DEFENCE China broadens scope of military exercises

in 'Joint Sword-2024B'

ADARGA BRIEFLY

China's 'Joint Sword-2024B' military exercises – conducted around Taiwan on 14 October - reportedly involved a record 153 military aircraft and 36 naval vessels, with 111 aircraft crossing the median line of the Taiwan Strait, marking a single-day high for such operations. The Taiwanese Ministry of National Defense detected multiple incursions into its air defence identification zone (ADIZ) during the exercises, 12 which served as a demonstration of China's ability to blockade key ports and execute strikes, and was intended as a warning against Taiwan's independence movements. 3 4 5 6

The exercises followed a National Day speech by Taiwan's President Lai Ching-te, where he asserted sovereignty and rejected Beijing's representation claims. Taiwan condemned China's actions, describing them as "irrational and provocative", and mobilised its own forces in response. The Chinese government characterised both the response from Taiwan's military and the related rhetoric as provocations, underscoring its stance against "Taiwan independence". 78

Internationally, the exercises prompted concerns from Japan, the UK, and the EU, which reiterated the need for calm and dialogue to resolve cross-strait tensions. 9 10 11 The UK emphasised that it does not support unilateral attempts to change the status quo, calling for restraint from all parties involved. 12

China responded by denouncing Taiwan's leadership and reinforcing its claim over the island, reiterated by statements from the People's Liberation Army.

exercises have marked shifts in the breadth and intensity of China's operations. PLA researchers interviewed for state media noted the exercises were "more multidimensional" and "more diverse" than was previously the case, both in terms of direction and the range of operations that were conducted – including operations to cut off Taiwan's energy and resource imports via the east of the island. 13 PLA-affiliated researchers and Taiwan's National Security Bureau noted the involvement of four China Coast Guard formations in this round of exercises; Shen Yi, a political scientist at Fudan

University, described the exercises as an "actual law enforcement patrol operation" oriented

Adarga Analysis: Chinese incursions into Taiwan's ADIZ are now routine, and its Joint Sword

towards "steadily advance[ing] the reunification process". 14 This is significant as it likely represents a move towards normalising Coast Guard involvement; as Shen Yi noted, this presents Chinese action as law enforcement and could facilitate future actions such as the indictment of shipping. As covered in previous editions of *Briefly*, the China Coast Guard plays a crucial role in China's grey zone activities in the South China Sea, facilitating coercion in a way which normalises the policing of China's claims but makes it difficult for targeted countries to respond without risking escalation. This has included the expansion of the Coast Guard's legal powers to authorise detainment of foreign ships and individuals entering what China considers to be its territorial waters. 15 When it comes to Taiwan, China Coast Guard actions could serve similarly as a means of increasing pressure on the island to move closer to Beijing and make it difficult for Taiwan and the US to respond decisively without provoking direct hostilities. A China Coast Guard post on

likely to continue, and may well follow a pattern in relation to President Lai's statements regarding Taiwanese sovereignty – an earlier iteration, 'Joint Sword-2024A', was held in May of this year following President Lai's inauguration. Gradual encroachment on Taiwan and targeted disruption of shipping in its surrounding waters are likely part of a long-term strategy by Beijing to achieve unification with Taiwan by slowly increasing pressure, while avoiding any single action that could be construed as an outright initiation of hostilities. This makes it difficult for the US, the ultimate guarantor of Taiwanese independence, to act against China without initiating a conflict – something which would likely alienate other countries in the region. While Beijing has made clear that it intends to achieve 'reunification' of Taiwan, it is highly unlikely that it will attempt to achieve this via an invasion if it

Chinese social media platform Weibo presented the most recent patrols encircling Taiwan in the

shape of a heart. 16 In the meantime, military drills on the model of the Joint Sword exercises are

can be avoided (an invasion would be logistically challenging, have a significant possibility of failure, and potentially bring the US and Japan into a war). Gradual coercion is the more likely strategy, and appears to already be underway. 17 Possible scenarios at the more escalatory end of the spectrum include a full-scale blockade of the island. 18

CSAC urges cybersecurity review of Intel products

TECHNOLOGY

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data leaks.²⁵

On 16 October the China Cybersecurity Association ('CSAC') recommended a comprehensive security review of Intel products sold in China, claiming they pose risks to national security due to

frequent vulnerabilities and high failure

In a statement published via its WeChat account, CSAC accused Intel of "continuously harming" China's national security and interests, highlighting specific security loopholes within Intel's central processing units that could expose users to hacking. ²² ²³ ²⁴ The association asserted that the vulnerabilities found in Intel products include notable issues such as "Downfall" and "Reptar", which could lead to sensitive

While CSAC is not a governmental body, it maintains close ties with the Chinese state, and its statements could prompt a formal review by the Cyberspace Administration of China. ²⁶ ²⁷ As well as asserting further concerns around the use of "backdoor systems" in Intel chips, the statement cited the company's "insufficient responsiveness" to user complaints about product reliability.²⁸ ²⁹ Failures in Intel's 13th and 14th generation CPUs have reportedly led to crashes in various applications, including gaming, which have been acknowledged by Intel only after extensive user feedback.³⁰

On 17 October Intel's China unit responded to the CSAC statement,³¹ stating that it takes the concerns raised seriously and is committed to addressing them. The company emphasised its dedication to providing high-quality, secure products to all its customers, including those in China. In the statement, Intel also highlighted its longstanding presence in the country, where it has been operating for over 30 years, stressing its significant investments in the country and its commitment to collaborating with Chinese partners.

investors seemed to react positively to Intel's response, as evidenced by a slight increase in the company's stock price. 32

Despite the concerns raised by the CSAC,

Adarga Analysis: This call for a security review of Intel products is the latest escalation in ongoing tensions between China and the US over issues of technoeconomic competition. It carries significant potential implications for Intel and the US and Chinese technology sectors, and also in terms of the broader geopolitical context of the securitization of critical technologies.

presents a major threat to its operations in China, which accounted for more than a guarter of its global revenue in 2023.³³ The allegations of security vulnerabilities, high failure rates, and potential backdoors in Intel's CPUs jeopardise the company's market position in China, but also have the potential to inflict damage to its global reputation.³⁴ 35

For Intel, the world's largest chipmaker, this

If Chinese authorities act on CSAC's recommendations, it could lead to restrictions or bans on Intel products. Such a move would continue the broader trend of securitization by both the US and China of these critical technologies with a particular emphasis on targeting national champions. There is a realistic possibility of the introduction of restrictions or bans on Intel products, which would follow a precedent set by the Chinese government in 2022, when it barred domestic operators from purchasing Micron Technology products due to security concerns.36 37

For the technology sector in the US, this will elicit concern that other companies could face similar security reviews and allegations, potentially leading to a broader clamp down on technology firms, with considerable impact on global revenue and growth strategies given the size and value of the Chinese market. From a Chinese industry perspective, in the event of restrictions or a ban on Intel products, we would highly likely see significant short-term disruptions – Chinese companies are currently heavily reliant on Intel products – but in the longer term it has the potential to accelerate China's push for technological self-sufficiency.

It is notable that these accusations mirror the

language and approach that the US has long used to express concerns about Chinese technology companies, particularly in the realm of national security. This rhetorical framing demonstrates a strategic choice by China to employ similar tactics and justifications as those used by the US government. By echoing familiar arguments about security vulnerabilities, potential backdoors, and threats to critical infrastructure, it seeks to create a narrative of equivalence, suggesting that US companies pose similar risks to those attributed to Chinese firms like Huawei, as well as providing a basis for potential retaliatory actions. As discussed in previous issues of *Briefly*, this mirroring tactic highlights the growing technological rivalry between the two countries, as both sides seek to protect their domestic industries and assert technological sovereignty. In this sense, the move is best interpreted as an additional signal of China's assertiveness in challenging perceived US tech dominance and protecting its national interests, with the potential to further the trend of increasing polarisation in the global digital ecosystem.

ECONOMICS

Chinese stock market experiences volatility following stimulus package announcement Chinese stock markets have experienced volatile trading in recent weeks following the

announcement by the People's Bank of China (PBOC) - China's central bank - of a stimulus package for the economy on 24 September. 38 39 Following the announcement stocks rebounded from their lowest levels of the year, with

the CSI 300 rallying by nearly 16% in it best week since 2008 and Hong Kong's Hang Seng Index rising by 13%.^{40 41 42} Investors are currently assessing the durability of that rally. While reports suggested that China might issue RMB6 trillion (about USD846billion) in ultra-long special government bonds over three years to boost its economy, the specifics of Beijing's fiscal expansion plans remain unclear leaving some investors disappointed.⁴³ Consequently, indices such as the Shanghai Composite and CSI 300 have seen declines in recent days, dropping 2.5% and 2.7%, respectively, alongside a 3.7% fall in the Hang Seng index.⁴⁴ Most recently, on 17 October the CSI 300 Index declined by 0.3% in early trading, following a 1.9% increase on 16 October.⁴⁵ Global investors are divided on the outlook for Chinese stocks. Morgan Stanley Wealth

Management and Wells Fargo Investment Institute have expressed scepticism about the sustainability of the rebound, citing concerns that stimulus efforts may be insufficient to address economic challenges. In contrast, UBS Group AG maintains a positive outlook, suggesting that increased retail investor interest could provide additional momentum for stocks. 46 Recent economic data underscores the need for stimulus, with export growth slowing more than expected in September and loan growth falling short of expectations, indicating weak domestic

demand. The Yuan weakened in offshore markets, sliding as much as 0.6% to 7.1343 per US dollar, reaching its lowest level in about a month. BlackRock Investment Institute has adopted a modestly overweight position on Chinese stocks, citing depressed valuations, but remains cautious and may revise their stance based on future policy announcements.⁴⁷ Adarga Analysis: Investing in the Chinese stock market has always been a white-knuckle ride.

The current ups and downs appear to be caused by two factors. First, general pessimism about the state of the world; second, and with this context in mind, the excitement about potential government stimulus investment – the biggest since those made during the Covid pandemic –

In 2015 a stock market bubble popped that saw the Chinese market lose approximately 30% of

its value in about a month, and which was the largest fall since the 2008 financial crisis.

that would help the ailing property market in particular. This led to what some described as "blistering rallies", with, for example, the CSI 300 index surging approximately 38% in just six days. 48 However, disillusionment on the actual scale of any government stimulus quickly set in, which saw the stocks crash back down to earth. At the heart of this appears to be investor confidence. China's economy has numerous issues, including a long-lasting real estate recession, concerns about deflation, and hidden debt problems. There is a creeping sense that structurally, China might not be in the best place

onwards. As Martin Wolf, the FT columnist wrote earlier this week: "Need China turn into Japan? No. Might it turn into Japan? Yes. Moreover, the longer it waits to tackle its ailments, the more likely it is to fall seriously ill, with slow growth and chronic deflationary pressure". 49

Japan", a reference to the structural economic decline that Japan went through from the 1990s

economically. Indeed, there have been suggestions that the country is becoming the "new

While the structural issues of China's economy are topics best explored more fully in future analysis, in the meantime, with the Chinese economy not in the best of health, and the full extent of future government support not fully understood, observers suggest there is the likelihood of more turbulence ahead.⁵⁰

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