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PAMIR Executive Brief

China Update

1 March 2023

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“Japan announced a purchase of advanced US cruise missiles that Beijing views as another of the West’s confrontational moves to encircle China.”

Executive Summary

- Beijing has sanctioned two US defense contractors from doing business with China and has instructed its state-owned enterprises to discontinue business relations with the four largest US accounting firms.
- Japan announced a purchase of advanced US cruise missiles that Beijing views as another of the West's confrontational moves to encircle China.
- Chinese social media, particularly those associated with the Chinese military, attacked South Korea for joining the US anti-China campaign. South Korean businesses have suffered from increasing hostility of the Chinese public, leading popular firms to quit China.
- A Chinese drone company was negotiating with Russia to provide 100 Kamikaze drones, and China planned to provide Russia with military aircraft parts using falsified shipping documents, according to German press reporting. China did not deny the report.
- China used the first visit of an Iranian president in 20 years to express solidarity against US-led Western hegemony and to increase bilateral cooperation with Iran as part of a strategic partnership that closely resembles the one with Russia.
- Iraq joins Saudi Arabia, Russia, and Iran as the fourth country to settle oil agreements with China in petroyuan.

US-China Relations

Beijing believes the Biden administration wants to force China to serve a US agenda. The Chinese leadership perceives Washington's measures – supporting Taiwan independence, inhibiting trade, increasing military pressure around China, and imposing a technology blockade – as efforts to undermine China's development.

The 18 February meeting between US Secretary of State Blinken and Politburo member WANG Yi on the sidelines of the Munich Security Conference was the first high-level contact between the two countries since the Chinese surveillance balloon incident. Instead of deescalating tensions, the meeting availed both sides to trade barbs.

- Wang warned Blinken that if the US continues to dramatize and escalate the balloon incident, the US side should be prepared to bear all consequences, and that China does not accept US finger-pointing or coercion targeting China-Russia relations. Wang also urged the US to “follow through on its statement of not supporting Taiwan independence.”
- Chinese analysts warn that China should bear no illusions and prepare for a worsening situation with the United States. They attribute the Biden administration's limited maneuvering space to US domestic politics.
- China's Party-run Global Times published an editorial the following day accusing the US of creating a “baseless” narrative to “hijack China-Russia relations.” Chinese experts believe the Biden administration wants to use this narrative to 1) sustain US domestic support for continued aid to Ukraine; 2) keep public focus on China as the real adversary; and 3) drive a wedge between Beijing and Moscow.

On 20 February, responding to Blinken's public assertion that China was considering providing lethal support to Russia, China's Foreign Ministry said, “It is the US, not China, that has been pouring weapons into the battlefield. The US is in no position to tell China what to do.”

On 16 February the US Department of Justice (DOJ) announced the creation of a “Disruptive Technology Strike Force” (DTSF) to “target illicit actors, strengthen supply chains, and protect critical technological assets from being acquired or used by nation-state adversaries.” DOJ named China as one such state actor. DTSF will “bring together experts throughout the government, including the FBI, Homeland Security Investigations, and 14 US Attorneys' Offices in 12 metropolitan regions.”

Chinese Sanctions

On 16 February China added Lockheed Martin and the missile subsidiary of Raytheon Technologies to its “Unreliable Entities List,” which will prohibit the two companies from doing business with China and will bar senior staff from entering China. Although China said it had sanctioned the two companies for their involvement in US arms sales to Taiwan, Beijing’s move also represents a “symbolic action” in response to the US shooting down of the Chinese surveillance balloon.

- In 2019, 2020, and 2022, China imposed similar sanctions against the two companies for arms sales to Taiwan but has avoided sanctioning the commercial divisions of Raytheon that sell aviation and other components to China.

On 22 February the Chinese government instructed state-owned enterprises (SOEs) to discontinue business relations with the “Big Four” US accounting firms—Deloitte, Ernst & Young, KPMG, and PwC—when their contracts expire, for reasons ostensibly related to data security. In 2021 these companies earned approximately \$3 billion from Chinese customers, according to Bloomberg.



According to US Treasury Department data published on 15 February, China sold \$3.1 billion in US Treasury Bonds in November 2022, continuing a five-month selling trend.

**IN 2022
CHINA
SOLD OVER
\$173 BILLION
IN US TREASURY BONDS**



Economic Issues

According to US Treasury Department data published on 15 February, China sold \$3.1 billion in US Treasury Bonds in November 2022, continuing a five-month selling trend.

In the first 11 months of 2022, China sold a total of \$173.2 billion in US Treasury Bonds and retained \$867.1 billion in US bonds as of December 2022 (versus \$1.04 trillion in December 2021). China remains the second largest foreign US debt holder after Japan, but China's holdings dropped to their lowest since June 2010.

On 22 February Iraq's central bank announced that it will accept the Chinese yuan as the settlement currency for oil exports. Iraq is China's third largest oil provider with 55.48 million tons in 2022. China previously had paid for Iraq oil imports in US dollars.

Chinese industry experts note that the Iraqi announcement marked a major milestone for petroyuan internationalization and a setback for petrodollars. China already has made petroyuan agreements with Saudi Arabia, Russia, and Iran.

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Security Issues

China's new law on military reserve forces becomes effective on 1 March and raises the service age for officers from 55 to 60 and for non-commissioned officers from 35 to 55; the new law will also increase the strength of the reserves, which now number between 18.5 and 30 million.

Some Chinese military experts see the new law as designed to 1) retain technical talent as military equipment is getting more sophisticated; 2) meet exigent needs for “maintaining social stability” at home; and 3) prepare for military operations to take Taiwan.

On 20 February Chinese media reported that a hacking group known as Against The West (ATW) have launched massive cyberattacks against China from Europe and North America starting in 2021. The group targeted more than 300 systems related to China's government agencies, banks, hospitals, law enforcement agencies, telecommunication companies, aviation, and infrastructure departments and has made sensitive information public on more than 70 occasions.

The Chinese government frequently publishes news of foreign hacking to alert the public about cybersecurity, portray China as a cyberattack victim of the West, and justify Chinese cyber operations against the West.

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At the recently concluded Naval Defense & Maritime Security Exhibition (NAVDEX) in Abu Dhabi, China revealed the existence of an extra-large unmanned underwater vehicle (XLUUV) that is part of an ongoing trend in new naval weaponry. The US and British navies appear to lead development in the field, but China has at least five designs in the water, more than any other navy. US Navy experts note that some of China's unmanned underwater vehicles may be used as submarine killers that could pose a threat to US forces.

East and Southeast Asia

Japan

On 27 February Japan's prime minister announced the planned purchase of 400 US Tomahawk long-range cruise missiles in their most advanced version. Japan sees a need to bolster deterrence against steadily increasing Chinese and North Korean military threats.

China has yet to react but is certain to condemn the move and likely to impose some form of sanctions and increase military activity near disputed islands.

Korean Peninsula

At a UN Security Council emergency meeting held on 20 February to discuss recent North Korean missile firings, China's UN representative said increased US and allied military activities in the region, as well as the recent visit by the NATO Secretary General to Northeast Asia, were "highly provocative" and exacerbated North Korea's concern for its security. He called on all parties to exercise restraint and resume dialogue. China refused to support any new sanctions against North Korea.

Although South Korea will be lifting mandatory Covid test requirements for travelers from China, anti-South Korea sentiment in China is on the rise, particularly over Taiwan issues:

- Chinese social media, particularly those associated with the Chinese military, launched attacks against South Korea for joining the US anti-China campaign. Routine US-Japan-South Korea diplomatic dialogue has included the Taiwan issue on its meeting agenda since November 2022, and on 16 February, 10 South Korean military aircraft refueled in Taiwan on their way to Australia.
- South Korean businesses have suffered from increasing hostility of the Chinese public, leading popular South Korean cosmetic shops, supermarkets, and department stores to quit China. In 2022 Hyundai sold only 259,000 vehicles in China, compared with 1.79 million cars in 2016, this despite a 2.1% year-on-year increase in the total Chinese market of 26.86 million cars. One Chinese representative for a South Korean business said public sentiment is causing Chinese customers to turn to other brands.

South Koreans also hold strongly negative views of China. On 12 February Chinese media reported on a recent poll by JoongAng, South Korea's largest daily newspaper, that showed 64.5% of South Koreans support their government in joining the US "to block China's unification with Taiwan."

“On 14 February President Marcos summoned China’s ambassador and expressed “serious concern over the increasing frequency and intensity of actions” by China against the Philippine Coast Guard and fishermen.”

Philippines

On 21 February US Defense Secretary Austin held a meeting with his Philippine counterpart Carlito Galvez to discuss the South China Sea (SCS) situation, including the 6 February incident where a Chinese Coast Guard ship reportedly used a military grade laser gun against a Philippine Coast Guard ship near Second Thomas Shoal.

Austin warned any attack against Philippine vessels in the SCS will trigger the US-Philippine joint defense treaty and added that the US will live up to its treaty obligations. Austin also agreed to help the Philippines enhance its defensive capabilities and to launch joint maritime operations in the SCS. A joint exercise planned for 8 April will be the largest in recent history with nearly 10,000 soldiers participating, including 5,100 Americans.

On 14 February President Marcos summoned China’s ambassador and expressed “serious concern over the increasing frequency and intensity of actions” by China against the Philippine Coast Guard and fishermen. On 15 February China’s Foreign Ministry claimed sovereignty over the Second Thomas Shoal and said it was the Philippine ship that “intruded into adjacent waters without Chinese permission.” China denied its Coast Guard ship used a laser gun against the Philippine Coast Guard crew.

The Philippines is studying defensive options with additional regional partners:

- On 22 February the Australian Defense Minister announced in Manila that Australia was studying the feasibility of joint patrols in the SCS.
- On 8-12 February President Marcos visited Japan, where he signed an agreement to increase defense cooperation. During this period, Japan’s defense minister visited Manila to discuss details of the cooperation.

Chinese sources say that the increase in military activities and joint patrols in SCS by the US and its allies in the upcoming months could trigger accidents or skirmishes with Chinese forces.

On 24 February a PLA fighter flew within 500 hundred feet of a US P-8 reconnaissance aircraft flying in international waters over the SCS; the PLA warned the US plane to stay away from the airspace 12 miles from an island China occupies. On the same day, Chinese media reported a US P-8 aircraft flew 1,000 feet over a Chinese naval ship.

China-Russia Relations

On 22 February Wang Yi met with President Putin in Moscow and reaffirmed that “Sino-Russia relations are mature and rock solid and will withstand the test of the changing international situation.” Wang assured Putin that China’s relations with Russia would “not succumb to pressure from third parties,” a clear jab at the US. On 23 February Der Spiegel reported that a Chinese drone company was negotiating with Russia to make 100 Kamikaze drones and that China planned to provide Russia with military aircraft parts using falsified shipping documents.

China’s embassy in Berlin did not explicitly deny the accusation but repeated, “It is a known fact that NATO countries, including the US, are the biggest source of weaponry for the battlefield in Ukraine, yet they keep claiming China may supply weapons to Russia...We urge NATO to quit groundless speculation and smears against China on the Ukraine issue.”

- On 24 February the US sanctioned five Chinese companies for providing dual-use equipment to Russia. On 26 February CIA Director Burns expressed “confidence that Chinese leadership is considering the provision of lethal equipment.”

On 22 February China’s Foreign Ministry responded to Putin’s announcement that Moscow was suspending the Strategic Arms Limitation Talks (SALT II), stating SALT II “is important for maintaining global strategic stability, promoting international and regional peace, and realizing the goal of a nuclear-weapon-free world.

China notes the differences on compliance between the two countries [Russia and US] and hopes the two sides can properly resolve the differences through constructive dialogue and consultation to ensure the treaty’s sound implementation.”

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Raisi's visit accomplished three objectives:

1. Consolidated China-Iran Strategic Partnership:
2. "Synchronized a Common Position Against Hegemony and Bullying [by the West]"
3. Opened a New Phase for Bilateral Cooperation:

China-Iran Relations

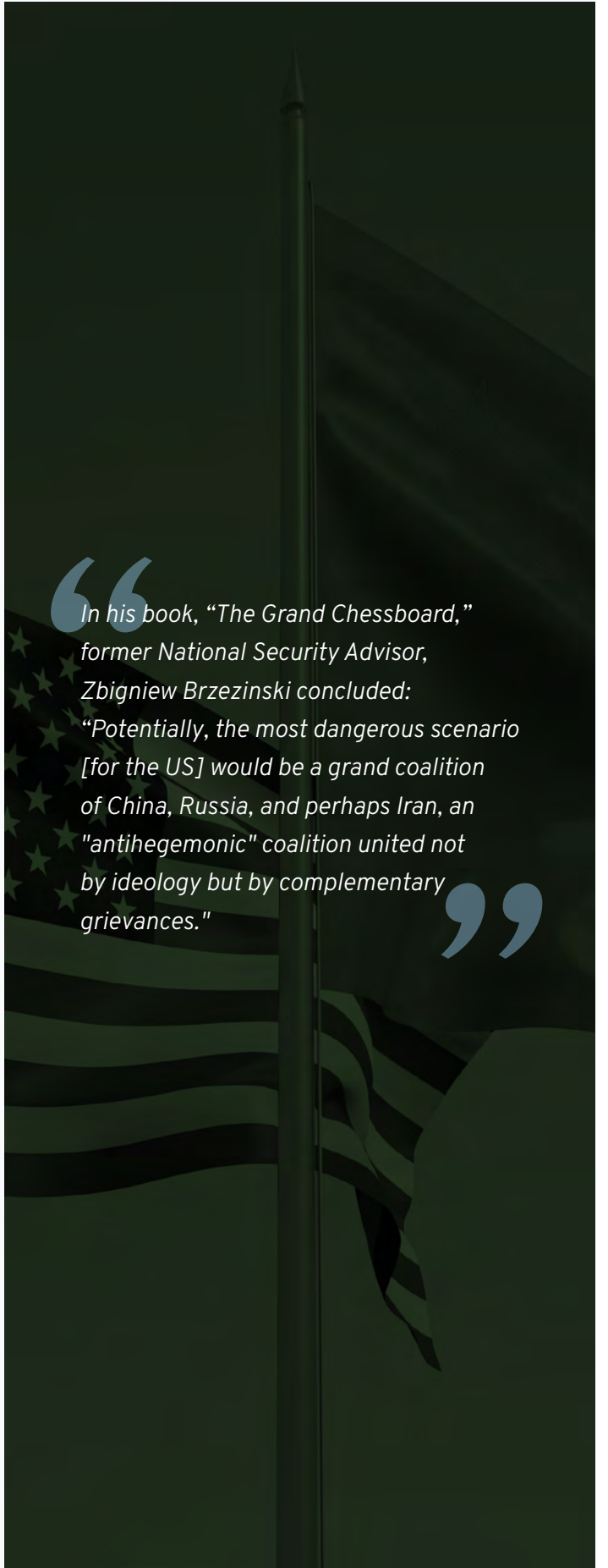
On 17 February Iranian President Ebrahim Raisi concluded the first visit by an Iranian president to China in more than 20 years. According to Chinese sources, Raisi's visit accomplished three objectives:

1. Consolidated China-Iran Strategic Partnership: China sees value in Iran's strategic location, enormous resources, market potential, and role in the Muslim world. Raisi initiated a "Looking toward the East" policy and sees relations with China as one of the key pillars for Iran's security and development. President Xi told Raisi, "China will always view and develop relations with Iran from a strategic perspective, and no matter how the international and regional situation changes, China will remain steadfast in developing friendly cooperation with Iran and advancing the China-Iran comprehensive strategic partnership." Raisi said, "Iran's commitment to deepening and upgrading the Iran-China comprehensive strategic partnership is unswerving and will not be affected by any changes in the international and regional situation."
2. "Synchronized a Common Position Against Hegemony and Bullying [by the West]": Chinese government commentary said, "The world has entered a new era of turbulence. One of the most important causes for this is that the West, led by the US, has intensified its suppression of developing countries who are working for their prosperity and independence to maintain their hegemony. Iran is at the forefront of this struggle."
3. Opened a New Phase for Bilateral Cooperation: In 2021 China and Iran signed a 25-year cooperation framework agreement, and China promised to invest \$40 billion in Iran. During Raisi's visit, China and Iran signed 20 agreements that cover Iran's energy exports to China and China's involvement in Iranian development of agriculture, media platforms, healthcare, communication and information technology, transportation infrastructure, and tourism. In the transportation sector, China agreed to invest \$12 billion to help Iran build a high-speed rail link between Tehran and Mashhad and upgrade the Imam Khomeini Airport. In the energy sector, China will invest in more Iranian oil fields. The two countries agreed to continue petroyuan settlement arrangements for China's oil and gas purchases from Iran.

On the nuclear issue, the Chinese and Iranian leaders identified the US unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) as the root cause of the current stalemate in negotiations. The two countries also expressed opposition to the West's effort to use the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) to "deprive" other countries of their rights for peaceful use and development of nuclear technology. They also called for bringing Israel under NPT. They urged the International Atomic Energy Agency (IAEA) to be "fair and objective" and expressed opposition of "politicizing" IAEA inspections. The two sides also agreed to expand strategic dialogue, joint exercises, and training by their militaries.

China has been Iran's largest trading partner for the last 10 years. In 2022, China-Iran trade registered \$15.8 billion, 7% increase YOY. Chinese media reported that, in January 2023 China imported 1 million barrels of oil from Iran every day.

Chinese observers note that Raisi's visit appears to have mended friction in China-Iran relations caused by President Xi Jinping's visit to Saudi Arabia last December. During the visit, Xi signed a joint communique with the Gulf Cooperation Council. The communiqué called for peaceful settlement of the long-standing dispute over some islands near the Strait of Hormuz between the United Arab Emirates (UAE) and Iran. Iran claims these islands and had taken the communiqué language as China siding with the UAE.



“In his book, *“The Grand Chessboard,”* former National Security Advisor, Zbigniew Brzezinski concluded: “Potentially, the most dangerous scenario [for the US] would be a grand coalition of China, Russia, and perhaps Iran, an “antihegemonic” coalition united not by ideology but by complementary grievances.””

Strategic outcomes

Blinken-Wang

Pamir assesses that the Blinken-Wang meeting did nothing to reverse the deteriorating trend of US-China relations but only magnified deep mutual distrust. Xi will play up the external threat of the West’s efforts to suppress China when he addresses the upcoming National People’s Congress.

LEVEL OF CONCERN



Japan's acquisition of US cruise missiles

Pamir judges that Japan’s acquisition of US cruise missiles is likely to prompt a Chinese social media backlash akin to the attacks against South Korean firms. Chinese sanctions targeting US firms in the Tomahawk supply chain also will be possible.

LEVEL OF CONCERN



Pamir position

Pamir foresees the increasing probability of China’s restricting major US accounting firms from doing business in China—those probably are increasingly viewed as unessential services as Chinese corporations continue to withdraw from US security exchanges rather than face scrutiny from US auditors. “Safe” firms will be those with an R&D presence in China that Beijing views as beneficial to the country’s self-reliance policy.

If US intelligence and defense agencies confirm that China is providing lethal military support to Russia’s war on Ukraine, Pamir recommends that US companies prepare contingency plans if Washington decides to impose sanctions on China.



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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