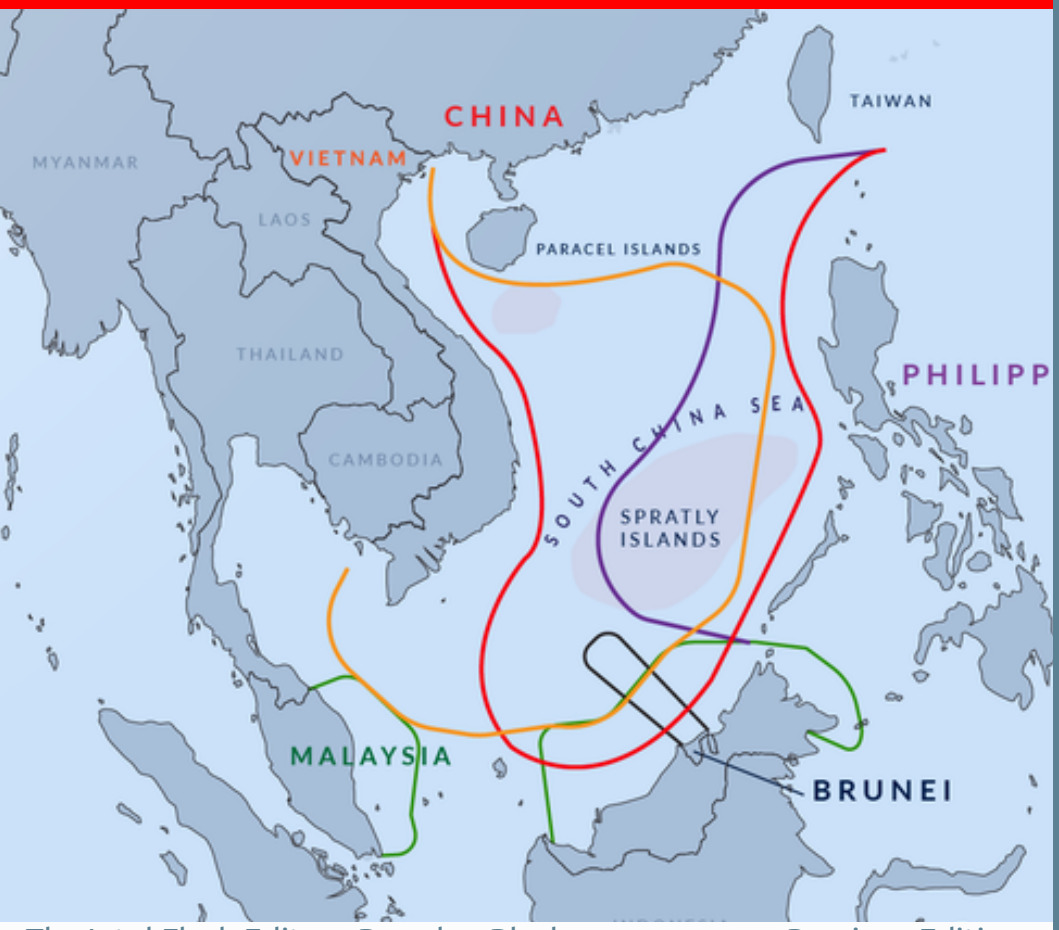
12 DECEMBER 2022

THE INTEL FLASH



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The Intel Flash Editor - Brandon Black

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China's Economy Going Viral in All the Wrong Ways

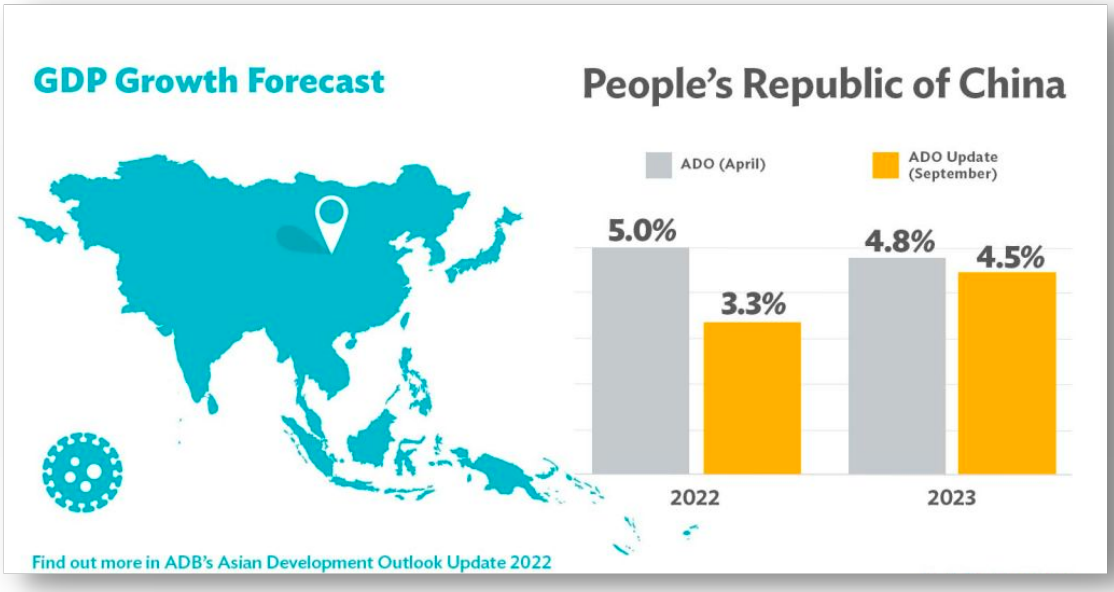
The consequences of the zero COVID policy on the Chinese economy have been significant. The global economy and supply chain have been impacted as well. Will China be able to get their economy going again? The answers lie in the toll the rise in COVID cases/deaths will take and what the Chinese government is doing to address this and several other factors discussed in this article.

What is China doing to stop the economic bleeding?

Largely due to continued protests, China announced 20 measures in Nov 2022 to ease the zero-COVID approach. On 7 Dec, China outlined further measures as they begin to depart from the policies. The emphasis was placed on stabilizing the economy instead of a continued fight against COVID-19. One of the key changes is "isolating asymptomatic or mild coronavirus cases at home rather than at hospitals or centralized facilities." Another key change will be not requiring proof of a negative test to enter most public places. Unfortunately, cases have spiked recently and continue to rise. Less than 1% of the Chinese population has had COVID and they have only been vaccinated with less effective, indigenous vaccines. Cases are expected to continue to rise until the 1% of the Chinese populace who already had COVID becomes 80—90%. Chinese citizens over 80 are the least vaccinated and most susceptible demographic.

What is the toll of China's zero-COVID policy on their economy?

The Chinese economy grew at 3 percent overall in the first 3 quarters of 2022, below the target of 5.5 percent for the year. Exports shrunk 8.7 percent and imports declined 10.6 percent year on year. The World Bank and Federal Reserve Economic Data show a long-term output loss of 72% GDP per capita compared to China's 2018 GDP. With overseas demand decreasing due to rising interest rates and recession fears, China "will have to rely more on domestic demand." The domestic demand has been largely curtailed by zero-COVID policies in place. Furthermore, the Chinese housing market has also seen a downturn. Finally, the graduate unemployment rate reached 20% in July. None of this bodes well for the Chinese economy moving forward.

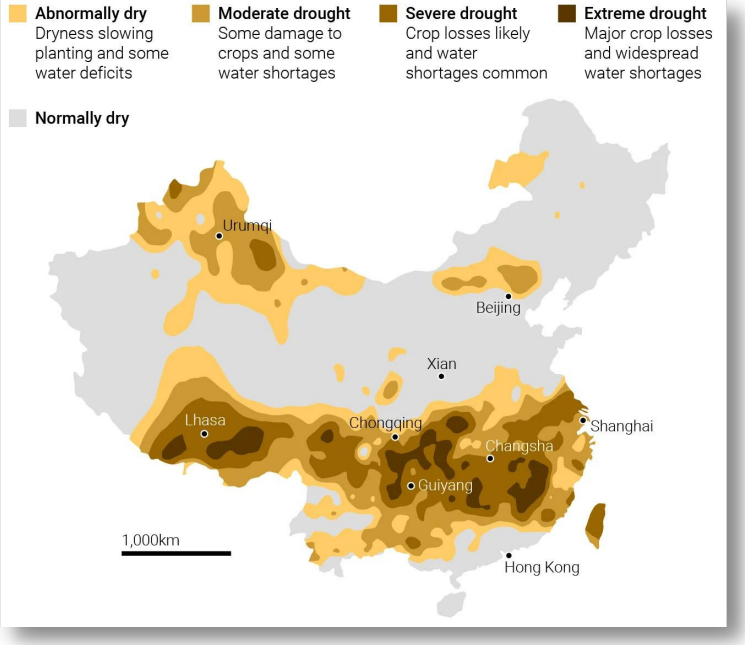


Did the restrictions last too long for China to recover quickly and what does the rise in cases mean for the economy in the near term?

Zero-COVID policies led to disruption in production and slowing of the global supply chain. Supply chain bottlenecks have eased, but many countries moved away from relying on China to ensure they could receive necessary goods. Tech companies like Google and Apple are already putting plans into action to move some production from China to address the pandemic-induced supply chain issues. The US and European countries are facing possible recessions and economic downturns of their own. This has led to a weakening demand for goods from China. Consumer sentiment is the primary issue within China as people are less willing to spend their money in the face of a recession. The recent rapid rise in COVID cases has caused businesses to close again as workers quarantine. Restarting the Chinese economy appears to be on hold again until they can get COVID back under control.

What other Chinese economic issues are happening that could affect the world?

Chinese economic woes and supply chain issues could be exacerbated by a record-breaking drought over the past summer. If China fails to address the water issues, the global supply chain could be further affected, including food and energy. Multiple organizations are encouraging the United States to "take urgent action to decouple its most critical supply chains from China as quickly and comprehensively as possible." Many other countries are deeply reliant on the Chinese for supplying food and energy products.



With COVID cases sharply on the rise, Western countries facing possible recessions, countries moving their production out of China, and housing downturns within China, look for the Chinese economy to continue to struggle to recover in 2023. Relaxing of zero-COVID policies may not be enough to lift the Chinese economy to the growth they desire. The long-term outcome depends on the steps the government takes to address the growing list of economic issues and when they can get COVID back under control. Countries will likely continue to seek other economic options outside of China from lessons learned over the past 2 years.

Progress in the South China Sea? Depends on Who You Ask

7 Dec 2022 – The 12th ASEAN Maritime Forum (AMF) and 10th Expanded AMF wrapped up in Manila with some progress made towards a South China Sea Code of Conduct. Enrique Manalo, Philippines Foreign Affairs Secretary, offered the Second Reading is an effort to improve beyond UNCLOS, to remove "the danger of becoming stale at best, irrelevant at worst." But there is still much work to be done to resolve long-standing trust, security, legal, and economic issues in the South China Sea.

ASEAN leaders first proposed a Code of Conduct on 21 Jul 1996 with little actual progress over the last 25 years as China stonewalled and expanded their military presence in the region. Other nations, to a lesser extent, increased their military buildup in the South China Sea during the same period. The delaying tactics allowed China to conduct the "largest military buildup since World War II by the PRC" over the "last 20 years" according to USINDOPACOM Commander ADM John Aquilino.

Despite the multinational engagement at AMF, China continued its pattern of harassment and extralegal activity in the SCS. China's continual actions demonstrate its ability to control "the South China Sea in all scenarios short of war with the United States" per ADM Phil Davidson (previous INDOPACOM Commander) in 2018.

- On 22 Mar 2022, China asserted it has the right to deploy "necessary defense facilities on its own territory…in line with international law, which is beyond reproach."
- Following Speaker Pelosi's visit to Taiwan, China conducted an exercise from 23-27 July south of Hainan and following several Freedom of Navigation exercises, including the USS Ronald Reagan CSG.
- On 20 Nov 2022, China allegedly cut a Philippine towing cable off Philippine controlled Thitu Island to then forcibly seize Chinese rocket debris.
- On 24 Nov 2022, ASEAN Defense Ministers (with the US and China in attendance) called for nations to avoid "misinformation and political agendas", restore "mutual trust", and stressed the importance of international law, freedom of navigation, and overflight.
- On 25 Nov 2022, reports from Manila offered the US may return to Subic Bay after 30 years as the Philippine government expressed continued concerns over Beijing's "increasing maritime assertiveness."
- On 29 Nov 2022, China claimed the USS Chancellorsville "illegally intruded" into claimed waters around the Spratly Islands.
- On 6 Dec 2022, Japan sent 2x F-15 to Clark Air Force Base as part of a "friendly exchange" that China condemned as adding more insecurity and instability in the region.

China's actions go beyond military means in the South China Sea with economic impacts on claimants in the region. The Philippines' President Ferdinand Marcos, Jr., stated they must "fight and take advantage" of oil and gas in the contested regions after talks with Beijing lacked meaningful progress. During the 12th AMF, Vietnam called for "countries in the region to take specific and effective measures in fighting epidemic illegal fishing" as an indirect jab at China.

Immediately after the AMF, China deployed militia vessels acting as fishing boats to encroach on Palawan PH on 8 Dec 2022 to attempt to "eventually cut the Philippines off from the West Philippine Sea." China embarked on a series of partnership agreements with Myanmar and increased cooperation with ASEAN, while Indonesia looks to establish a "special economic zone" in the SCS to buttress against Chinese expansion in the region.

China will continue to use international law where it suits their interests and operate in the Gray Zone to expand their influence, military capability, and economic might. Most analysts conclude China's engagement with ASEAN and other nations on a Code of Conduct is merely a stalling tactic to allow for them to strengthen their position to a point of inevitability. As President Xi stated during the 20th Communist Party National Congress, this "further increase[s} China's international standing and influence and enable[s] China to play a greater role in global governance."

The Russians Make Their Move in Mali

On 3 Nov, Integrity ISR posted a web poll question on LinkedIn asking: "In your opinion, which of the following countries is most likely to be destabilized by outside adversarial entities in the next 24 months?" Seeking to look outside the near-peer realm, the choices in the poll were: Mali, Serbia, Cuba, and Pakistan. Mali received 63% of the vote. Just over a month later, the French military contingent deployed to the region under Operation Barkhane has departed. Additionally, the UN mission (MINUSMA) to stabilize Mali significantly reduced its presence. Finally, The Russian Private Military Contractor (PMC) Wagner Group is reportedly operating freely after a deal made with the country's current ruling junta.

The Security Exodus Begins

In 2022, the military junta in Mali made a deal with Russian Private Military Contractor, The Wagner Group, to operate as a surrogate security force in the country. The deal led to French President Macron announcing the end of Operation Barkane, effectively ending the goal to be the "French pillar of counterterrorism in the Sahel region." Citing rising Islamist activity and Russian military presence, Germany announced they will begin withdrawing their troops next year as well. This announcement was followed by the exit of British and Swedish forces citing, "two coups in three years in Bamako hurt the international efforts to achieve peace" in the region. The withdrawals significantly escalate the potential for more violence in the Sahel Region.

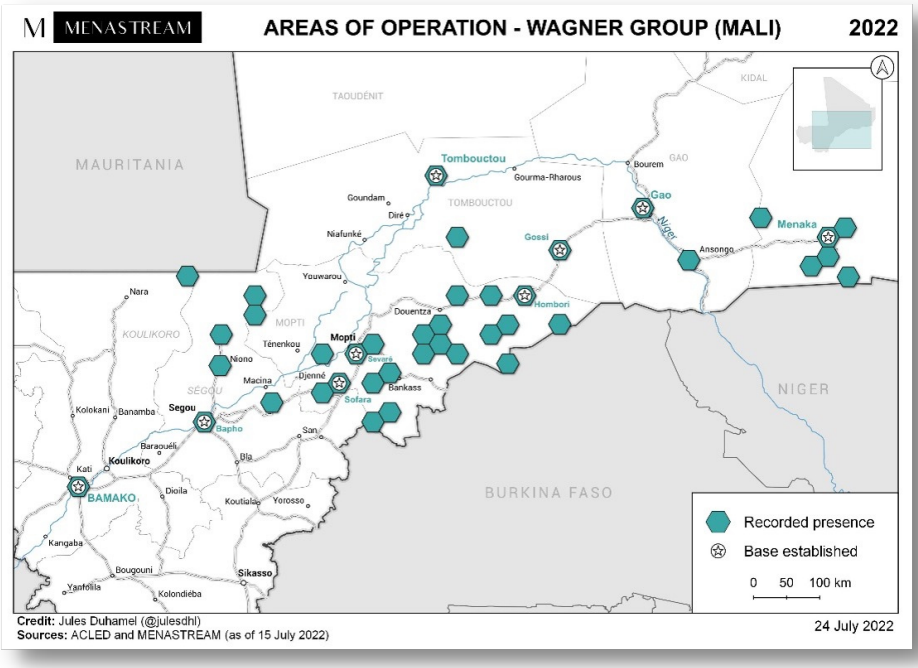
Russian Influence in Mali

A vacuum has been created with the departures and decreased commitments by France, Britain, Germany, and Sweden. This has further attracted Russia and China to Africa. Over the past six decades, Soviet and Russian leaders have exploited vulnerabilities in a range of sectors in African countries. They have targeted countries by intervening in "political movements, launching disinformation campaigns, implementing economic sanctions, leveraging cultural influence", and reinforcing dependence on Russia for energy or military equipment. Mali is no exception as Russia looks to increase oil exports to the African continent.

Why is the Wagner Group in Mali?

Mali's ruling junta, which seized power in 2020, turned away from traditional ally France and toward Russia in its fight against a decade-long jihadist insurgency. Russia leveraged the situation to arrive at an agreement with the Malian government to deploy 1,000 Wagner Group mercenaries under the cover of providing protection to geologists exploring Mali's mineral resources. However, the Malian junta's turn to Russia and the Wagner Group is to shore up its domestic political position rather than meaningfully address issues in the country. While Wagner will ostensibly train local forces and provide security services to senior Malian officials, it will also take advantage of the situation to secure financial gains. Wagner's activity in Mali allows Malian political leaders to coup-proof the regime in exchange for financial and mineral concessions.

Soldiers from the Wagner Group are supposed to be in Mali in an advisory/training role. Evidence continues to emerge of human rights abuses and massacres linked to the group as they participate in counter-terror operations within Mali. Recently the junta claims to have turned a corner in the fight against the insurgency, however the US State Department paints a very different picture. "The Malian junta has invited in Wagner and terrorism has gotten significantly worse" and "incidents of terror" have risen 30 percent over the past six months.



Human rights abuses have risen at the hands of the Wagner Group as well. On 4 Sep, Russian mercenaries, accompanied by soldiers from the Malian Armed Forces, stormed a compound in the village of Nia Oura. They arrested men, then proceeded to rape 12 women and children. The women said the "white soldiers stripped them, raped them and then brought out their smartphones which they used to video the women's naked bodies." The activities in Mali align with atrocities the group committed elsewhere in Africa, Syria, and Ukraine. The destructive track record of Russia's Wagner Group mercenaries suggests that it is far from the sustainable solution Mali needs.

The future?

Although the Wagner Group's deployment to Mali is relatively new, they have impacted an already complex environment. Their deployment has entailed mass atrocities, rape, torture, summary executions, looting, the introduction of booby traps as a counter-insurgency tactic, and influence operations. As Wagner expands its footprint, there is a high risk other regions will experience developments similar to those in central Mali and neighboring areas unless action is taken.

What Does it Mean?

Coups often breed more coups. The exploitation, corruption, and ensuing coups have historically been the path to unrest, violence, and continued poverty in the region. Until Mali establishes a democratically elected governing body, the cycle will continue. In the meantime, Russia and China will fill the void left by the departing western militaries to achieve their objectives in the region.

In the next edition of the Intel Flash, we analyze the relationship between India and Russia, North Korean activities, and more.

Editor's Note: What would you like to hear about in the next edition? Let us know!

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