the sidelines of the APEC commerce ministers’ meeting in Detroit. China’s press release said the meetings were “candid, professional and constructive.” The Chinese side expressed concerns on issues such as US trade policy; semiconductor restrictions; export controls; and foreign investment reviews towards China. Both sides agreed to keep the channels of dialogue open...”

Diplomatic Relations

Incoming Chinese ambassador XIE Feng arrived in the US on 23 May after the post was vacant for four months, the longest vacancy since the two countries established diplomatic relations in 1979.

- Xie, 59, joined the Foreign Ministry in 1986 and has worked on US-China relations most of his diplomatic career. He previously served twice in the Washington embassy, including as deputy chief of mission (DCM) from 2008 to 2010.
- Xie was China's top Foreign Ministry official in Hong Kong from 2017 to 2021 and was instrumental in crushing Hong Kong's pro-democracy movement. Before this US posting, he was China's Vice Foreign Minister in charge of Americas and Oceania Affairs with a focus on US-China relations.

Chinese analysts believe the appointment of Xie, one of China's most experienced experts on the US, indicates the importance the government attaches to US-China relations.

It also signifies continuation of China's policy of "confrontation and stabilization" towards the US.

- Upon his arrival, Xie told the press, "The [US-China] relationship is too important for us to let it fail. Neither side can change or replace the other. Working together, both will come out as winners; fighting each other, both will lose, and the world will be hurt as well. Whether China and the US can manage their relationship properly is consequential to the future of our two countries and our planet."

Military Dialogue

On 29 May the Pentagon reported that China refused a US offer for their defense chiefs to meet on the sidelines of a security forum to be held in Singapore on 2-4 June. According to a senior US official, "China has declined or failed to respond to over a dozen requests from the Department of Defense for key leader engagements, multiple requests for standing dialogues, and nearly ten working-level engagements." The US wants open lines of communication between the two militaries for crisis management and to avoid miscalculation and accidents. China canceled all military-to-military engagement with the US after Speaker Pelosi's visit to Taiwan last August. China's new defense minister General LI Shangfu was sanctioned by the US in 2018 for buying Russian weapons, but the Pentagon says sanctions would not preclude talks between Secretary Austin and Li.

Trade Talks

On 25 May US Commerce Secretary Raimondo met with China's Commerce Minister WANG Wentao in Washington. Wang met with US Trade Representative Katherine Tai the following day on the sidelines of the APEC commerce ministers' meeting in Detroit. China's press release said the meetings were "candid, professional and constructive." The Chinese side expressed concerns on issues such as US trade policy; semiconductor restrictions; export controls; and foreign investment reviews towards China. Both sides agreed to keep the channels of dialogue open for future consultations. US officials said the meetings had "no breakthroughs," but "it is important to keep dialogue open."



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South China Sea

Since 7 May, Chinese Coast Guard and other ships have been sailing inside Vietnam’s Exclusive Economic Zone (EEZ) near oil and gas platforms operated by Vietsovpetro, a joint venture between Russian-owned Zarubezhneft and PetroVietnam. On 25 May Vietnam demanded that the Chinese ships leave the area, but China’s Foreign Ministry dismissed the request, saying that these were “normal activities under China’s jurisdiction.”

- Passage of ships through an EEZ is not restricted. The United Nations Convention on the Law of the Sea (UNCLOS) defines an Exclusive Economic Zone (EEZ) as generally extending 200 nautical miles from shore, within which the coastal state has the right to explore and exploit, and the responsibility to conserve and manage, both living and non-living resources.

In mid-May, the Philippines installed six navigational buoys in the disputed Spratlys area. In response, China’s Ministry of Transportation announced on 24 May that China installed three light buoys in the same area.

Both the Philippines and China are attempting to demonstrate sovereignty – their buoys carry clear national identifications.

Vietnam criticized the actions of both the Philippines and China as a violation of its sovereign rights.

On 1-7 June, coast guards from Japan, the US and the Philippines will conduct joint exercises in the South China Sea.

Strategic outcomes

G7 and China positions

The United States is shoring up support with G7 members and Indo-Pacific allies and partners to expand a coalition of likeminded countries in the region to collectively confront China’s aggressive actions in geopolitics, trade, technology, intellectual property theft, and cyberattacks. Securing advanced technologies, particularly artificial intelligence and semiconductors, has broadened China’s aggressive collection beyond the US to include other G7 countries.

LEVEL OF CONCERN



Pamir Position

Pamir observes that China’s sanctions on Micron sanctions were measured with potential for expansion but concurrently suggests the necessity of using Micron products in less sensitive applications. Any US retaliation is likely to prompt an escalatory response from China.

Business Impact

Pamir anticipates that as the escalatory cycle of response and reprisal against sanctions between China and the US along with its allies and partners intensifies, US companies and investors in advanced technologies should safeguard assets, personnel and sensitive data against industrial espionage and intellectual property theft.

Business Opportunity

Pamir assesses that the G7’s recognition of China’s market magnitude and approach of de-risking, instead of decoupling, suggests that US companies could benefit from diversification of supply chains and building business resilience amid geopolitical risks and market unpredictability.



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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