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PAMIR Executive Brief

China Update

13 December 2023

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The development of China-US relations has never been smooth. We must remain cool-headed and understand that there are many fundamental and structural problems in the relationship.

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Executive Summary

- Chinese experts see no likelihood of major improvements in US-China relations for the foreseeable future. Commenting on the Biden-Xi meeting in mid-November, China's foreign minister WANG Yi said, "The development of China-US relations has never been smooth. We must remain cool-headed and understand that there are many fundamental and structural problems in the relationship."
- China has been taking steps to minimize technology-related security vulnerabilities, but foreign firms are still dominant suppliers for banking and telecom database management.
- China has been implementing its own version of de-risking to protect food supplies, energy, and finances from geopolitical disruption.
- The Chinese government has not introduced any epidemic control measures as a wave of respiratory illness sweeps through China's northern, eastern, and southern regions.

US-China Relations

Biden-Xi Summit

Chinese government propaganda hailed the meeting between presidents Biden and Xi in San Francisco on 15 November as a "historical milestone" in Sino-US relations, claiming that Xi reached at least three objectives:

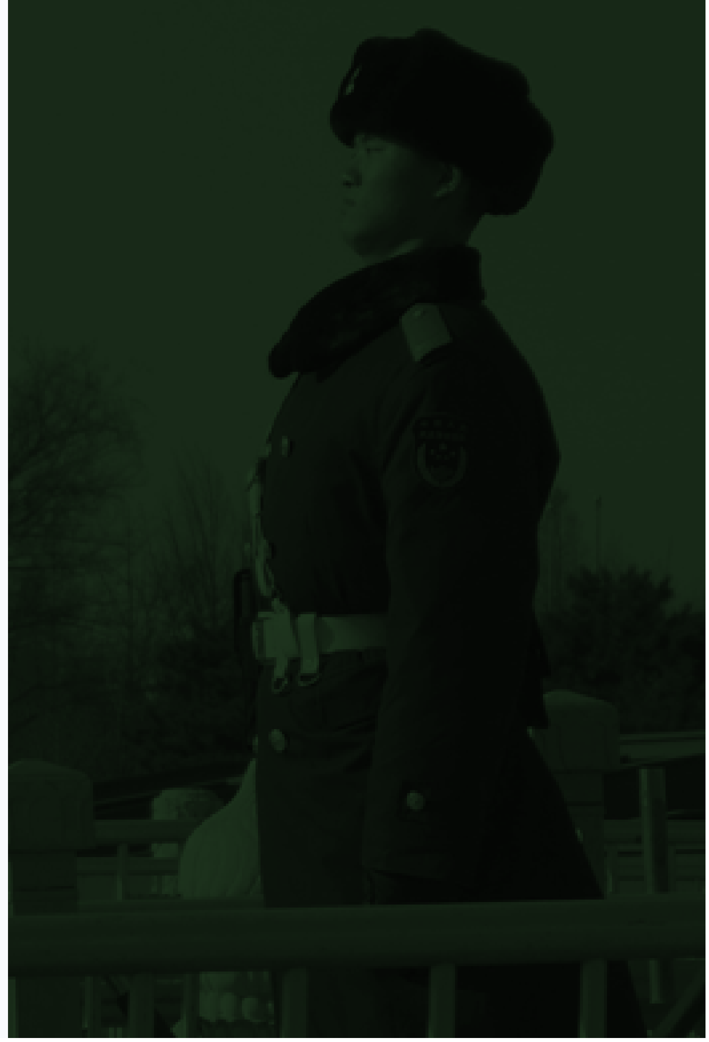
- Stabilizing China-US relations after a year of deterioration.
- Proposing his so-called "San Francisco Vision" framework for future China-US relations, which would rest on **five "pillars"**:
    1. Develop the right perception of each other. Xi said "China is committed to having a stable, healthy, and sustainable relationship with the US. At the same time, China has interests that must be safeguarded, principles that must be upheld, and red lines that must not be crossed. We hope that the two countries could be partners that respect each other and coexist in peace."
    2. Manage differences and disputes. Xi said the countries should "calmly handle their differences, as well as accidents."
    3. Advance mutually beneficial cooperation.
    4. Undertake joint responsibilities as major countries.
    5. Promote more academic, cultural, and local government exchanges.
- Highlighting the sensitivity of the Taiwan issue. Xi said, "China will realize reunification, and this is unstoppable."

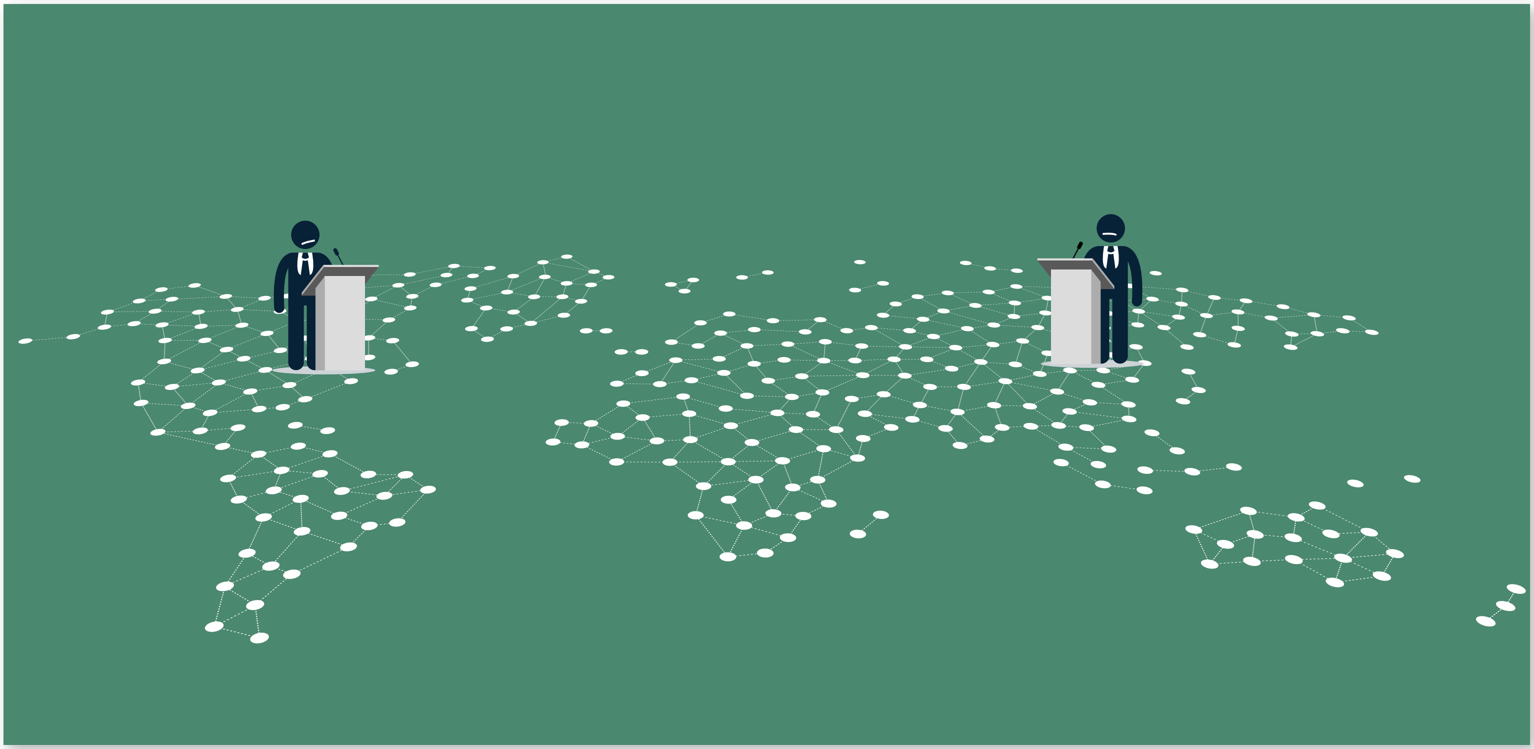
> *China is committed to having a stable, healthy, and sustainable relationship with the US.*

International observers noted differences in US and Chinese summit press releases:

- The US press release did not address Xi's "San Francisco Vision" but said Biden "emphasized that the United States and China are in competition, noting that the United States would continue to invest in the sources of American strength at home and align with allies and partners around the world… the world expects the US and China to manage competition responsibly to prevent it from veering into conflict, confrontation, or a new Cold War."
- The Chinese release said Xi told Biden that China "has no plan to surpass or unseat the United States. Likewise, the United States should not scheme to suppress and contain China." Xi emphasized, "For China and the United States, turning their back on each other is not an option. It is unrealistic for one side to remodel the other. And a conflict and confrontation have unbearable consequences for both sides."
- The Chinese release did not mention that the two leaders exchanged views on the Ukraine war and Israel-Hamas conflict or that Biden reaffirmed commitments to defend US allies in the Indo-Pacific region and freedom of navigation and overflight in the South China and East China seas.
- The Chinese release did not mention concerns Biden expressed about China's unfair trade practices.
- The US press release said Biden raised China's human rights issues and illegal detention and exit bans of Americans; the Chinese release did not mention these subjects.

"…the world expects the US and China to manage competition responsibly to prevent it from veering into conflict, confrontation, or a new Cold War."

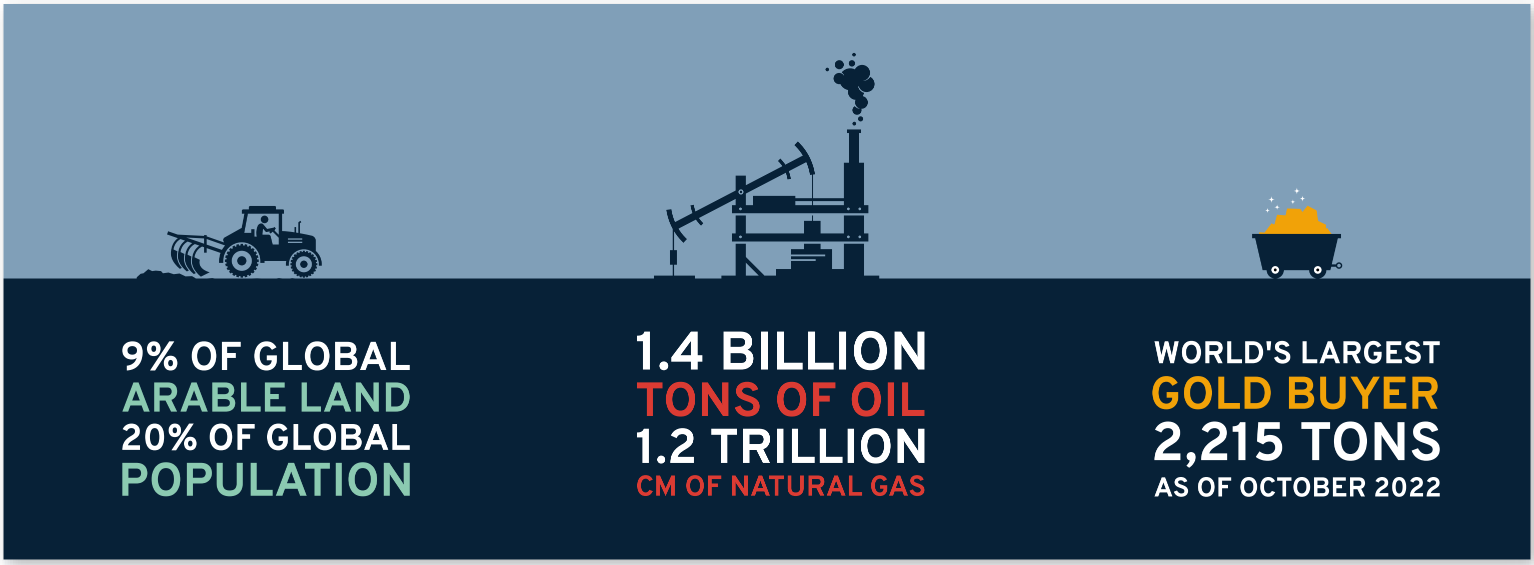




Chinese experts see no likelihood of major improvements in US-China relations for the foreseeable future, particularly given the US election season.

After the summit, Foreign Minister WANG Yi told the Chinese press, "The development of China-US relations has never been smooth. We must remain cool-headed and understand that there are many fundamental and structural problems in the relationship. There will be many risks and challenges that the two countries will face and need to work together to manage… San Francisco should not be the finish line, but a new starting point."

On 20 November, XIE Feng, China's ambassador to the US, expressed caution for optimism and sent a tacit warning to the US, "It is important to avoid backpedaling, still less saying one thing but doing another."



China's Economy

De-risking

China is acting on lessons learned from the West's sanctions against Russia and has expedited its own strategy to "de-risk" potential economic disruptions:

Food Supply. The Chinese government sees food supply security as its number one priority for CCP's legitimacy and the country's stability – China has only 9% of the world's arable land and 6% of its fresh water to feed its 1.4B people, about 20% of the world population. Moreover, China's industrial and urban development have consistently eroded China's scant farmland acreage. In 2022, more than 420,000 acres of farmland were diverted for other uses.

Although the Chinese government says China is presently 100% self-sufficient in staple foods and 95% self-sufficient in cereals, this status can quickly change due to weather or human factors. Consequently, the government has expanded soybean and corn production subsidies and acreage and is diversifying its grain import suppliers.

Energy. China has been exploring more oil and natural gas deposits inside the country, finding 1.4 billion tons of oil and 1.2 trillion cubic meters of natural gas deposits in 2022. On 23 October China announced the discovery of a natural gas field in Inner Mongolia totaling 110 billion cubic meters.

- Oil and natural gas output in the first nine months of 2023 increased 1.9% and 6.4%, respectively.
- China's national strategic oil reserves are estimated to have a 90-day supply.

Financial Security. Internationally, China has reduced its holdings of US Treasury bonds, now at their lowest point since May 2009, and is buying more gold. China is the world's largest gold buyer and now holds reserves of 2,215 tons as of October. Beijing also is promoting use of the RMB, which has replaced the Euro as the second major currency in international settlement after the US dollar.

Restrictions on Technology

The Chinese government has been taking steps to minimize technology-related security vulnerabilities and is promoting technology independence, particularly in critical sectors like semiconductors:

- Teslas are prohibited from entering or traveling near sensitive compounds like military installations, important government agencies, and TV and radio stations.
- In May, China banned the use of Micron chips in China's key information infrastructure.
- In early September, international media reported China had banned the use of iPhones by civil servants and employees of state-owned enterprises. China's Foreign Ministry denied that report but said iPhones had security problems. Chinese social media, however, supported the media report, saying that iPhones were being restricted in certain government facilities.
- On 27 October, China replaced foreign hardware and software in 2022 at the cost of RMB 1.4 trillion ($191 billion), an increase of 16.2% YoY. According to a Chinese finance ministry database seen by *Reuters*, the number of offers from SOEs, government, and military entities to nationalize equipment nearly doubled from 119 to 235 between September 2022-2023.

According to International Data Corporation, the combined China market share held by five major foreign makers of database management systems – the majority of which are American – dropped from 57.3% in 2018 to 27.3% by the end of 2022. In 2022, Huawei's enterprise business, which includes software and cloud computing operations, reported RMB 133 billion in sales, up 30% from 2021. However, foreign firms are still dominant suppliers for banking and telecom database management. Non-Chinese companies held 90% market share for banking database systems at the end of 2022.

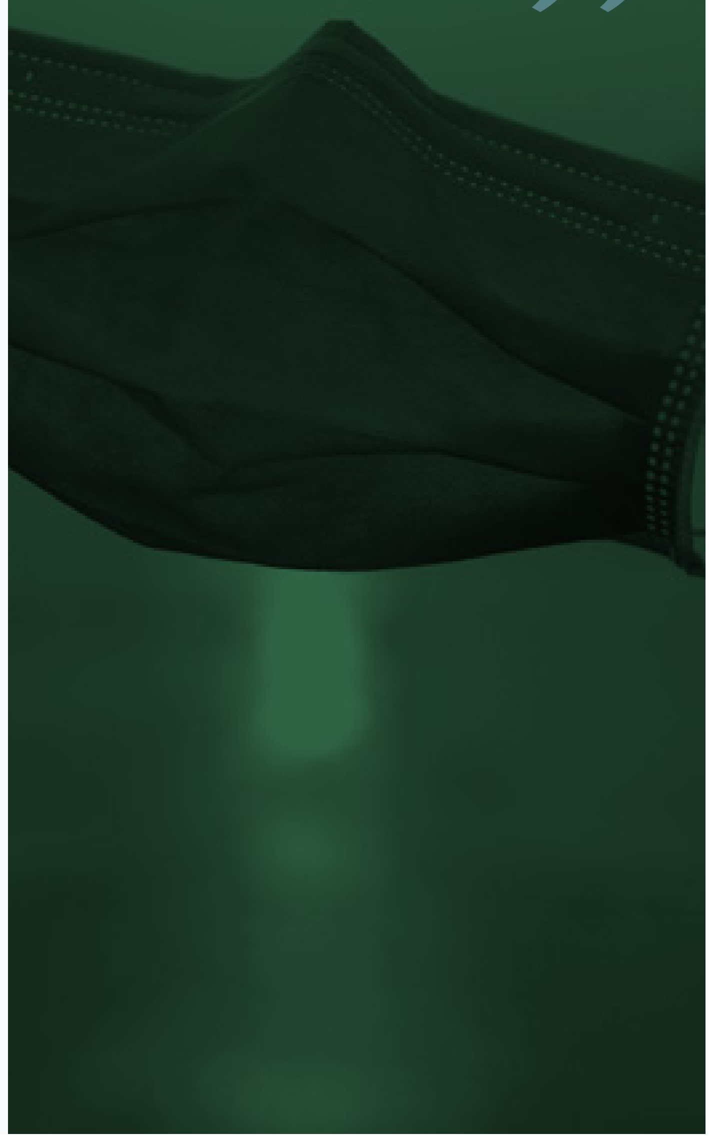
Counterespionage scrutiny has intensified in all government organizations and state-owned enterprises. Out of security concerns, some government agencies and SOEs are rejecting job applicants who have overseas study or work experience.

Health

Since the end of October, hospitals in northern, eastern, and southern China have been overwhelmed by patients with respiratory illnesses, with Chinese media reporting that 400,000 people in Shanghai fell ill in a single day. In contrast to China's Foreign Minister stating on 29 November that China had controlled the spread of the illness, Chinese media reported that some hospitals remain swamped with sick patients. The Chinese government has not introduced any epidemic control measures except for some school closures.

- The World Health Organization is monitoring the situation and "advises against the application of any travel or trade restrictions based on current information." Taiwan health authorities have advised all travelers to China to get flu and updated Covid-19 vaccines before their trips.

"[WHO] advises against the application of any travel or trade restrictions based on current information."



East and Southeast Asia

Philippines

The PLA Navy reacted to a US-Philippine joint patrol in seas between the Philippines and Taiwan on 21-23 November and accused the Philippines of "colluding with external forces to stir up trouble in the South China Sea." The Philippine Chief of General Staff said more multilateral joint patrols are planned for 2024.

Philippines President Ferdinand Marcos briefly raised concerns over recent confrontations with President Xi Jinping on 18 November in San Francisco, noting afterwards that "We have to continue to be candid with one another to be sincere in our desire for peace. I do not think anybody wants to go to war." Marcos said he and Xi agreed that the ongoing dispute "should not be the defining element of our relationship." Chinese media did not report on the meeting.

- Shortly after San Francisco, Marcos stopped in Hawaii and addressed the Asia-Pacific Center for Security Studies, where he criticized China's actions and said, "The situation has become more dire than it was before." He thanked the US and the "growing number of our other partners [for their] concrete manifestations" in support of the Philippines. Marcos declared, "The Philippines will not give a single square inch of our territory to any foreign power."

The US Navy has remained active in the South China Sea to demonstrate freedom of navigation, and China has continued to protest what it views as violations of its sovereignty:

- A late November editorial by the government-run *Global Times* commented on a Japanese media report that the US may assist the Philippines in resupplying the disputed Second Thomas Shoal and said the US action "will undoubtedly increase instability in the SCS region."
- The PLA Southern Theater Command protested the 4 December transit of a US Navy combat ship near Second Thomas Shoal.
- A Philippines Coast Guard report on 3 December said that more than 135 Chinese maritime militia ships had "swarmed" the Whitsun Reef area claimed by the Philippines, China, Vietnam, and Taiwan. On 4 December China's Foreign Ministry stated that Whitsun Reef is a part of China and that its adjacent waters have "always been important operating areas and shelter for Chinese fishing boats…The Philippines is in no position to make irresponsible remarks."

"The US Navy has remained active in the South China Sea to demonstrate freedom of navigation, and China has continued to protest what it views as violations of its sovereignty."

Strategic outcomes

Pamir Position

LEVEL OF CONCERN

5 4 3 **2** 1

Pamir assesses that President Xi used his San Francisco Vision to preemptively rebuff Biden's various concerns about China's behavior and to project China as a stabilizing factor in the relationship. Foreign Minister Wang Yi's cautious comments downplaying the impact of the Biden-Xi meeting on the state of US-China relations reflect low expectations from both sides for improving relations.

Business Impact

Business travelers should seek on-the-ground updates on for any locations in China where the respiratory illness is concentrated. Pamir foresees that China's leadership will be hesitant to introduce control measures lest they lead to a public backlash akin to the zero-Covid policy protests. Although the WHO has not issued any warnings against travel, it noted that this assessment was based on "current information."

Business Opportunity

Pamir observes that Beijing's acceleration of technology self-sufficiency and heightened counterespionage scrutiny will necessitate bolstering insider risk detection capabilities and securing access to sensitive R&D.

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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