Report number: PAMIR2023111701

PAMIR Executive Brief

China Update

17 November 2023

Address

8045 Leesburg Pike, Suite 220,
Vienna, Virginia
USA | 22182

Phone

Office: +1 703 783 5020
Mobile: +1 231 360 3408

Online

Email: info@pamirllc.com
Website: www.pamirllc.com

PAMIR

Risk Data and Analysis to guide your decisions

Our analytical teams provide deep insight on geopolitical impact, risk landscape, and competitive strategies in foreign markets.

Pamir was founded in 2006 to help US corporations protect innovation, people and market share in foreign markets where there is no level playing field. Since then, we have served over 50 Fortune 500 companies in Agriculture, Aerospace, Automation, Biomedicine, Chemicals, Energy, Financial Services, Advanced Materials, Pharmaceuticals and Semiconductors.

Pamir Consulting LLC

8045 Leesburg PikeSuite 220,
Vienna, Virginia
USA | 22182

Office: +1 703 783 5020
Mobile: +1 231 360 3408

Email: info@pamirllc.com
Website: www.pamirllc.com

Chinese investments in the US have dropped $46 billion since 2016.

Report number: PAMIR2023111701

China Update

PAMIR Executive Brief - 17 November 2023

Executive Summary

- US-China high-level economic talks reached consensus on not decoupling, addressing global financial stability and debt problems, and increasing communication.
- Chinese investments in the US have dropped $46 billion since 2016.
- Although overall FDI in China is down 8.4% year-on-year, some sectors saw growth.
- Arkansas has acted against Chinese ownership of US agricultural land and accused Chinese companies of "stealing American research and telling our enemies how to target American farmers."
- Arms control consultations on 6 November were the first US-China arms control talks since the Obama administration but did not yield substantive responses from the Chinese side.
- The Philippines has pulled out of China's Belt and Road Initiative and terminated negotiations for a series of major infrastructure projects.

US-China Relations

Economic Talks

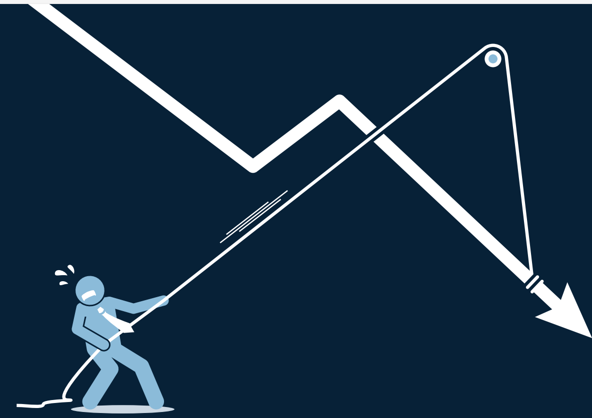
Following extensive talks with US Treasury Secretary Janet Yellen on 9-10 November, Chinese Vice Premier HE Lifeng said the two sides had reached "three important consensuses":

- Both sides agreed not to seek economic decoupling.
- Joint efforts to address common and global challenges: financial stability and oversight; debt problems for low-income and emerging economies; international financial architecture; IMF quotas and voting rights; multinational development banking reforms; and climate change.
- More communication to manage differences and avoid unintended escalation of friction. In addition to a direct line of communication between He and Yellen, the two sides decided to set up a US-China Economic and Financial Working Group led by officials at the deputy-ministerial level.

Yellen said, "We do not seek to decouple our economy from China's. This would be damaging to both the US and China and destabilizing for the world. But a healthy economic relationship requires American workers and firms to be treated fairly. I raised concerns about the breadth and depth of the PRC's non-market policies and practices and their global spillovers. These are concerns that I hear frequently from US businesses."

Chinese investments in the US plunged from $48 billion in 2016 to $2.4 billion in 2022, based on a Rhodium Group study reported on 7 November by the *Financial Times*. Among the Chinese investors in the US that the China General Chamber of Commerce surveyed for its annual report, 81% indicated that US-China strategic competition is the leading challenge for Chinese investment.

CHINA'S FOREIGN RESERVES DOWN $45 BILLION



Foreign Investment and Trade

On 3 November China's State Administration of Foreign Exchange (SAFE) reported that China's foreign reserves totaled $3.12 trillion at the end of September, down $45 billion from August. Direct investment liabilities ran a Q3 deficit of $11.8 billion, which was the first quarterly shortfall since SAFE began compiling data in 1998, according to western media reporting. China's Ministry of Commerce also reported that overall FDI was down 8.4% year-on-year in the first nine months of 2023, but some sectors saw increases: civil construction (46.3%), medical equipment and instruments (37.1%), high tech (12.8%), IT (21.5%), R&D (10.2%), and manufacturing (2.4%). The major drop in FDI was in the service industry (-15%), which includes the capital market.

- Goldman Sachs estimated that foreign exchange outflows from China rose sharply to $75 billion in September, outpacing the previous month's $42 billion and the biggest monthly figure since 2016.

As of September, China's mainland stock market was the world's second largest in terms of capitalization, but foreign capital accounted for only 3.8% of this nearly $11 trillion market, according to the government-owned China International Capital Corporation. In comparison, foreign capital accounts for nearly 30% of the Japanese stock market and 15% of the US stock market.

- It is widely speculated in China that the government will raise the ceiling for foreign capital control of Chinese stocks. Presently, foreign capital cannot hold more than 30% of a Chinese stock, and foreign firms cannot hold more than 10% of a stock.

It is widely speculated in China that the government will raise the ceiling for foreign capital control of Chinese stocks.

Chinese and international analysts attribute the decline of FDI, capital flight, and foreign business withdrawal to five main reasons:

- The deteriorating business environment for foreign businesses and the decline in confidence in China's economic prospects.
- The impact of de-risking from China by Western countries amid growing geopolitical tensions.
- Depreciated RMB and the widening gap between Chinese and US bank yields. The RMB has dropped more than 5.5% against the dollar at of the end of October. In September, the average one-year CD interest rate in China was 1.988%.
- Poor performance of China's stock markets.
- The CSI 300 capitalization-weighted index representing the performance of the top 300 stocks traded on Shanghai and Shenzhen stock markets had dropped 7.17% YTD as of 7 November.

Shanghai Expo 2023

US firms comprised the largest delegation at the 6th China International Import Expo held 5-10 November in Shanghai. According to the organizer, 3,486 companies from 128 countries attended, including 289 Fortune 500 companies. The Expo's organizer reported $78.41 billion in tentative deals for products and services.

Observers believe US companies still are attracted to the Chinese market, despite being wary of more investment in China.

The US Food and Agriculture Pavilion was the first US special pavilion since the Expo started in 2018. Although US exports of agricultural products to China reached a historical high of $42 billion last year, US suppliers are facing serious competition as China seeks to diversify its food imports. US soybean sales to China have dropped 35% YoY.

Sanctions and Restrictions

On 17 October Arkansas became the first state to act against Chinese ownership of US agricultural land in ordering the Chinese state-owned seed and pesticide manufacturer Syngenta to sell its 160 acres of land out of intellectual property and security concerns. Arkansas Governor Sarah Huckabee Sanders stated that Chinese companies operating in the US were “stealing American research and telling our enemies how to target American farmers.” Northrup King Seed, a Syngenta subsidiary, will have to divest itself within two years or face civil penalties up to 25% of its assets.

- XIE Feng, China’s ambassador to Washington, noted that Syngenta employs more than 4,000 Americans, pays $510 million in annual salaries, and buys $2 billion of US products and services. Xie urged the US to “stop politicizing economic issues under the pretense of security.”
- Lawmakers in more than two dozen states have passed or considered legislation restricting Chinese purchases of US farmland. According to US Department of Agriculture data, as of 31 December 2021, China owned less than 0.03% of total US farmland.

On 2 November the US Treasury Department announced sanctions against three Chinese companies that are accused of sending Russia electronic, camera, and radar components in support of Russian defense industries.

Arkansas Governor Sarah Huckabee Sanders stated that Chinese companies operating in the US were “stealing American research and telling our enemies how to target American farmers.”

Military Tensions

In its *China Military Report* published on 19 October, the Pentagon said there have been 180 instances of "coercive and risky behavior" by Chinese military aircraft between the fall of 2021 and 2023, more than all previous decades combined. The US Indo-Pacific Command (USINDOPACOM) has emphasized that "The US will continue to fly, sail, and operate – safely and responsibly – wherever international laws allow…We expect all countries in the Indo-Pacific to operate in international airspace safely and in accordance with international law."

- On 20 October China's Defense Ministry responded, saying, "Since the beginning of 2023, the US conducted more than 2,000 sorties of close-in reconnaissance flights" close to China's coast. The ministry labeled US actions as "provocations [and] hostilities" and added, "any sovereign country will take necessary countermeasures."
- The current maritime dialogue is between the diplomats of the two countries, not their militaries. The absence of direct military-military dialogue raises the stakes that an accident could further aggravate fragile US-China relations.

Arms control consultations held on 6 November were the first US-China arms control talks since the Obama administration. Although the US emphasized the need for increased nuclear transparency, substantive engagement to manage and reduce strategic risks, promoting stability, averting an unconstrained arms race, and managing competition so that it does not veer into conflict, an unnamed US official told Reuters, "The Chinese delegation did not respond substantively." Chinese media said the Washington meeting was "not an arms control talk."

180 INSTANCES
OF COERCIVE & RISKY
BEHAVIOUR BY
CHINESE
MILITARY AIRCRAFT
2021–2023

East and Southeast Asia

Philippines

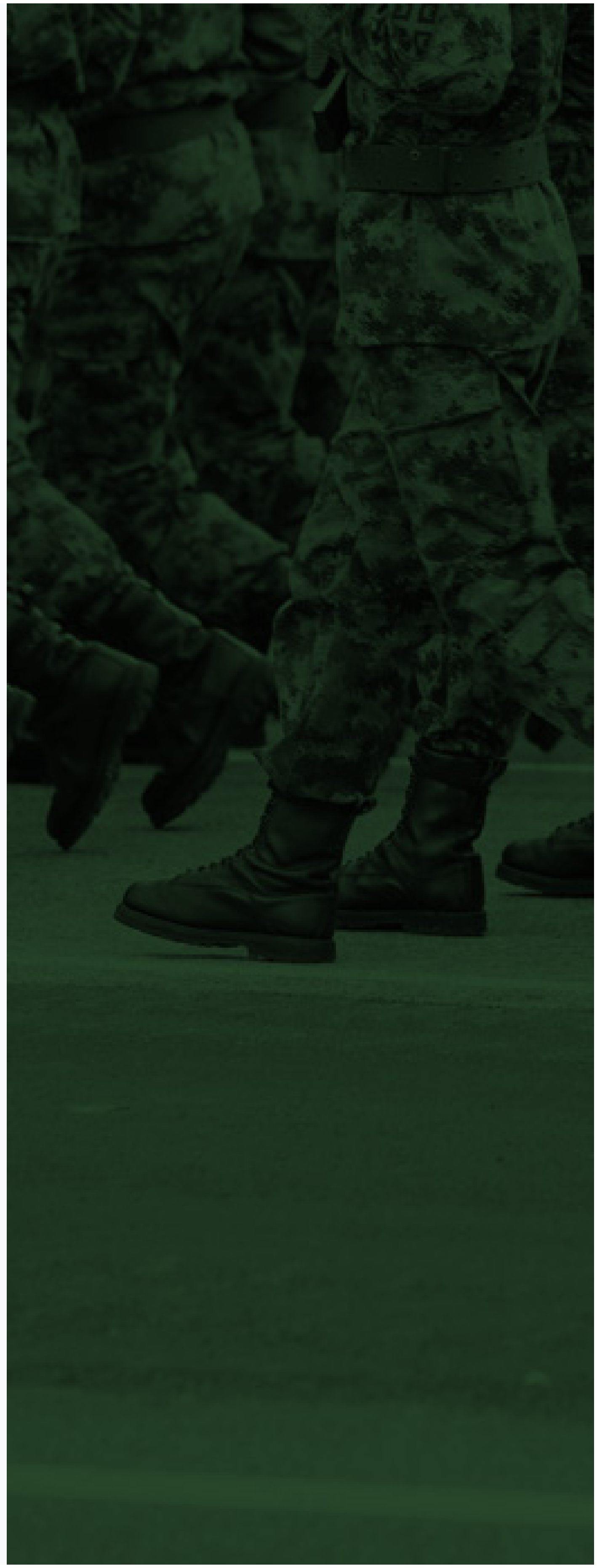
Ongoing territorial confrontations between the Philippines and China in disputed areas of the South China Sea are leading Manila to broaden security alliances and distance itself from Beijing. The Philippine Coast Guard observed a record number of 38 Chinese navy, coast guard, and maritime militia ships operating near Second Thomas Shoal on 10 November. Manila classified China's actions as reckless, dangerous, and illegal and sent a diplomatic protest to Beijing.

- **On 3 November international media reported that the Philippines had pulled out of China's Belt and Road Initiative (BRI) after having renewed the partnership in January.** The Philippine Department of Transportation announced the "full termination" of negotiations on a series of major infrastructure projects to be undertaken and funded by China, to include three railway lines, two water supply and irrigation projects, a large sea bridge, and TV cable networks in Manila and other cities. The Department said it is working with Japan, South Korea, and India to fund the three railway lines at a cost of $4.95 billion.
- **During Japanese Prime Minister Kishida's visit to the Philippines on 3-4 November, the two countries agreed to enhance their defense relations.** Japan will provide the Philippines with five sets of coastal surveillance radar systems and will fund $525 million for the Philippines Coast Guard to purchase another five Multi-Role Response Vessels (MRRV) to help strengthen maritime security; Japan already has provided 12 such ships. The two countries also will start negotiations on a Reciprocal Access Agreement (RAA) to facilitate movement of their military forces whenever necessary, and thereby form a quasi-alliance relationship.
- Japan signed RAAs with Britain and Australia in January and August this year, respectively. Chinese military experts view Japan's move as forming an Asian NATO against China.

Military Exercises

On 4-8 November the USS Ronald Reagan aircraft carrier strike group, USS Carl Vinson strike group, and Japan's helicopter carrier destroyer conducted a joint exercise in the Philippine Sea. The US Navy said the exercise was to demonstrate the ability of the US and Japan to deploy their warfighting assets in time of a crisis.

On 9-20 November, the Philippine, US, Japanese, and South Korean militaries, along with observers from Britain, are conducting a large military exercise across the Philippines. The US Marine Corps said in a statement that the exercise will cover humanitarian and disaster relief; chemical, biological, radioactive, and nuclear warfare training; littoral search and rescue; and coastal defense.



Strategic outcomes

Pamir Position

Yellen-He talks seemingly reached agreement to avoid further aggravation to bilateral economic relations. Pamir assesses that progress in improving relations still contends with Chinese anti-US rhetoric, a raft of potentially intrusive Chinese laws, and a US legislative agenda that promises to impose additional restrictions and sanctions. China's pronounced alignment with Russia and Iran further protracts conflict in Europe and the Middle East, which serves Beijing's geopolitical agenda in undermining US global leadership.

LEVEL OF CONCERN

5 4 3 **2** 1

Business Impact

Despite US-China rhetorical consensus on mitigating decoupling, Pamir expects most US companies will likely continue to fortify and diversify supply chain resilience until China's treatment of foreign firms improves.

Business Opportunity

Pamir anticipates that investor jitters, capital flight, and geopolitical uncertainty suggest that investment diversification will prevail as a sensible hedge.

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 #	PAMIR2023111701
Date	17 November 2023
Keywords	PEB, China, Philippines, SCS, BRI, FDI, arms control

PAMIR

Address

8045 Leesburg Pike,
Suite 220,
Vienna, Virginia
USA | 22182

Phone

Office: +1 703 783 5020
Mobile: +1 231 360 3408

Online

Email: info@pamirllc.com
Website: www.pamirllc.com