

Report number: PAMIR2023051602

PAMIR Executive Brief

China Update

16 May 2023

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Executive Summary

- China further limited the activities of foreign accounting firms by requiring them to undergo security reviews before being awarded contracts.
- China's trade data for Q1 indicated strong global demand for Chinese goods but weak domestic demand post-Covid.
- Chinese exports to Russia jumped 153% in April.
- Hong Kong's pro-Beijing legislature gave the chief executive absolute power to ban foreign lawyers from working on national security cases – a further shift towards the dismantling of Hong Kong's legal safeguards.
- China's Foreign Ministry criticized Japan-NATO talks on opening a NATO liaison office in Tokyo and Japan's deployment of weaponry in Okinawa that could be used in a Taiwan conflict.



“On 10 May the US Department of Homeland Security (DHS) announced that US law enforcement authorities had raided a factory in Jacksonville, Florida and a sales office in San Francisco, California owned and operated by China’s Jinko Solar Holding Company.”

US-China Relations

Sanctions & Restrictions

On 15 May Chinese media reported that US citizen John Shing-Wan Leung, born in 1945, was sentenced to life in prison on espionage charges. Leung entered China using his Hong Kong residence document and was sentenced as a Hong Kong citizen. Leung was arrested on 15 April 2021. The report did not mention whom he spied for, but the fact that the media highlighted his US passport indicates that he could be accused of spying for the US.

On 4 May China issued a joint ministerial-level directive on how Chinese state-owned enterprises and companies listed on Chinese stock markets should select their accounting firms.

With 22 articles of requirements, the directive emphasizes the requirement for security reviews of candidate accounting firms and demands that responsibility for information security by a selected accounting firm be written into contracts. In the name of promoting competition, the directive sets a term limit of 8 years and 10 years with exceptions for employing each accounting firm.

- This new directive is viewed as another Chinese government measure to restrict China operations of the Big Four – Deloitte, KPMG, Ernst & Young, and PwC. In January, Bloomberg reported that the Chinese government asked SOEs not to renew contracts with the Big Four after their expiration. In 2021 the Big Four served 30 of the top 50 SOEs, representing revenue of \$3 billion. The Chinese government is extremely concerned about its data security given increasing tensions with the US.

Jinko

Jinko, a private company, was established in 2006 in Shanghai and listed on the New York Stock Exchange in 2010. It is one of the world's largest solar panel manufacturers with nine factories and sales networks in 35 countries.

In 2022 it ranked #309 on the Top 500 Chinese Companies list. In 2018 Jinko invested \$63 million and set up a factory in Jacksonville with 274 employees, making it the first Chinese company, and one of few companies, making solar panels in the US. Jinko previously said it planned to invest \$52 million more to expand the Jacksonville factory and add 250 more jobs before 2027.

On 10 May the US Department of Homeland Security (DHS) announced that US law enforcement authorities had raided a factory in Jacksonville, Florida and a sales office in San Francisco, California owned and operated by China's Jinko Solar Holding Company.

DHS disclosed only that the raids were part of an ongoing federal investigation. Chinese mainland media did not report on the raids, but they were covered by Chinese language media in Hong Kong, Taiwan, and elsewhere.

US Customs and Border Protection detained some Jinko shipments from China under the US Uyghur Forced Labor Protection Act but later released the shipments.

A Jinko spokesperson said the company was “engaging constructively with relevant agencies to understand the nature of the inquiry...Jinko is committed to operating in accordance with the highest ethical standards and adhering to the laws and regulations of the countries where it operates, including the United States.”

Diplomatic Tensions

Top US and Chinese diplomats met on 8 May for the first time since the Chinese spy balloon incident in February that caused US Secretary of State Blinken to cancel a planned trip to Beijing.

Since the incident, China has stonewalled US efforts to resume top-level engagement as US-China relations continued to deteriorate across the board.

- According to China's press release on the meeting, Foreign Minister QIN Gang blamed the US for stopping the momentum in improving US-China relations initiated by President XI Jinping and President Biden during their Bali summit last November. He said, "It's not possible to talk about communication on one hand, but to keep suppressing and containing China on the other hand."
- Qin acknowledged that "the top priority now is to stabilize Sino-US relations, avoid a downward spiral, and prevent any accident between China and the US." He suggested the US "handle unexpected and isolated incidents in bilateral relations in a calm, professional and pragmatic manner to avoid dealing more blows to China-US relations." He hoped that US Ambassador Nicholas Burns would "serve as a bridge between China and the US."

“On 10-11 May in Vienna, US National Security Advisor Jake Sullivan met for ten hours with WANG Yi, China's Politburo member in charge of international affairs. According to the White House press release, “The two sides had candid, substantive, and constructive discussions on key issues in the US-China bilateral relationship, global and regional security issues, Russia's war against Ukraine, and cross-Strait issues, among other topics.”

Burns afterwards tweeted, “We discussed challenges in the US-China relationship and the necessity of stabilizing ties and expanding high-level communication.” US State Department spokesman commented on the meeting, “Maintaining open lines of communication with the PRC has been a key tenet of our approach as it relates to this very complicated bilateral relationship...the ambassador spoke in his meeting about areas where our two countries can cooperate, such as addressing the challenge of the climate crisis, such as addressing cooperation when it comes to global health and public health, as well as important opportunities on food security and other things.” When asked if the US sees anything to correct on how it handles Taiwan issues as Qin questioned, the spokesman replied, “There absolutely isn’t.”

Other senior-level engagements are resuming. On 3 May US Climate Envoy John Kerry said Beijing had invited him to visit “in the near term” for talks on averting a global climate change crisis.

On 10-11 May in Vienna, US National Security Advisor Jake Sullivan met for ten hours with WANG Yi, China’s Politburo member in charge of international affairs. According to the White House press release, “The two sides had candid, substantive, and constructive discussions on key issues in the US-China bilateral relationship, global and regional security issues, Russia’s war against Ukraine, and cross-Strait issues, among other topics.

This meeting was part of ongoing efforts to maintain open lines of communication and responsibly manage competition. The two sides agreed to maintain this important strategic channel of communication to advance these objectives, building on the engagement between President Biden and President Xi in Bali, Indonesia, in November 2022.”

The readout from China’s Foreign Ministry also described the meeting as “candid, in-depth, substantive and constructive.” It said, beside exchanging “views on the situation in the Asia-Pacific region, Ukraine and other international and regional issues of common interests,” the two held “discussions on removing obstacles in China-US relations and stabilizing the relationship from deterioration...and agreed to continue to make good use of this strategic communication channel.”

On 10 May President Biden said he was planning another phone call with President Xi. China’s Foreign Ministry refused to comment.

On 11 May Minister of Commerce WANG Wentao met with US Ambassador Nicholas Burns to discuss bilateral economic and trade issues, according to Chinese media. Wang reportedly will attend the APEC trade ministers meeting in Detroit on 25-26 May and is purported to hold a sideline meeting at that time with US Trade Representative Katherine Tai.

CHINESE IMPORTS
DECLINED
7.9%

CHINESE IMPORTS OF
SEMICONDUCTORS
DECLINED
15.3%

CHINA'S EXPORTS TO
RUSSIA
INCREASED
153%

China's Economy

China's overall foreign trade in the first four months of 2023 was RMB 13.32 trillion (\$1.9 trillion), a 5.8% increase YoY, according to data that China Customs released on 9 May. Exports were RMB 8.72 trillion (\$1.25 trillion), up 8.5% YoY, indicating that world demand for Chinese goods is still strong, while imports were up only 0.02 % YoY (RMB 5.65 trillion), indicating that setbacks from Covid controls have not been overcome and demand in China remains weak.

- ASEAN remained China's largest trading partner with an increase in trade volume of 13.9%. Trade with the EU, China's second largest trading partner, increased 4.2%. China's trade with the US and Japan, however, dropped 4.2% and 2.6%, respectively.
- In April, China's overall trade volume increased 8.9% YoY. China's exports to Africa jumped 50%; to Japan +11.5% (-4.8% in March); to EU +3.9%; and to the US, down 6.5%.
- China's exports to Russia jumped 153% in April. Presently, nearly 40% of Russia-China trade is settled in RMB because of the SWIFT sanctions against Russia. Before Russia's invasion of Ukraine, only 0.32% of Russia-China trade was settled in RMB.
- Chinese imports in April declined 7.9%. A major drop was in semiconductors, which declined 15.3%.
- On 11 May China's State Bureau of Statistics (SBS) said CPI in April grew 0.1% YoY, down 0.6% from March. PPI dropped 3.6% YoY, a 1.1% decline from March. SBS attributed CPI decline to more supplies of produce because of warmer weather and a significant price drop for gas.
- However, some Chinese economists believe this data showed weakening momentum for economic recovery and forecast that China's CPI would be 0.8% for the first half of 2023 and 1.3% for the entire year.



East and Southeast Asia

Japan

On 10 May Japan's Foreign Minister Yoshimasa Hayashi confirmed an earlier Japanese media report that Japan was in talks with NATO to open a NATO liaison office in Tokyo, the first of its kind in Asia. He justified the move, "The reason why we are discussing this is that since the aggression by Russia to Ukraine the world [has] become more unstable. Something happening in East Europe is not only confined to the issue in East Europe, and that directly affects the situation here in the Pacific. That's why cooperation between us in East Asia and NATO [is] becoming...increasingly important."

- Hayashi added that although Japan is not a treaty member of NATO, the move signals that the bloc's Asia Pacific partners are "engaging in a very steady manner" with NATO. He downplayed potential increased tension over NATO's pending presence in Asia, "We are not offending anyone, we're defending ourselves from any kind of interference and concerns, and in some cases, threats."

China's Foreign Ministry responded to the Japanese media report, "Asia is an anchor for peace and stability and a promising land for cooperation and development, not a wrestling ground for geopolitical competition. NATO's continued eastward foray into the Asia Pacific and interference in regional affairs will inevitably undermine regional peace and stability and stoke camp confrontation. This calls for high vigilance among regional countries."

According to Japan's Coast Guard, the latest incident marked the 13th time this year that Chinese vessels passed the 12-mile territorial limit around the Senkaku chain. In 2022 Chinese ships crossed the territorial limit 28 times and remained for a total of 37 days. The record was 2013, when Chinese vessels spent 54 days in the territorial waters.

- Chinese media also attacked the NATO-Japan move, stating NATO's European eastward expansion has destabilized Europe and is now coming to destabilize the Asia-Pacific. Japan wants to use NATO to restore its ambition to be a major military and political power in Asia.
- China's Foreign Ministry on 12 May again criticized the establishment of a NATO liaison office in Tokyo, "NATO has publicly stated on many occasions that it remains a regional alliance and does not seek a geopolitical breakthrough. The Asia-Pacific lies beyond the geographical scope of the North Atlantic and has no need for a replica of NATO... What is NATO really up to? This calls for high vigilance among countries in the world, particularly in the Asia-Pacific. We hope relevant parties will not undermine regional peace and stability only to pursue so-called geopolitical interests."

On 11 May Japan lodged another round of diplomatic protests with China over intrusions around the Japanese-claimed Senkaku Islands in the East China Sea.

Japan's Coast Guard spokesman told the US newspaper Stars and Stripes that two Chinese Coast Guard ships chased Japanese fishing boats into the waters near the Senkaku Islands chain on the early morning of 11 May and entered the 12-mile territorial limit of the islands.

A larger contingent of Japanese coast guard vessels confronted the Chinese ships. The Japanese ships positioned themselves between the fishing boats and the Chinese vessels and warned the Chinese by radio and electronic message boards to leave the area. But the Chinese ships remained in the area until afternoon.

- According to Japan's Coast Guard, the latest incident marked the 13th time this year that Chinese vessels passed the 12-mile territorial limit around the Senkaku chain. In 2022 Chinese ships crossed the territorial limit 28 times and remained for a total of 37 days. The record was 2013, when Chinese vessels spent 54 days in the territorial waters.

On 8 May Japan's Chief Cabinet Secretary announced that Japan had deployed a PAC 3 surface-to-air missile system at Miyako Island in Okinawa Prefecture to defend against North Korean ballistic missiles. Chinese media immediately attacked the deployment, pointing out that the system is far from the Korean Peninsula and claiming that Japan's real purpose was to prepare for military intervention in a Taiwan Strait crisis. Moreover, Japan has deployed antiship missiles on the strategically important island and could block the Chinese Navy from breaking through the first island chain to enter the west Pacific. In recent years the Chinese Navy has used the strait to sail to the east of Taiwan and into the west Pacific for exercises.



The Senkakus

Five uninhabited islets and three rocks 105 miles east of Taiwan – are administered by Japan but claimed by China and Taiwan, who refer to them as the Diaoyu and Tiaoyutai, respectively. The area reportedly holds a wealth of natural resources, including fish, oil, and natural gas. The US has declared that the US-Japan defense treaty applies to the defense of the Senkakus.

Hong Kong

On 10 May Hong Kong's Legislative Council unanimously passed an amendment that gives the region's chief executive absolute power to ban foreign lawyers from working on national security cases. The amendment requires overseas lawyers who have no licenses in Hong Kong to obtain certification to handle cases related to national security.

The move is a direct result of the pending national security case against jailed pro-democracy Hong Kong media mogul Jimmy Lai. Last year the Hong Kong government tried three times on national security grounds to block Lai's hiring of a British lawyer, but the Hong Kong Court of Final Appeal ultimately ruled in Lai's favor. The Hong Kong government then appealed to China's National People's Congress (NPC), which has the final authority on interpretation of Hong Kong law. Last December the NPC ruled in favor of the Hong Kong government. Lai's foreign lawyer was denied a visa extension and forced to leave the city.

The Hong Kong Legislative Council is packed with pro-Beijing representatives.

The Council's amendment, which gives the chief executive the power to veto any foreign lawyer from working on cases brought under the 2020 National Security Law, adheres to the NPC ruling. Previous changes to Hong Kong law already gave the chief executive power to appoint judges to oversee national security trials that are not guaranteed to be heard in front of a jury. The chief executive now also has power to approve legal representation.

Some Legislative Council members and pro-Beijing lawyers defended the amendment saying that this is standard practice in most countries around the world – given the sensitivity of national security issues, unlicensed foreign lawyers are not allowed to handle national security cases. However, some HK and overseas lawyers see this amendment as yet another move by Hong Kong and Beijing authorities to undermine Hong Kong's legal integrity.

They worry the Hong Kong chief executive could use national security as a pretext to expand this authority to cover criminal and civil cases.

Philippines

On 1-4 May Philippines President Marcos Jr. made the first visit by a Philippine president to the US in 10 years. The conclusion of Bilateral Defense Guidelines between the two militaries marked a major outcome of his trip.

The Guidelines identify six areas of cooperation for US-Philippine military relations:

- Enhance Alliance Coordination and Bilateral Planning
- Expand Information Sharing
- Modernize Defense Capabilities
- Deepen Interoperability and People-to-People Ties
- Combat Transnational and Non-Conventional Threats
- Contribute to Global and Regional Peace and Security

The Pentagon press release that followed Marcos' meeting with Defense Secretary Austin stated, "Secretary Austin and President Marcos reaffirmed the United States and the Philippines' ironclad alliance commitments under the 1951 Mutual Defense Treaty and their shared resolve to defend against armed attacks on their aircraft, public vessels, and armed forces – to include their respective Coast Guards – in the Pacific, including anywhere in the South China Sea." The two leaders also "discussed ways to coordinate more closely with like-minded nations – including Australia and Japan – to strengthen shared principles, including the rule of law, freedom of the seas, and respect for territorial sovereignty."

Marcos said that joint patrols with the US, Australia, Japan, and even South Korea will start in the South China Sea later this year.

Speaking at the Center for Strategic and International Studies in Washington during his visit, Marcos said the Biden administration never raised the possibility that the military bases provided under the US-Philippine Expanded Defense Cooperation Agreement could become "staging areas for any offensive action against any country." Marcos said he had assured China's Foreign Minister, "These are not intended to be military bases to attack, to move against anyone, any country – not China, not any country." He added that the Philippines is still trying to set up a hotline between Manila and Beijing to ensure that maritime disputes do not escalate.

On 4 May China's Foreign Ministry commented on the new US-Philippine Bilateral Defense Guidelines saying, "The US-Philippines defense guidelines are a bilateral arrangement. China firmly opposes any country's move to meddle in the South China Sea issue to harm China's territorial sovereignty and maritime rights and interests by citing the guidelines."

Strategic outcomes

Beijing maintains hardline stance

Despite US-China efforts to reduce tensions, Beijing’s public insistence that the US take the initiative to act rationally and avoid “accidents” signals to China’s domestic audience that the leadership is maintaining a hardline against a threatening West and suggests a willingness to escalate tensions if needed. China is unlikely to make any unilateral moves to ease tensions with the US in the short term. Beijing is using strained relations with the US to promote China’s global leadership as an alternative.

LEVEL OF CONCERN



Pamir position

Pamir judges that China’s expanding restrictions on foreign accounting and due diligence firms function as tools of economic coercion Beijing can leverage on other contentious issues. The frequency and potency of Beijing’s restrictions on foreign companies will proportionately reflect the central government’s perception of unfavorable US policies toward China.

Business Impact

Pamir expects China’s increasing scrutiny of foreign companies’ mainland and Hong Kong operations. Auditors, financial advisors along with due diligence and investigative partners should be selected carefully to avoid professional linkages that China’s regulatory authorities and public security system could deem suspicious or dubious.



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.

Title	PEB China Update
Report #	PAMIR2023051602
Date	May 16, 2023
Keywords	PEB, China, SCS, Senkakus, EDCA, Hong Kong



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