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PAMIR Executive Brief

China Update

1 August 2023

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Pamir assesses that the appointment of Dong Jingwei as Director of the Office for Safeguarding National Security of the Central Government will tighten the Ministry of State Security's control in Hong Kong, beginning with the new crackdown on spreading misinformation.

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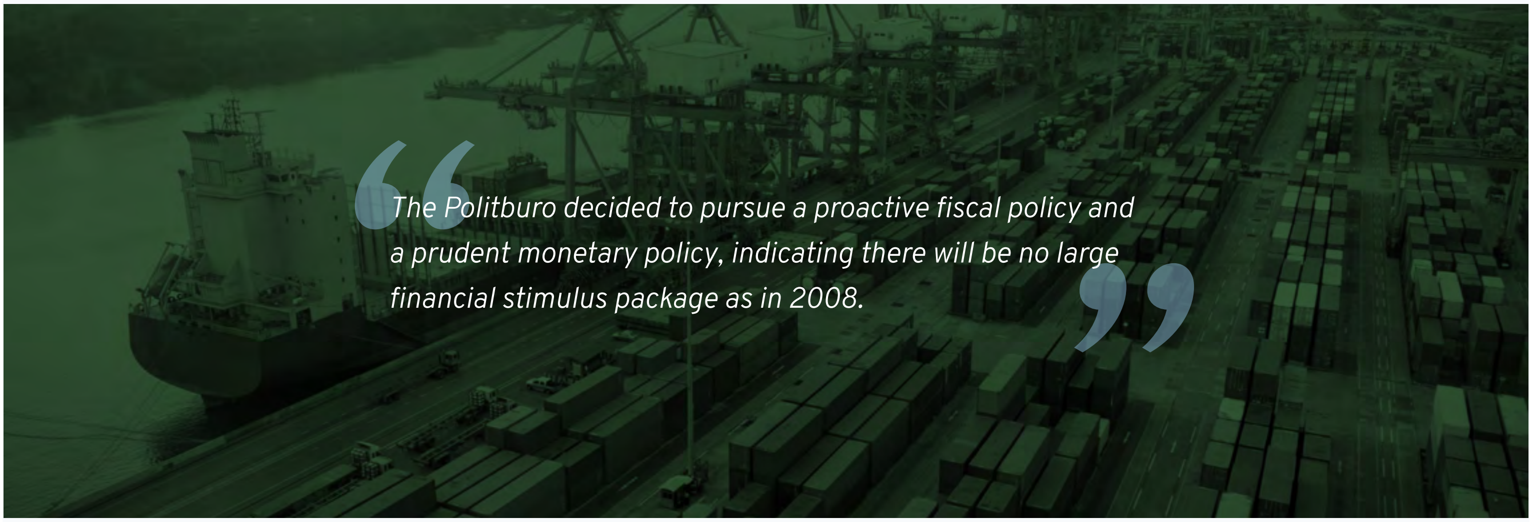
Executive Summary

- China's Politburo has recognized new economic challenges that include weak domestic demand, sluggish industrial growth, local government debt, high youth unemployment, and uncertainty in global demand and supply chains.
- Chinese leaders have emphasized the need for increased cybersecurity as the administration campaigns against online misinformation and strengthens regulations for the use of social media.
- China appointed DONG Jingwei, a former vice minister in charge of counterespionage, to become director of Hong Kong's Office for Safeguarding National Security of the Central Government as part of steadily increasing efforts to weed out Western influences that China views as destabilizing.
- Beijing declined to directly criticize Russia's abrogation of the Black Sea Grain Initiative.



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China's Economy

A special Politburo meeting chaired by President Xi Jinping on 24 July to analyze China's economic situation and boost the economy in the second half of 2023 stressed that "the nation's economy has enormous resilience and potential, and the positive fundamentals for long-term development remain unchanged," but China's economy faces new challenges:

- **Insufficient domestic demand.**
  In H1, CPI grew 0.7% and PPI dropped 3.1% YoY, indicating weak demand. In June, retail sales grew only 3.1%, compared to 18.4% and 12.7% in April and May.
- **Difficulties confronting some enterprises.**
  Industrial growth dropped to 3.5% and 4.4% in May and June, and profits were down 16.8%, indicating economic recovery had lost momentum.
- **Risks and hidden dangers in key areas.**
  Chinese economists highlighted local government debt and high unemployment among youth as two major dangers.
- **Grim and complex external environment.**
  Global demand has slowed and supplies for some essential commodities face great uncertainties.

PPI DROPPED 3.1% YOY INDICATING WEAK DEMAND

According to data from China Customs, China's exports grew 2.1% in the first half of 2023 and grew only 1.2% in May and June. Trade with the US dropped 8.4% YoY, representing 11.2% of China's total trade.

The Politburo decided to pursue a proactive fiscal policy and a prudent monetary policy, indicating there will be no large financial stimulus package as in 2008. Main measures include:

- **Invigorate capital markets** and boost investors' confidence, particularly private investment.
- Give more **support to private business** and continue SOE reforms.
- **Promote domestic consumption**, particularly for automobiles, electronics, housewares, sports, entertainment, and tourism. Wages will increase.
- Continue **tax and fee reductions** and impose more oversight on arbitrary fees and fines levied by local governments.
- Enforce financial **supervision over local governments** and introduce a package of debt relief measures for them.
- Adjust **real estate policy** and promote real estate market growth.
- Redouble efforts for **job creation**.
- Promote exports and attract more **foreign investments**.

The Politburo also called for:

- Accelerating the cultivation and development of strategic emerging industries and creation of more pillar industries.
- Promoting deep integration of the digital economy with advanced manufacturing and modern services.
- Advancing the secure development of AI and the healthy and sustained development of an internet-based platform economy.

On 17 July China's National Bureau of Statistics reported that GDP grew 5.5% in H2, far lower than the 7%-7.3% growth previously forecasted by economists, both Chinese and foreign. Unless the downward trend of May and June is reversed in the second half of this year, Chinese economists say the government target of 5% GDP growth for 2023 will be difficult to achieve.

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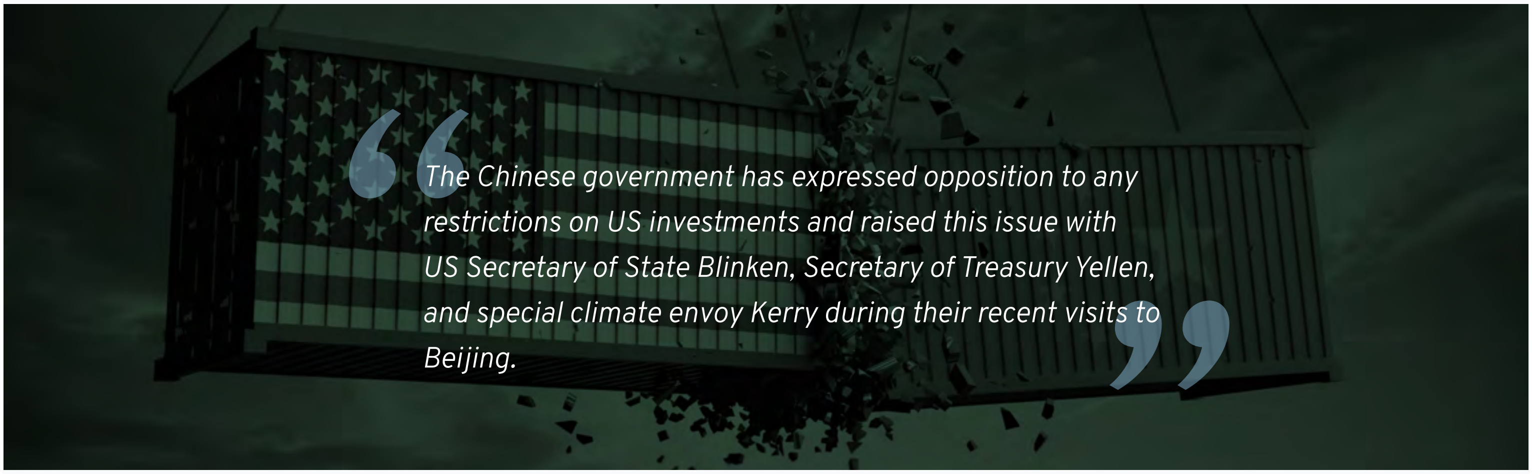

US-China Relations

Sanctions & Restrictions

On 19 July, the House Select Committee on the Chinese Communist Party expressed "serious concern" about US investments in Chinese tech startups, especially investments in Chinese AI and semiconductor companies. The Committee sent letters to GGV Capital, GST Ventures, Qualcomm Ventures, and Walden International demanding that the four companies explain their investments in China. The committee said this is the first in its series of investigations into US investments in China.

- Chinese experts on US-China relations commented that the Trump administration had banned US investments in 31 companies alleged to have ties to the Chinese military.
- With bipartisan US consensus against China, it is only a matter of time that all US investments in China receive more scrutiny and restrictions by the US — the House Select Committee's action is a development in this direction.
- The Biden administration will likely introduce some restrictions later this year on US investments in China's high-tech sector. Eventually, US restrictions will only vary by scope and severity depending on negotiations between Washington and Wall Street.

The Chinese government has expressed opposition to any restrictions on US investments and raised this issue with US Secretary of State Blinken, Secretary of Treasury Yellen, and special climate envoy Kerry during their recent visits to Beijing.

- China's Foreign Ministry asserted, "The US habitually politicizes technology and trade issues and uses them as a tool and weapon in the name of national security…The true intention of the US is to take away the right to development from China and maintain US supremacy for its selfish interests… We will closely follow developments and firmly safeguard our rights and interests."

Chinese industry and stock market experts believe that US investment restrictions on China's high-tech development will have more political than substantive impact. The Chinese government has made high-tech development one of China's strategic priorities, and most of China's high-tech development is driven by domestic investment, particularly government funding.

- Foreign investments constitute a very small fraction of financial input.
- These experts point out China's political system determines that once an initiative becomes a national strategic priority, it will result in a "whole of nation" effort.
- China will do "whatever it takes" to achieve its strategic goals, just as China achieved success in its nuclear and space programs. China already has made significant progress in its own high-tech R&D, such as in AI and quantum computing.

On 21 July China's Ministry of Commerce announced an anti-dumping investigation against the US export of propionic acid (PA) to China that will run until 21 July 2024. PA has many applications in food, pharmaceutical, and chemical intermediary products.

Chinese sources believe the investigation is designed to pressure the US to lift tariffs against Chinese imports.

Attending the Aspen Security Forum on 19 July, China's ambassador to the US Xie Feng said US tech restrictions are...

"under the pretext of competition...China never shies away from competition. But the competition defined by the US is unfair...We oppose both an iron curtain and silicon curtain...The Chinese people will not remain silent, and the Chinese government will not sit idly by."

Cybersecurity

On 14-15 July, China held a National Conference on Cybersecurity and Informatization Work (NCCIW), five years after a similar meeting in 2018. President Xi sent a special message to the conference, which top leaders from central and provincial governments, large SOEs, and the PLA attended.

- Xi pointed out the importance of cybersecurity and informatization work in the new era, saying, "Without cybersecurity there won't be national security." He emphasized that China needs stronger Party leadership in managing China's cyberspace, that China must accelerate cyberspace technology R&D, and that China should do more to ensure national cybersecurity.
- As of December 2022, China had over one billion Internet users and online retail sales of $2.78 trillion; the digital economy accounts for 41.5% of China's GDP. Cyberspace has become a crucial part of China's economy and social life, and thereby, a huge vulnerability for China's political and economic security.

Chinese media disclosed little substantive information about the conference, but a series of Chinese government actions indicated that, in addition to cyberspace technology development, cybersecurity work falls primarily into two sectors:

Online Information Control. Given China's myriad netizens, the Chinese government is concerned that "negative" information transmitted through cyberspace could endanger the CCP-led political system and undermine China's social stability. The cybersecurity conference called for "more specific work" to spread "more positive online information," "minimize online ideological risks," and "create a sound cyberspace eco-system."

- Beginning in April 2023, China's Ministry of Public Security launched a national campaign against "online misinformation" that has removed more than 420,000 instances of misinformation, closed more than 10,000 online accounts, and issued more than 1,600 indictments.
- On 10 July the Cybersecurity Administration of China (CAC) issued a new 13-point regulation on "private social media." China already requires true name registration for online accounts. The new regulation reinforces the rule that "each individual can have only one online account and each enterprise can have no more than two accounts" and specifies penalties. On 15 July CAC removed 373 online accounts and publicized 7 online "misinformation" cases that generated national attention. All Chinese metropolitan cities and provinces also initiated operations against "online misinformation."

FOREIGN MINISTRY DEBACLE

China's awkward handling of Foreign Minister QIN Gang's mysterious disappearance and eventual replacement only seven months after his appointment has fueled numerous theories about his demise, ranging through extramarital affairs, corruption, espionage, internal power struggle, and poor job performance. In the end, just as with the spy balloon incident earlier this year, the case highlighted incompetence in China's crisis management. This apparent paralysis and opacity suggest that serious consequences are possible at future critical moments in domestic politics or foreign diplomacy.

- Chinese sources note that the reappointment of Politburo member Wang Yi to his previous position as foreign minister shows Qin's case happened suddenly and that China's leadership, particularly President Xi Jinping, did not have an immediate candidate.
- Qin's case is still developing. Chinese sources note that the government announced Qin had been "released" from his position, whereas "dismissed" was the term used in previous cases involving officials charged with corruption or other disciplinary offenses. On the surface, Qin retains his position as State Councilor, a position higher than minister and equal to vice premier.

Online Data Control. The cybersecurity conference emphasized the "strategic importance" of data security and demanded reinforcement of China's "cybersecurity fence." An upcoming Chinese government action is the introduction of an "Online Data Security Management Regulation."

- China already has national security laws applicable to data security – Cybersecurity Law, Data Security Law, and Personal Information Protection Law – and specific regulations for evaluating outbound data transmissions and for industrial and IT data security management. In March 2023, China established the National Data Administration to oversee data security.

Given China's myriad netizens, the Chinese government is concerned that "negative" information transmitted through cyberspace could endanger the CCP-led political system and undermine China's social stability.

Hong Kong

On 18 July, China appointed DONG Jingwei Director of the Office for Safeguarding National Security of the Central Government in Hong Kong, making Dong the highest-level Chinese security official in Hong Kong. Under the 2020 Hong Kong National Security Law, the Office has sweeping investigative and surveillance powers and immunity from Hong Kong laws.

Dong, 59, spent his career in China's Ministry of State Security (MSS) and was vice minister in charge of counterespionage before his Hong Kong appointment. In 2021 Dong told a symposium that China needed to wage a "people's war" against foreign espionage and that China should work "not only to catch foreign spies, but…catch internal traitors" who collude with foreign spy agencies. Dong's remarks were reflected in China's new Counterespionage Law that went into effect on 1 July. The MSS has played a major role in China's recent crackdown on some foreign due diligence companies working in China.

In an essay published in a Chinese political journal in July 2022, Dong said "Western forces" had been instigating a "color revolution" in Hong Kong and that the Hong Kong National Security Law has been vital to restoring order.

- Western diplomats believe Dong's appointment demonstrates Beijing's resolve to tighten security in Hong Kong. Hong Kong Chief Executive John Lee has prioritized passage of Article 23 of the Hong Kong Basic Law that will encompass espionage, treason, subversion against the Central government, and other offenses not covered in the Hong Kong National Security Law. Article 23 has been shelved since 2003, when massive public protests forced the local government to withdraw it.


The Chinese government and media did not denounce Russia’s withdrawal from grain deal, nor its attacks on Ukraine. During a UN Security Council meeting on 21 July, China’s representative repeated China’s position saying China supports UN efforts and hopes exports of Russian fertilizer and Ukraine grain could be restored soon.

Ukraine War

On 20 July a Russian missile damaged the Chinese Consular General Office in Odessa. Fearing Chinese public outrage as happened when the US bombed the Chinese embassy in Belgrade in 1995, China’s Foreign Ministry downplayed the incident as a “nearby explosion” but added, “The blast wave shook off parts of the wall surface and windowpanes.

The consulate staff had long left the premises and no one was hurt.” Chinese media described US and Russian incidents as “totally different” and accused foreign media, and some Chinese social media, of linking the two incidents “trying to make trouble.”

Chinese state media extensively covered Russia’s decision to halt implementation of the Black Sea Grain Initiative, as well as Ukraine’s attack on a Crimean bridge and Russia’s retaliation.

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- Chinese economic experts do not think the disruption in Ukrainian grain exports will endanger China’s food security. Grain imports from Ukraine are mostly corn, 60% of which are for animal feed and the rest mainly for industrial and biofuel use. Ukraine used to account for more than 80% of China’s total corn imports, but in 2021 the US replaced Ukraine, accounting for nearly 70%.
- Chinese economic experts believe India’s recently announced rice export ban will have a larger impact on global food supply than the disruption of Ukraine grain exports but will not affect China’s food supply. In 2022, 92.8% of China’s rice imports from India were for feed.

Strategic Outcomes

Pamir Position

LEVEL OF CONCERN

5 4 3 **2** 1

Pamir assesses that the appointment of Dong Jingwei as Director of the Office for Safeguarding National Security of the Central Government will tighten the Ministry of State Security's control in Hong Kong, beginning with the new crackdown on spreading misinformation. Dong represents the MSS's salient presence and intensified scrutiny over Hong Kong. This move reaffirms Beijing's longer-term plan to reduce Hong Kong's cosmopolitan identity, erase its Western legacy, and shift its international financial role to more compliant mainland cities under Chinese laws.

Business Impact

Pamir underscores that the counter-misinformation campaign behooves all employees to take extra care in their online communications. Hong Kong-based offices must comply with "Beijing rules" in their data management and security practices.

Business Opportunity

Pamir recommends that US companies with a presence in Hong Kong review and update all security precautions pertaining to personnel, data, facilities, and assets.

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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