



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG China Monitor

January 2022



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Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

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DPG China Monitor

The DPG China Monitor features developments related to China during the month and is compiled by our research team comprising Brig. Arun Sahgal (Retd.), Senior Fellow, Dr. Angana Guha Roy and Sanket Joshi, Research Associates, from open-source reports and publications.

Cover Photograph:

Indian Army soldiers holding the tricolour at Galwan Valley, on 1 January 2022. Source- Mint

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Abstract

The 14th round of Corps Commander level talks held on January 12, 2022 did not lead to any significant breakthrough. In a joint statement, both sides agreed to maintain security and stability in the Western Sector. They also agreed to continue dialogue through military and diplomatic channels for a mutually acceptable solution. China described the latest rounds of talks as “positive and constructive”, even as it blamed India for a lack of a substantial outcome. China’s state media continues to hold “India’s national sentiment” as the fundamental reason behind the recent border frictions. Amidst the ongoing standoff, China renamed 15 places in India’s Arunachal Pradesh in a renewed attempt at territorial assertions, which was rejected by India as a meaningless exercise.

In India’s neighbourhood, satellite images revealed accelerated settlement-building by China along its disputed border with Bhutan, with more than 200 structures, including two-storey buildings, under construction in six locations. As part of its growing strategic partnership with Pakistan, China formally announced support for building a space centre in Pakistan to facilitate domestic satellite manufacturing. It also supplied vehicle-mounted howitzers to Pakistan to counter Indian K-9 Vajra howitzers. In Nepal, China continues to face resistance over border trade and interference in Nepal’s domestic political, economic and cultural space.

Taiwan continues to be a centre point of friction in US-China relations. China’s Ambassador to the US warned that “if Taiwan’s authorities, emboldened by the US, keep going down the road of independence, the two countries could face ‘military conflict’ over the island’s future”.

Amidst escalating tensions between Beijing and Washington, China’s Foreign Minister Wang Yi accused the US of not fundamentally changing its China policies even after the Xi-Biden summit, which he said is creating strong headwinds in relations. He also indicated support for Russia’s legitimate security concerns over Ukraine, which should be “taken seriously”.

An opinion poll in China indicated that 72.6 percent of Russian respondents and 87 percent of Chinese respondents believe that the two countries should further strengthen their comprehensive strategic partnership.

China’s state media described the European Parliament as “a lie-filled circus” after EU lawmakers voiced concerns over China’s crackdown on human rights, free speech, and media freedom. During the 22nd China-France Strategic

Dialogue, China urged France, which is currently chairing the European Council, to lead the EU towards “correct understanding” and practical cooperation with China.

To prevent nuclear conflict, the five permanent members of the United Nations Security Council (UNSC) issued a joint statement underscoring that a “nuclear war cannot be won and should never be fought”. Chinese experts claimed that this reflected “China’s global responsibility on nuclear weapons, including its no-first-use and minimal deterrence policy, as an example for other countries to follow”. Addressing recent concerns over China’s increasing nuclear arsenal, the Chinese MFA stressed that “China is modernizing, not drastically expanding, its nuclear capabilities”.

Concerns about an economic slowdown in China are growing, as GDP growth fell from 4.9 percent in the previous quarter to 4 percent in the fourth quarter of 2021. The full-year growth for 2021, however, stood at 8.1 percent, owing to the 18.1 and 7.9 percent growth registered in the first and second quarters of 2021. The country’s GDP stood at CNY 114.37 trillion (about USD 18 trillion), up from CNY 101.36 trillion in 2020. The National Bureau of Statistics reiterated concerns over a “complicated and uncertain external environment” with growing pressure on the domestic economy stemming from “demand contraction”, “supply shocks”, and “weakening expectations”.

China’s population crisis continues to deepen as the number of newborn babies declined from 12 million to 10.62 million in 2021. Even as Beijing adopted a three-child policy in 2021, “Chinese couples are increasingly skeptical of even having their first child”.

Foreign and Security Policy

I. China-India Relations

The [14th round of Corps Commander Level Talks](#) that took place on January 12 did not lead to any significant breakthrough.¹ In a [joint statement](#), however, both sides agreed to maintain security and stability in the Western Sector.² It was also agreed to continue the military and diplomatic dialogue for a mutually acceptable solution to the boundary issue. China described the latest rounds of talks as '[positive and constructive](#)',³ even as it [blamed India for having differing focus](#) from that of China which is resulting in unrealistic demands."⁴

Ahead of the 14th round of talks, [China responded fiercely to the US statement](#) on India – China border that referred to China's intimidating behaviour towards its neighbours. Chinese Ministry of National Defence spokesperson described "the China-India border issue as a matter between the two countries, highlighting, that both sides opposed interference from a third party".⁵ Denouncing American statement as a "trick", Chinese state media questioned, "aren't the Indians themselves clear whether China has intimidated them? do they need a "reminder" from the US? maintaining that since the China-India border standoff began, China has always exercised restraint and has never "spoken from a position of strength" as the US would do."⁶ It blamed "India's national sentiment" as the fundamental reason behind the recent border frictions. In a perverse interpretation, the report stated that, "[Washington has tried to drive a wedge](#) in China-India relations in a direct way, showing malice toward Beijing and disrespect for New Delhi. This shows that, in Washington's view, New Delhi lacks the basic judgment to identify the good from the bad and has to be taught by the US. This is obviously a humiliation for a big country like India"⁷.

Amidst the ongoing standoff, China has further ratcheted up construction and infrastructure activities in the region. In an important development, China

¹ "No breakthrough in 14th round of India-China military talks, but two sides agree to 'meet soon'," [The Indian Express](#), January 14, 2022

² "Joint Press Release of the 14th round of India-China Corps Commander Level Meeting," [MEA,India](#), January 13, 2022

³ "14th Round of India-China Corps Commander Level meeting positive and constructive: Chinese Defense Ministry," *All*, January 27, 2022

⁴ "Latest China-India military talks show positive sign as both sides agree on efforts to maintain stability," [Global Times](#), January 13, 2022

⁵ "China opposes any third party's interference in China-India border issue: Defense Spokesperson," [China Military](#), January 27, 2022

⁶ "Sowing discord shouldn't be 'smart power' of the US: Global Times editorial," [Global Times](#), January 12, 2022

⁷ Ibid.

began building a bridge on [the north bank of the Pangong Tso](#) (close to the friction points) in the Chushul sub sector. Once operational this will allow China rapid mobilisation of troops in this sensitive sector. The proposed location, although under Chinese control since 1958, is within India's claim line.⁸ Responding to India's concern over bridge construction, [Chinese state media nonchalantly stated](#), "It would be nothing but regrettable if some in India continue to misinterpret China's infrastructure build-up along the border as serving only military purpose. It is this kind of misunderstanding that has contributed to the continuing tensions between the two countries, undermining efforts to ease them", it added.⁹

In a bid to further affirm its claims along the LAC in the Eastern Sector, [China renamed 15 places](#) covering approximately 90,000 square km in the Indian state of Arunachal Pradesh, as a part of China's strategy of territorial assertions. [The "first batch" of renaming's](#) happened in 2017 after the Dalai Lama visited Arunachal Pradesh. Responding to the development, [India's Ministry of External Affairs underlined](#) that the Chinese move "does not alter" the fact that Arunachal Pradesh is an integral part of India.¹⁰ Reacting to the Indian statement, [Chinese state media called the move](#) "legitimate" and "...China's sovereign right to standardize names in its own region", maintaining, more place names will be announced in the future.¹¹

II. China-South Asia Relations

In recent months, business interaction between China and Afghanistan has seen an upward trend. [China is slated to hold an economic expo in Afghanistan](#), aimed at enhancing direct communication between Chinese and Afghan enterprises. Business representatives and government officials from China are slated to attend the expo.¹² Meanwhile, [China has urged the United States to release Afghanistan's frozen assets](#) and lift its unilateral sanctions in the face of grave humanitarian disaster facing the country.¹³

Expanding bilateral cooperation in strategic arena, China announced support for building a space centre in [Pakistan to facilitate domestic manufacturing of](#)

⁸ "Explained: Strategic significance of bridge China is building on Pangong Tso," [The Indian Express](#), January 24, 2022

⁹ "India should not make a fuss about Pangong Lake bridge," [Global Times](#), January 19, 2022

¹⁰ "China issues 'official' names for 15 places in Arunachal Pradesh," [The Hindu](#), December 30, 2021

¹¹ "China standardizes names of 15 more places in Zangnan 'based on sovereignty, history'," [Global Times](#), December 30, 2021

¹² "Chinese businesses to hold first large expo in Afghanistan to boost trade," [Global Times](#), January 23, 2022

¹³ "China urges U.S. to lift unilateral sanctions on Afghanistan," [CGTN](#), January 11, 2022

[satellites](#).¹⁴ Further, continuing its military support to Pakistan, [China announced supply of vehicle mounted Howitzers](#) to counter India's K-9 Vajra Howitzers as also NORINCO AR-1 300 mm multi barrel rocket launchers.¹⁵ Over the years, China and Pakistan as strategic allies have cultivated strong military, technology and economic cooperation, as part of a collusive strategy of India containment.

The government of Bangladesh, on January 9, signed its first public-private partnership (PPP) contract with a [Chinese consortium to build a transformational highway](#) that will link industrial belts around Dhaka with the seaport at Chattogram and the north-eastern Sylhet region, bypassing the congested capital.¹⁶

Meanwhile in Nepal, China's nonadherence to the Transport and Transit agreement led to widespread protests at the two main trading points of Rasuwagadhi and Tatopani on Nepal-China border. [The protestors accused China](#) of imposing unofficial blockade.¹⁷ Protests also surfaced over China's increasing political, cultural and economic presence, [forcing the Chinese Embassy in Nepal to issue a statement](#) highlighting traditional friendly relations, and unswerving adherence to the Five Principles of Peaceful Coexistence, as also to developing bilateral relations on the basis of equality, mutual benefit and non-interference in each other's internal affairs."¹⁸

There has been an increase in [Chinese activities along the disputed border with Bhutan](#). Satellite images have revealed settlement-building activity where more than 200 structures, including two-storey buildings are under construction in six different locations.¹⁹

As per reports, [Sri Lanka's foreign reserves dropped](#) to USD 1.5 billion in November 2021.²⁰ Crisis hit Sri Lanka's [President Gotabaya Rajapaksa requested visiting Chinese Foreign Minister Wang Yi](#) (on January 9), its biggest bilateral lender to reschedule pending debt payments. Further, Rajapaksa asked

¹⁴ "China to help Pakistan build space centre, satellites," [Hindustan Times](#), January 28, 2022

¹⁵ "China supplies mounted howitzers to Pak to maintain arms parity with India," [Hindustan Times](#), January 27, 2022

¹⁶ "China mega-tech drives Bangladesh mega highway", [Xinhua](#), January 22, 2022

¹⁷ "China's fails in its trade obligations with Nepal as a part of the Transport and Transit Agreement," [ANI](#), January 17, 2022

¹⁸ "Chinese embassy issues statement as voices against China rise in Nepal," [WION](#), January 14, 2022

¹⁹ "China steps up construction along disputed Bhutan border, satellite images show," [The Hindu](#), January 12, 2022

²⁰ "Sri Lanka appeals to China to ease debt burden amid economic crisis," [Guardian](#), January 10, 2022

Wang for a concessionary credit facility for imports to help the industries operate without any disruption.²¹



Sri Lankan President, Gotabaya Rajapaksa, Meets with Chinese Foreign Minister Wang Yi, January 9, 2022. Source: [MFA, China](#)

[Maldives and China signed key bilateral agreements](#) on developing and maintaining infrastructure in the Indian Ocean archipelago during Chinese Foreign Minister Wang Yi's visit on January 5. Both sides also agreed upon a visa-free travel arrangement for Maldivians intending to travel to China.²²

III. China - United States Relations

The issues around Trade, Technology, and Taiwan continued to add up to the already fragile US-China relations.

Amidst the growing threats from China, Taiwan is expected to join the twenty nation [RIMPAC 2022 exercise](#) scheduled to be held from late June to August 2022.²³ The [US National Defence Authorisation Act 2022](#), calls for the US to support Taiwan's "development of capable, ready and modern defence forces

²¹ "Sri Lanka seeks Chinese debt restructuring amid crisis," [AP News](#), January 9, 2022

²² "Maldives, China ink key deals, agree on visa exemption," [The Hindu](#), January 8, 2022

²³ "Taiwan likely to participate in 2022 RIMPAC as observer," [Taiwan News](#), January 2, 2022

with sufficient self-defence capability".²⁴ It also asks the US to conduct practical training and military exercises with Taiwan, including "as appropriate, inviting Taiwan to participate in the Rim of the Pacific exercise". Meanwhile, following the visit of the members of Taipei's Veterans Affairs Council to mark the rising US- Taiwan military ties, in a show of force, [PLAAF flew a sortie of 39 warplanes](#) across Taiwan's Air Defence Identification Zone.²⁵ To counter Chinese intimidation, the US Navy deployed three carrier strike groups in the vicinity of Taiwan, including a large scale marine presence. To further bolster Taiwan's air force capabilities, [US is slated to deliver next generation F-16 fighters](#).²⁶

Importantly, [China's Ambassador to the US, Qin Gang, warned](#) that the two countries could face "military conflict" over the Island's future. Highlighting that "the Taiwan issue is the biggest tinderbox in their bilateral relations warning that ...If the Taiwanese authorities, emboldened by the United States, keep going down the road of independence, it will most likely lead to a military conflict."²⁷

Chinese Foreign Minister, Wang Yi, accused the US for not fundamentally changing its China policies even two months after the Presidential summit. [In a conversation with the US Secretary of State Antony Blinken](#), Wang underscored that "the top priority right now is for the US to stop interfering in Beijing Winter Olympics, stop playing with fire on the Taiwan issue, and stop creating all kinds of anti-China small circles."²⁸ Otherwise, the US-China relations will continue to face "new shocks", he added.

Further, the Chinese state media cited former Chinese Ambassador to the US, [Cui Tinkai's reflections on the emerging complications](#) in bilateral relations. Cui stressed "some politicians, think tanks and the US media are not ready to accept a rapidly growing China owing to a fundamentally different "world outlook" from that of the Chinese people."²⁹ Commenting on President Biden's hawkish China policy, report stressed that by largely endorsing Trump-era policy, [Biden has lost the opportunity to reset the US-China ties](#) to normalcy.³⁰

²⁴ "New US defence law calls for stronger Taiwan ties, but US President Joe Biden must walk a tightrope," [South China Morning Post](#), January 1, 2022

²⁵ "China sends 39 warplanes toward Taiwan, largest in new year," [ABC News](#), January 24, 2022

²⁶ "US seeks speedier F-16 delivery: sources," [Taipei Times](#), January 22, 2022

²⁷ "China's ambassador to US warns of possible military conflict over Taiwan," [The Guardian](#), January 28, 2022

²⁸ "Wang Yi Speaks with U.S. Secretary of State Antony Blinken on the Phone at Request," [Mission of the People's Republic of China, EU](#), January 27

²⁹ "US urged to respect China's core interests," [China Daily](#), January 28, 2022

³⁰ "Biden's lost opportunity to reset Beijing relations," [China Daily](#), January 21, 2022

In an important development, the US finalised the [America Competes Act](#) aimed at creating opportunities for developing pre-eminence in technology, and economic strength, to compete with China by opening new vistas for talented individuals from across the world with a new start-up visa.³¹ The aim is to reinvigorate the innovation engine of the country's economy to outcompete China and the rest of the world. A total of 52 billion dollars have been earmarked for this purpose.

IV. China-Russia Relations

With US – Russia tensions building over Ukraine, and US questioning Russia's troop deployment in Kazakhstan, Chinese foreign Minister Wang Yi pledged his support for Russia while affirming greater coordination in global affairs.³² [Supporting Russian deployment in Kazakhstan](#), Foreign Minister Wang Yi commented that "China and Russia, as permanent members of the United Nations Security Council and friendly neighbours of Central Asian countries, must prevent chaos or war from erupting in the region."³³

Meanwhile, throwing China's political weight behind Russia, during a conversation with US Secretary of State Antony Blinken, [Wang proposed](#) that Russia's security concerns over Ukraine should be "taken seriously".³⁴

In a joint outreach to West Asia, China and Russia joined Iran for [a joint maritime exercise](#) on January 21.³⁵

A report in the [Chinese state media underlined](#) the factors that have strengthened the foundation of China-Russia relations. Report stressed that whilst, strategic interests, shared ideal of international order and diplomatic philosophies are common factors of convergence, it concluded that "China and Russia have established a well-developed cooperative mechanism, which includes strategic conversations at various levels, including heads of states, and other political functionaries. The pragmatic and efficient mechanisms have enhanced strategic trust and deepened mutually beneficial cooperation."³⁶

³¹ "Statement by President Biden on the America COMPETES Act of 2022," [White House](#), January 22, 2022

³² "In the face of US-Russia tension, China backs Moscow's troop deployment to Kazakhstan," [South China Morning Post](#), January 11, 2021

³³ "China, Russia vow to prevent chaos or war from erupting in Central Asia," [CGTN](#), January 11, 2022

³⁴ "Wang Yi Speaks with U.S. Secretary of State Antony Blinken on the Phone at Request," [MFA, China](#), January 27

³⁵ "China, Russia, Iran to hold joint maritime exercise: report," [Times, January](#) 19, 2021

³⁶ "Solid basis for enhancement of China-Russia ties," [Global](#), January 24, 2022

Interestingly, the [Chinese and Russian navies conducted joint anti-piracy drills](#) in the Northern Arabian Sea on January 24 aimed at enhancing cooperation in safeguarding strategic maritime routes, the Chinese Defence Ministry said.³⁷



China and Russia hold joint naval drill in the Arabian Sea, January 24, 2022. Source- [CGTN](#)

As US and [Western diplomatic boycott of Beijing Winter Olympics](#) gains strength, in a show of support, Russian President Putin reaffirmed that, "Russia, China stand against sports politicization and boycotts; stand for Olympic values"³⁸

As per Chinese state media, [a public opinion poll has revealed](#) that Chinese and Russian nationals want both countries to jointly oppose foreign interference and cooperate closely in international affairs. As much as, 72.6 percent Russian respondents and 87 percent Chinese respondents believe that the two countries should further strengthen comprehensive strategic coordination. Up to 83.3 percent Russian respondents and 96 percent of Chinese respondents held the view that "Sino-Russian cooperation can jointly promote world peace and prosperity."³⁹

V. China – European Union Relations

European lawmakers have urged European Commission and EU member-states to a take action over the [shrinking space of free press in Hong Kong](#)

³⁷ "China, Russia hold joint anti-piracy drills in Arabian Sea," [Global Times](#), January 25, 2022

³⁸ "Russia, China against sports politicization and boycotts; stand for Olympic values – Putin," [TASS](#), January 25, 2022

³⁹ "China and Russia should work closely on global affairs: Opinion poll," [CGTN](#), January 28, 2022

citing the closure of the independent media outlets like DB Channel, Citizen News and Stand Channel.⁴⁰ Describing the European Parliament as a “lie filled circus”, a commentary in Chinese state media asserted that “the European Parliament has degenerated into a place that gathers a cohort of radical anti-China politicians.”⁴¹

After citing issues of forced labour in Xinjiang, the [EU Commission has committed to](#) move forward with plans to ban goods made using forced labour.⁴² However the EU commission’s department of trade is against blanket sanctions as a separate trade instrument, like the US which has brought in a new legislation banning imports from Xinjiang. China, meanwhile, has urged the EU to “manage differences” responsibly to develop sound relationship with China.⁴³



Chinese State Councilor and Foreign Minister, Wang Yi, and French President's Diplomatic Counselor, Emmanuel Bonne, co-chaired the 22nd China-France Strategic Dialogue in Wuxi, Jiangsu Province on January 13, 2022. Source: [Ministry of Foreign Affairs of the People's Republic of China](#)

⁴⁰ “European Parliament debates resolution over ‘deterioration’ of media freedoms in Hong Kong,” [South China Morning Post](#), January 20, 2022

⁴¹ “European Parliament turning into lies-filled circus: Global Times editorial,” [Global Times Editorial](#), January 22, 2022

⁴² “Citing Xinjiang, EU commits to ban forced labor goods but is divided on how to do it,” [Korea Times](#), January 26, 2022

⁴³ “China, EU urged to strengthen cooperation, manage differences,” [China Daily](#), January 26, 2022

The [European Union launched a case against China](#) at the World Trade Organisation complaining of coercive practices against Lithuania and some other member states.⁴⁴ In recent months, diplomatic standoff with the EU has escalated after China recalled its ambassador and downgraded ties with Lithuania over opening of Taiwan representative office in the country. As per reports, [Taiwan is in talks with Slovenia to host each other's missions](#) in further defiance of China.⁴⁵

Amidst the escalating diplomatic tensions, Chinese Foreign Minister Wang Yi co - chaired the [22nd China- France Strategic Dialogue on January 13](#).⁴⁶ During the discussions, China urged France to lead the European Union towards "correct understanding" and practical cooperation with China. France assumed presidency of the Council of European Union from Slovenia on January 1, 2022.

Internal Developments

President's Key Addresses

President Xi Jinping in his [New Year address](#) reviewed "landmark events" in 2021 including "realizing the first centenary goal of building a moderately prosperous society in all respects" (elimination of absolute poverty), the "centenary celebrations of the Communist Party of China (CPC), and adoption of the third historic resolution".⁴⁷ Xi Jinping, added that the country was "confidently striding toward great rejuvenation", but warned that "it would not be a walk in the park".⁴⁸ He further reiterated "reunification of Taiwan with the mainland as an aspiration shared by people on both sides of the Strait".⁴⁹ On COVID-19 assistance, the Chinese President claimed that "Beijing has fulfilled the promise of providing two billion doses of vaccines to the world".⁵⁰

⁴⁴ "EU Launches WTO Case Against China Over Lithuania Blockade," [Bloomberg](#), January 27, 2022

⁴⁵ "Taiwan plans representative office in Slovenia as the EU nation blasts Beijing," [South China Morning Post](#), January 18, 2022

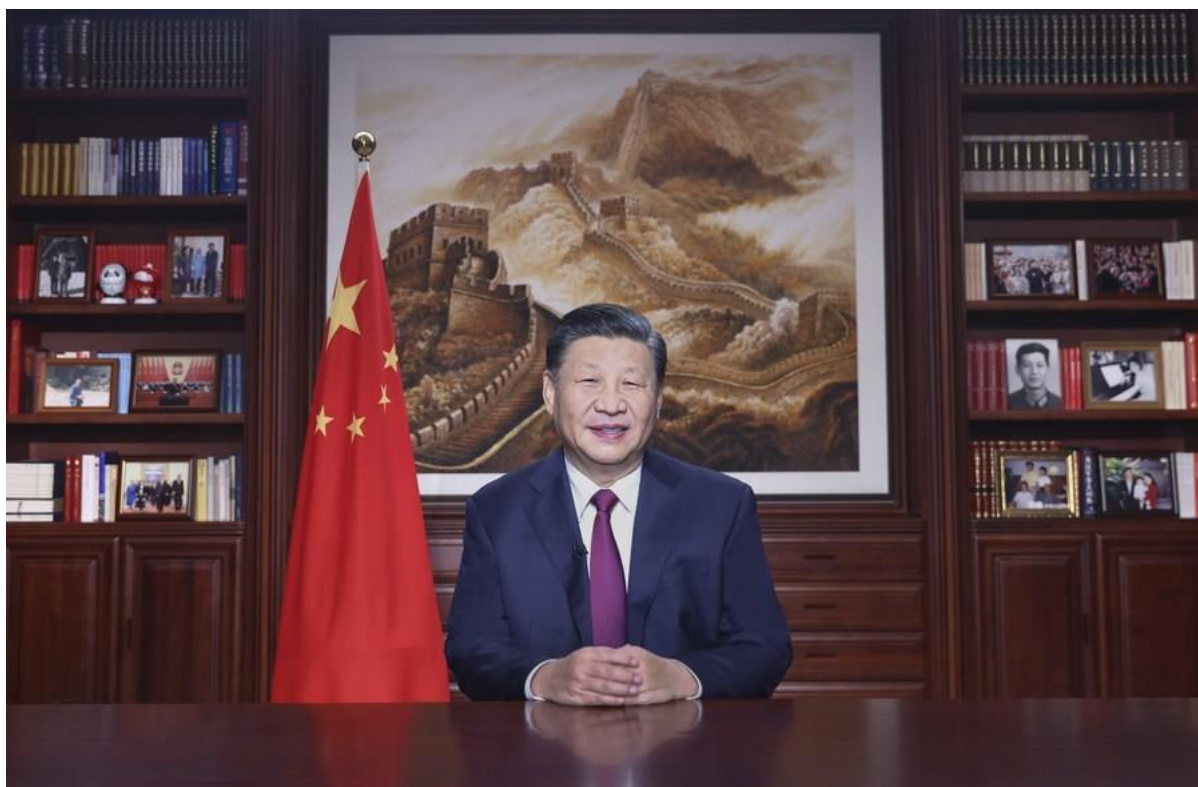
⁴⁶ "China, France hold 22nd strategic dialogue," [Xinhua Net](#), January 14, 2022

⁴⁷ "Xinhua Headlines: Ringing in 2022, Xi praises "unsung heroes" behind China's march to great rejuvenation", [Xinhua](#), January 1, 2022.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid.



Chinese President Xi Jinping delivers New Year 2022 address to the nation, December 31, 2021. Source: [Xinhua/Ju Peng](#)

In his virtual address to the [World Economic Forum](#), President Xi offered “Chinese solutions for the post-pandemic world”.⁵¹ Stressing on global solidarity in the fight against the pandemic, “strengthening economic globalization”, “commitment to further open the economy, and ecological conservation to create a better post-pandemic world”.⁵²

2022 is a politically significant year for the CPC, as it prepares to hold the 20th National Congress. Addressing the sixth plenary session of the 19th CPC [Central Committee for Discipline Inspection](#)⁵³, President Xi, called for renewing the anti-corruption drive, while vowing to “fight new challenges stemming from capital-power collusion, and clean political environment leading up to the 20th National Congress”.⁵⁴ Anti-corruption drive has become the central pillar of Xi’s presidency.

Amidst the US call for a diplomatic boycott of Beijing Winter Olympic Games 2022, President Xi met in person with [International Olympic Committee](#) (IOC)

⁵¹ “Xinhua Headlines: Forging ahead with confidence and fortitude, President Xi offers Chinese solutions for the post-pandemic world”, [Xinhua](#), January 18, 2022.

⁵² Ibid.

⁵³ Yang Sheng, “CPC’s disciplinary agency renews anti-corruption drive, to fight new challenges of ‘capital-power collusion’”, [Global Times](#), January 20, 2022.

⁵⁴ Ibid.

chief, Thomas Bach.⁵⁵ Promising simple, safe, and splendid winter games, Xi underscored the notion of “together” championed by the Olympic movement, and called for promoting the “building of a community with a shared future for mankind”.⁵⁶

Trade and Economy

There are heightening fears of an economic slowdown, as [China's GDP growth](#) fell from 4.9 to 4 percent in the fourth quarter of 2021.⁵⁷ The full-year growth however stood at 8.1 percent, primarily owing to 18.1 and 7.9 percent growth in the first and second quarters of 2021.⁵⁸ The country's [GDP stood at CNY 114.37 trillion](#) (about USD 18 trillion) up from CNY 101.36 trillion in 2020.⁵⁹ Even as Xinhua lauded 2021 as a “milestone year with growth rebounding”, the National Bureau of Statistics reiterated concerns over a “complicated and uncertain external environment” with growing pressure on the domestic economy stemming from “demand contraction”, “supply shocks”, and “weakening expectations”.⁶⁰ Amidst mounting economic challenges, Beijing slashed [benchmark interest rates](#), including the one-year loan prime rate (LPR) on which new and outstanding loans are based, and the five-year loan prime rate which is a reference rate for mortgages.⁶¹

Importantly, the Chinese Academy of Social Sciences (CASS) a state-affiliated think tank – warned about “[targeted decoupling in supply chains](#) with the West as a top global risk for China in 2022”.⁶² Deputy Governor of the People's Bank of China (PBOC), Liu Guiping, also expressed concerns about global companies moving their [factories out of China](#).⁶³ As a new wave of COVID-19 outbreak hits

⁵⁵ “Meeting IOC chief, Xi says China ready to deliver simple, safe, splendid Winter Olympics”, [Xinhua](#), January 26, 2022.

⁵⁶ Ibid.

⁵⁷ Orange Wang, Andrew Mullen and Frank Tang, “China GDP: economic slowdown underlined in the fourth quarter, but 2021 beat growth target”, [South China Morning Post](#), January 17, 2022.

⁵⁸ Ibid.

⁵⁹ “China's GDP growth rebounds in milestone year with challenges, hopes ahead”, [Xinhua](#), January 17, 2022.

⁶⁰ Ibid.

⁶¹ Andrew Mullen, “China cuts mortgage reference rate for first time in nearly 2 years, benchmark lending rate for second straight month”, [South China Morning Post](#), January 20, 2022.

⁶² Yaling Jiang, “China state think tank sees ‘targeted decoupling’ in supply chains with the West as a top risk for 2022 amid rising tensions”, [South China Morning Post](#), January 14, 2022.

⁶³ Luna Sun, “China ‘supply chain security, competitiveness’ under threat, central bank official warns”, [South China Morning Post](#), January 16, 2022.

cities such as 'Xian', public dissatisfaction with the Chinese government's ['zero-Covid policy'](#) is growing.⁶⁴

With regards to [China's economic prospects in 2022](#), Xinhua highlighted four key priorities; "macroeconomic stability", "market vitality" (financial support to MSMEs), "accelerating decarbonization push", and "steadfast opening of the economy".⁶⁵ Meanwhile, Premier Li Keqiang chaired a symposium soliciting opinions and suggestions on a [draft government work report](#) to be presented at annual 'two sessions' in March 2022.⁶⁶ Li called for intensified efforts to ensure stability on "six fronts" including employment, financial sector, foreign trade, foreign investment, domestic investment, and demand.⁶⁷ Further, he referred to security in "six areas" such as job security, basic living needs, operations of market entities, food, and energy security, industrial and supply chains, and normal functioning of primary-level governments.⁶⁸

It is to be noted that, [MSMEs in China are failing](#) at a historic pace with 4.37 million firms shutting shop in the eleven months of 2021.⁶⁹ On the other hand, [Foreign Direct Investment](#) (FDI) flow, topped CNY 1 trillion (USD 156.85 billion) in the first 11 months of 2021 with Xinhua re-affirming that "China continues its dominance as the top investment destination globally".⁷⁰ Even as [China's foreign trade](#) hit a new high of USD 6 trillion in 2021⁷¹, analysts expect a [tough year ahead](#).⁷² In another development, as the Regional Comprehensive Economic Partnership (RCEP) entered into force, Xinhua stressed that "at a time when the benefits of free trade and globalization are being questioned, RCEP rollout marks a victory for [multilateralism and free trade](#), boosting the global economy".⁷³

⁶⁴ Ji Siqi, "China's zero-Covid policy under renewed scrutiny as economic challenges mount", [South China Morning Post](#), January 7, 2022.

⁶⁵ China's economic outlook: What to watch in 2022, [Xinhua](#), January 7, 2022.

⁶⁶ "Premier Li stresses prioritizing stability in economic development", [Xinhua](#), January 26, 2022.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Ji Siqi, "China's smallest firms failing at historic pace as 4.37 million close up shop and registrations plummet", [South China Morning Post](#), December 30, 2021.

⁷⁰ "Economic Watch: China's services industry a new magnet for foreign investment", [Xinhua](#), January 22, 2022.

⁷¹ "China's foreign trade hits new high in 2021", [People's Daily](#), January 14, 2022.

⁷² Xu Wei, "Measures focus on stabilizing foreign trade as tough year looms", [China Daily](#), January 20, 2022.

⁷³ "World's biggest trade deal takes effect as boost for global economy", [Xinhua](#), January 2, 2022.

Meanwhile, China's population crisis continues to deepen as the number of [newborn babies declined](#) from 12 million to 10.62 million in 2021.⁷⁴ The country's overall population (excluding Hong Kong, Macau, and Taiwan) increased by 480,000 to 1.4126 billion.⁷⁵ Even as Beijing adopted a three-child policy in 2021, "Chinese couples are increasingly [skeptical of even having their first child](#)".⁷⁶

Amidst rapidly deteriorating relations with the West, the importance of the Middle East is growing in China's strategic calculus. Chinese State Councillor and Foreign Minister, Wang Yi, hosted a [Gulf Cooperation Council](#) (GCC) delegation.⁷⁷ During their discussions, both agreed to "establish a strategic partnership while accelerating bilateral relations to a new level".⁷⁸ The two sides also agreed to negotiate a free trade agreement (FTA) as soon as possible.⁷⁹

Defence and Security

To prevent nuclear conflict, the five permanent members of the United Nations Security Council (UNSC) issued a [joint statement](#) underscoring that a "nuclear war cannot be won and shall not be fought".⁸⁰ Chinese experts claimed that it shows "China's global responsibility on nuclear weapons including its no-first-use, and minimal deterrence policy, an example for other countries to follow".⁸¹ Further, the Director-General of Chinese MFA's Arms Control Department addressing recent concerns over China increasing its nuclear arsenal, stressed that "China is [modernizing, not drastically expanding](#), its nuclear capabilities".⁸² Commenting on hypersonic weapons, he stressed that "Bush administrations withdrawal from the ABM Treaty (Anti-Ballistic Missile), limited the missile defence capability of China and Russia. Resultantly, as one side can develop a defence system against missiles without any constraint, the natural response from the other side is to develop offensive capabilities."⁸³ With

⁷⁴ Orange Wang and Luna Sun, "China's population up less than half a million in 2021, births plunge again as crisis deepens", [South China Morning Post](#), January 17, 2022.

⁷⁵ Ibid.

⁷⁶ Orange Wang, "China population: forget 2 or 3 kids, getting couples to have the first 'most pressing problem'", [South China Morning Post](#), January 6, 2022.

⁷⁷ Frank Tang, "China meets Gulf oil bloc with sights set on free-trade agreement and energy security", [South China Morning Post](#), January 12, 2022.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Liu Xuanzun, Fan Anqi and Bai Yunyi, "China shows global responsibility on nukes", [Global Times](#), January 04, 2022.

⁸¹ Ibid.

⁸² Liu Xuanzun, Fan Anqi and Bai Yunyi, "China will modernize, not drastically expand, its nuclear arsenal: senior diplomat", [Global Times](#), January 4, 2022.

⁸³ Ibid.

the US continuing to provoke China, hypersonic missiles could curb its scrupulous ambitions while deterring a nuclear war".⁸⁴

Amidst growing global uncertainty, President Xi signed a mobilization order for [training of the country's armed forces](#) in 2022, urging "redoubling of efforts to better combine training with combat operations".⁸⁵ He called on the country's armed forces to "pay closer attention to evolution in technology, national security environment, warfare, and rivals, to develop an elite force that is capable of fighting and winning wars".⁸⁶



China's second type 055 guided-missile destroyer 'Lhasa' has been reportedly taking part in naval drills since the beginning of 2022. Source: [South China Morning Post](#)

Adding to China's naval power, PLAN's [second type 055 guided-missile destroyer 'Lhasa'](#) is combat-ready.⁸⁷ It is expected to join significant missions later this year.⁸⁸ As per a report in South China Morning Post (SCMP), "type-055 is second most powerful destroyer after US Navy's DDG-1000 or Zumwalt-class

⁸⁴ Ibid.

⁸⁵ Leng Shumei, "Xi urges armed forces to redouble efforts to combine training with combat operations in mobilization order for military training in 2022", [Global Times](#), January 5, 2022.

⁸⁶ Ibid.

⁸⁷ Liu Zhen, "China's second Type 055 warship, Lhasa, is combat-ready, state media reports", [South China Morning Post](#), January 11, 2022.

⁸⁸ Ibid.

stealth ship".⁸⁹ Meanwhile, PLA Xinjiang Military Command has received [new air-defense missiles, artillery, and rocket launch](#) systems, including 'HQ-17A air defense missile system', 'PCL-181 155-millimeter-caliber (155mm) self-propelled howitzer' and the 'PHL-11 122-millimeter-caliber (122mm) modularized multiple rocket launcher systems'.⁹⁰ According to Chinese analysts, "these weapon systems would adequately satisfy emergency response capabilities", an euphuism for situation along the LAC with India.⁹¹ In terms of air-power, the [J-20 stealth fighter jet](#) that entered service into PLA Northern Theatre Command is now performing combat duties.⁹² China has two units of these fighters, the other being in PLA Eastern Theater Command.⁹³

US-China tensions in the South China Sea (SCS) and Taiwan strait continue. US guided-missile destroyer, [USS Benfold](#), reportedly trespassed into Chinese claimed territorial waters of Xisha Islands (Paracel).⁹⁴ PLA Southern Theatre Command spokesperson described these actions as "ironclad proof of US seeking maritime hegemony and militarization of South China Sea".⁹⁵ Amid continued US naval drills in SCS, [F-35C aircraft had a landing mishap](#) on the deck of the aircraft carrier USS Carl Vinson.⁹⁶ Chinese experts claimed that this incident exposes "America's physical and mental exhaustion in containing China".⁹⁷

As regards cross-strait relations, Taiwan's President, Tsai Ing-wen, in her new year address, warned mainland China against "military adventurism",⁹⁸ in response to PLA "sending more than 940 aircraft penetrating Taiwan's [air-defense](#) identification zone during 2021".⁹⁹ Using growing Chinese infringement of ADIZ, US Department of Defence officials underscored the

⁸⁹ Ibid.

⁹⁰ Liu Xuanzun, "PLA Xinjiang Military Command gets new air defense missiles, artillery, rocket launch systems", [Global Times](#), January 18, 2022.

⁹¹ Ibid.

⁹² Liu Xuanzun, "Newly commissioned J-20 stealth fighters on combat alert", [Global Times](#), January 17, 2022.

⁹³ Ibid.

⁹⁴ "US destroyer trespassing in China's territorial waters to stir up trouble in South China Sea", [China Military Online](#), January 20, 2022.

⁹⁵ Ibid.

⁹⁶ Liu Xuanzun and Guo Yuandan, "F-35C's crash on carrier in S.China Sea exposes US exhaustion in containing China: experts", [Global Times](#), January 25, 2022.

⁹⁷ Ibid.

⁹⁸ "In New Year's speech, Taiwan president warns Beijing against 'military adventurism'", [South China Morning Post](#), January 1, 2022.

⁹⁹ Liu Xuanzun, "PLA sent more warplanes near Taiwan island than DPP authority claimed: China's Defense Ministry", [Global Times](#), December 30, 2021.

urgent need to enhance Taiwan's self-defence capabilities, quoting PLA's operations have "heightened risk of misjudgment".¹⁰⁰

Japan and Australia signed the 'Reciprocal Access Agreement' (RAA) facilitating [bilateral defence and security cooperation](#).¹⁰¹ As Australia became the second country after the US to sign such an agreement with Japan, a commentary in PLA Daily claimed that this makes "Japan and Australia quasi military allies".¹⁰² Claiming that the prospects of Japan-Australia defence and security cooperation will depend upon how the US views the regional security and great power competition, PLA Daily commentary warned Tokyo and Canberra that "cold-war like defence cooperation, may become new scourge to the regional security order".¹⁰³ Chinese Ministry of National Defence described Japan's plans to revise its [National Defence Strategy](#) seeking a break from 'exclusively defence-oriented policy' as "dangerous behavior", while calling on Tokyo to "reflect on its history of aggression".¹⁰⁴

Technology

Continuing the big-tech crackdown, China rolled-out new regulations that will take effect beginning March 1, 2022, to [reign in algorithms used on apps](#) shaping online trends and discussions.¹⁰⁵ Beijing "seeks to address algorithmic discrimination that leads to differentiated pricing for products and services based on big data analysis of consumer spending habits".¹⁰⁶ The regulation will impact companies such as Alibaba (e-commerce), Tencent (video-gaming), Byte Dance (TikTok), and Meituan (on-demand food-delivery) as they have been asked to "allow consumers to decline personalized recommendations through their apps".¹⁰⁷

President Xi Jinping outlined his vision for country's digital economy [with 5G and connectivity](#) at the core.¹⁰⁸ He called on Chinese industry to focus on areas of "strategic significance such as integrated circuits, displays, communications

¹⁰⁰ Ibid.

¹⁰¹ "Defense cooperation agreement makes Japan, Australia quasi military allies", [China Military Online](#), January 14, 2021.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Tracy Qu and Jane Zhang, "China rolls out new regulation to rein in algorithms used on apps as Beijing continues to clip wings of Big Tech firms", [South China Morning Post](#), January 4, 2022.

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

¹⁰⁸ Che Pan, "In his own words, China's president outlines a vision of digital economy with 5G connectivity and data at its core", [South China Morning Post](#), January 15, 2022.

equipment, and intelligent hardware”.¹⁰⁹ Highlighting the need to cultivate enterprises with international competitiveness, Xi stressed that “compared with other big countries, China’s digital economy is big but not strong, fast but not superior”.¹¹⁰ In line with this, State Council issued a circular underscoring Beijing’s strategy to [expand digital economy](#) as part of country’s 14th five-year plan (2021-25).¹¹¹

Chinese National Space Administration has approved the fourth phase of [lunar exploration program](#) that includes plans to build a research station on moon’s south pole.¹¹² Further, it plans over 40 space launches in 2022 with a view to “accelerate the development of [China as a space power](#)”.¹¹³ Beijing expects construction of its ‘Tiangong space station’ to be completed in 2022.¹¹⁴

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ “Plan focuses on digital economy development during 14th Five-Year Plan period”, [The State Council of the People’s Republic of China](#), January 12, 2022.

¹¹² China plans missions to the moon’s south pole, [People’s Daily](#), January 4, 2022.

¹¹³ Teddy Ng, “China-US space race heats up as Chinese firm plans over 40 launches this year”, [South China Morning Post](#), January 5, 2022.

¹¹⁴ Ibid.



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