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Security Implications of China's Auto Dominance

by Arran Hope



Chinese cars waiting to be shipped overseas. (Source: [Cankao News](#))

At the end of September, the 2023 China International Automobile Exhibition opened in Tianjin. An official representing the China Council for the Promotion of International Trade (CCPIT) delivered a speech, announcing that China's automobile exports are expected to exceed four million units this year ([Kuai Keji](#), September 28). According to the most recent data, China exported just shy of three million vehicles from January to August, up 61.9 percent from 2022. This means that China is set to surpass Japan—as it overtook Germany last year—to become the world's largest automobile exporter for the first time.

Cars are increasingly conceived of as devices connected to a wider digital infrastructure. As such, they present clear security concerns, just as other emerging technologies do. Chinese auto brands in particular pose risks for the West, as do cars that contain core components manufactured by Chinese companies. Much of the debate surrounding Chinese Electric Vehicles (EVs) in recent weeks has focused on the issue of economic security, largely due to EU Commissioner Ursula von der Leyen's recent State of the Union address, which she used to announce the opening of an anti-subsidies investigation into Chinese auto companies ([European Commission](#), September 13). However, lost in this economic security framing are the additional national security and cybersecurity concerns from a potential influx of certain Chinese vehicles.

Globally, the auto industry is one of the worst offenders when it comes to privacy violations. A new report from the software NGO Mozilla surveyed the privacy policies of 25 American, Korean, German, and Japanese brands, finding that every single one "collects more personal data than necessary and uses that information

for a reason other than to operate your vehicle and manage their relationship with you” ([Mozilla Foundation](#), September 6). This data extends to medical and genetic information, and even to drivers’ sexual activity. Many of these companies say they can share or sell this data to service providers, data brokers, and other businesses. More troubling is the fact that over half of the firms surveyed say they can share drivers’ information with governments or law enforcement agencies in response to a mere “informal request.” Given the lax approach to data security from the auto industry more widely, telematic vehicles present an easy avenue for the Chinese government to exploit should they wish to do so. As with previous instances (such as ZTE, Huawei, and TikTok), the ability for the Beijing or state-linked groups to access this data, as well as to potentially push updates to vehicle software that could cause significant damage, is an issue worthy of more serious attention from lawmakers and regulators across the globe.

Telematics and Teslas: Chinese Concerns

Telsa is the worst offender in this regard. An American company, Tesla nevertheless manufactures over half of its EVs at its principal factory in Shanghai ([Insideevs](#), January 8), which the company built thanks to generous policies from the local government. Despite this, the Chinese regime has long been suspicious of the firm’s vehicles, whose abundance of sensors (and permissive privacy policy) allow a high degree of surveillance on the part of the company. For several years, concerns about Teslas being used to spy or to acquire sensitive information have been voiced frequently in Chinese media. One article from 2021 quotes an official as saying that “the lack of regulation has been acknowledged very suddenly, and to some extent, it is equivalent to opening a ‘big skylight (大天窗)’ on our national security system” ([LeiPhone](#), March 23, 2021; [Sohu](#), May 14, 2021). On September 20, a post from a Chinese-language media outlet on the social media platform X (formerly Twitter) showed Xi Jinping visiting Yiwu, Zhejiang Province, and signs saying that the neighborhood was “off-limits to Teslas (附近区域禁止特斯拉 进入)” ([Voice of Hope](#), September 20). This follows a story that emerged in August this year, sparked by a netizen posting a picture of a similar sign in the parking lot of Yueyang Sanhuo Airport, which read “Teslas are prohibited from entering the classified control area.” The stated justification from airport staff to local reporters at the time was the risk of secrets being “leaked (泄密)” to Teslas ([Jinguan News](#), August 15). In August 2022, local officials also banned Teslas from driving in Beidaihe (where Xi Jinping decamps for two weeks in the summer) over matters of “national affairs” (国家事务) ([VOA](#), June 21, 2022).

The Chinese government is clearly concerned about the threat that cars pose for personal data and privacy protection. On September 26, the China Academy of Information and Communications Technology (CAICT), which is subordinated to the Ministry of Industry and Information Technology (MIIT), released a white paper on “Key Elements of Data” ([CAICT](#) September 26). This updates white papers from previous years, but usefully summarizes the broad contours of the government’s views on data, noting that “big data” was first included in the government’s work report as early as 2014. Another CAICT report from July is titled “National Telematics Industry Standard System Construction Guideline (国家车联网产业标准体系建设指南)” ([CAICT](#), July 18). This report specifically covers “telematics (车联网),” which refers to the use of information technology to

transmit, store, and receive information to and from vehicles. One of the first stated principles of the text is to “build a solid bottom line to ensure safety.” The guidelines go on to map out a multi-phase plan to formulate and revise over 140 standards related to smart, connected cars by 2030, and to develop a synergistic “vehicle-road-cloud” system with domestic and international coordination.

The seriousness with which China is pursuing the regulation of data more generally and telematic vehicles specifically demonstrates a keen awareness of potential risks. This comes from an offensive mindset as much as a defensive one. The fears that Teslas have provoked within the Party rests on the assumption that the US government could access any data that these American cars collect. This is revealing, as the PRC government’s view of how it thinks the US government reflects its own *modus operandi*: If the situation was reversed, Beijing would very likely be able to access data collected by a Chinese vehicle on foreign soil. While China has sought to downplay the possibilities of Chinese cars conducting surveillance activities ([China Daily](#), August 8), there is nevertheless very real cause for concern ([The Telegraph](#), August 8; [The Spectator](#), August 7).

Areas of Concern for Western Governments

British Foreign Secretary James Cleverly recently gave an interview with The Spectator Magazine’s “Chinese Whispers podcast,” in which he discussed his recent official visit to Beijing ([The Spectator](#), October 2). In detailing how the visit was planned, Cleverly mentions that the Chinese side initially wanted him to use cars that they provided for the duration of his trip, rather than one provided by the British Embassy. The motivations from the Chinese side are clear: a desire to weaponize these vehicles as surveillance devices.

Links between Chinese businesses and the government or military constitute an additional layer of distrust in every sector, as they suggest that the firms are more easily coerced to operate on behalf of the state. Such links undoubtedly exist in the auto industry. Leapmotor, a Chinese auto manufacturer, was founded by Zhu Jiangming (朱江明) and Fu Liqun (傅利泉) in 2015. They had previously founded Dahua Technology, which is currently sanctioned by the US Government for using surveillance cameras and software to provide “real-time Uyghur warnings” to the Chinese police ([Sina Finance](#), September 23, 2022; [IPVM](#), February 9, 2021). Another company, Qi-ANXIN Technology Group (奇安信科技), has won awards for their technology. One such award was bestowed at a conference co-sponsored by the China Automotive Engineering Research Institute, which has provided special vehicles to the PLA ([Leiphone](#), June 30, 2022).

The United Kingdom has begun to get to grips with the potential abuses of digitally integrated vehicles and their vulnerability to cyberhacking or other malfeasance. The United States is similarly starting to consider the pitfalls: In September, Federal Communications Commission Chairwoman Jessica Rosenworcel asked US government agencies to consider declaring that certain Chinese companies pose “unacceptable national security risks” ([Reuters](#), September 6). Those singled out include Quectel and Fibocom Wireless, which both manufacture Internet of Things (IoT) devices to be fitted inside cars.

Conclusion

The Chinese government has a highly developed approach to digital data, and a deep understanding of its importance in a digitally integrated world. The PRC's legal framework gives the government the power to force companies to hand over proprietary data, and the heightened emphasis on national security within the PRC makes it increasingly likely that it will leverage this power to weaponize this data. The ubiquity of cars and the trend towards further connectivity—both areas in which the PRC has consciously positioned itself to dominate—presents a clear danger to societies Beijing perceives as hostile. One potentially positive corollary of von der Leyen's anti-subsidies investigation will be to slow the advent of Chinese EVs and other vehicles into the European market (the US is still relatively protected from Chinese imports due to its high tariffs). This will provide lawmakers with more time to carefully assess privacy dangers and regulate the industry with the appropriate level of scrutiny.

Arran Hope is the editor of China Brief.

Xi's Dilemma: The Risk of a War Against Taiwan

by Willy Wo-Lap Lam



The interior of the Great Hall of the People on National Day, 2023. (Source: China Daily)

Chinese President Xi Jinping (习近平) faces a dilemma. Around a dozen of his protégés have been found to be so corrupt that the Chinese Communist Party (CCP) General Secretary and Commander-in-Chief is no longer sure of the efficacy of the PLA's trump-card weapons ([BBC Chinese](#), September 22; [VOAChinese](#), September 17). These men populate the upper echelons of the People's Liberation Army's (PLA) Rocket Force and the Central Military Commission Equipment Development Department, which handle China's missile and nuclear hardware and the procurement of top-level equipment for ICBMs, nuclear submarines, and spatial vehicles.

State-of-the-art armaments under the control of the Rocket Force include the Dongfeng-41 intercontinental ballistic missiles which are capable of hitting the US mainland, and the Dongfeng-26 "aircraft-carrier-killers." This is significant, as such ships are expected to converge on the Taiwan Strait theater in the event of a Chinese invasion of the self-ruled island ([USSC.edu.au](#), May 23; [163.com](#), April 28). In the past month or so, military disciplinary authorities have "disappeared" Defense Minister General Li Shangfu (李尚福) (a former head of the Equipment Development Department), along with a number of senior officers in the Rocket Force. Other victims of this apparent purge in departments handling procurement and logistics include Rocket Force Commander General Li Yuchao (李玉超) and Political Commissar General Xu Zhongbo (徐忠波) ([BBC Chinese](#), September 15; [SCMP](#), July 31).

Chinese social media also contains reports that a sizable number of generals in the Rocket Force and other military divisions are reluctant to follow Xi Jinping's repeated calls for "war preparations" against Taiwan ([Zhihu](#), May 16; [Rfa](#), June 13). The reason is simple: China's leadership cannot guarantee a triumph over Taiwan's fast-modernizing forces, due to the doubtful effectiveness of the PLA's top-tier arsenal. This is exacerbated by the compounding factor that both the American and Japanese militaries would be directly involved in thwarting any Taiwan-bound PLA forces. The Philippines, Australia, and potentially other Asian countries would also provide logistics support to US forces, such as allowing US vessels and fighter jets to use their naval and air force bases ([ISW](#), March 13).

The PRC military seems to have toned down its aggressiveness for now. When the Philippine navy dismantled a huge meshwork of floating obstacles that Chinese maritime militiamen had placed around the contested Scarborough Shoal (also known as Huangyan Island, 黄岩岛) to bar the activities of Filipino fishermen, Beijing's reaction was relatively non-combative. While the Party hotly protested Manila's actions, the PLA stopped short of confronting the Filipino navy, avoiding a head-on collision ([Al Jazeera Chinese](#), September 27; [Radio French International Chinese](#), September 25). This incident took place shortly after a massive war game not far from Taiwan that was jointly conducted by the United States, the Philippines, Australia, and Japan ([News.USNI](#), September 5; [The Daily Tribune](#), September 3).

Xi Wants a Speedy Solution to the Taiwan Issue

Paramount leader Xi is eager to absorb Taiwan into the motherland while he remains healthy and in command of the Party-state-military apparatus. This is despite the deterioration of China's local security environment, which the PRC views as due to US-led-containment. In theory, Xi could delay military action until the end of his expected fourth five-year term in office—which would expire at the 22nd Party Congress in 2032. However, Xi's preference is towards earlier action, before the Biden administration can further consolidate its "encirclement" of China ([Radio French International Chinese Edition](#), April 29).

On Thursday, September 28, President Xi delivered a message at a banquet celebrating the 74th anniversary of the establishment of the PRC. In it, he pledged to "expand job creation, prevent major risks, and to bring more resilience and vitality" to the country's economic development ([China Daily](#), September 29; [Xinhua](#), September 28). However, trends in China's domestic economy have demonstrated its failure to rebound after three years of pandemic-related lockdowns ([VOAChinese](#), September 12; [BBC Chinese](#), August 31). Unemployment is rising even as the birth rate is declining; banks have lent so much money to overleveraged real-estate developers that they don't allow depositors to easily withdraw their money; multinationals are leaving the country in droves, resulting in fast-declining FDI; and an increasingly stringent American technology boycott is expected to deal a further blow to PRC economy ([White House](#), August 9). However, Xi is yet to signal a change of course on economic policy that might help relieve these issues.

Time is clearly not on Xi's side, something which is also apparent in Taiwan. Part of the ebbing support for unification is due to the dwindling demographic of its traditional supporters: the rapidly ageing—if not already deceased—generation of mainlanders who came to the island in the wake of China's civil war. Most island-born Taiwanese have no sentimental attachment to the notion of a “Chinese mainland,” let alone for the PRC government, which is widely perceived to be excessively authoritarian ([Wilson Center](#), September 5). This is a structural factor that will persist irrespective of the results of the island's upcoming presidential election in January, 2024.

The Advantages and Disadvantages of Waging War

Hostilities against Taiwan will plunge the regional and global economies into crisis. Nevertheless, Xi could use such an action to harness the long-cultivated nationalism of the PRC's disgruntled public. He will be able to declare martial law, which will give an even freer hand to the supreme leader to lock up real and potential enemies. These would include increasingly large numbers of protesting, unemployed blue-collar workers, as well as unpaid civil servants, and bank customers unable to withdraw money from their deposits.

Equally important, a takeover of Taiwan would contribute to the attainment of the supreme leader's “Chinese Dream,” which consists of raising China's status as the final arbiter of a “new world order.” ([VOAChinese](#), September 27; [The Atlantic Council](#), June 21). This would put Xi's achievements at least on a par with those of his idol, Mao Zedong. It is for this reason that Beijing unveiled a document at the recent inauguration of the 78th session of the UN General Assembly called “A Global Community of Shared Future: China's Proposals and Actions,” which supposedly testified to the PRC's contribution to world peace and prosperity ([Chinese Foreign Ministry](#), September 26; [Xinhua](#), March 23).

The conviction that “the East is rising and the West is declining” seems to have convinced the quasi-Maoist Xi that China's prestige among members of the so-called “axis of autocratic states” would be enhanced by the PLA's success in Taiwan. Xi's eagerness to win the support of non-democratic countries was evidenced by the lavish global ceremony that was organized for the opening of the Asian Games in Hangzhou, Zhejiang Province earlier this month. Except for South Korea's Prime Minister Han Deok-soo, only senior officials from small countries of minor geopolitical influence sent representatives to Hangzhou. In an apparent effort to win global attention, Beijing went so far as to send an aircraft to Damascus to fly Syrian dictator Bashar al-Assad out to the PRC. The welcoming ceremony was promptly followed by Xi and Assad signing a treaty affirming their “strategic partnership” ([VOAChinese](#), September 25; [Radio French International Chinese](#), September 22).

The issue here is that the ire from scores of countries whose economy will suffer due to a Taiwan Strait flare-up will surely deal a big blow to Xi's efforts to build a “universe of common destiny.” The Belt and Road Initiative (BRI), the expansion of the Shanghai Cooperation Organization (SCO), and the BRICS Bloc (which undergirds the China-led “axis of autocratic states”), could become collateral damage in any irrational misadventure in the Taiwan Strait by Beijing ([Radio Free Asia](#), July 28; [Newstatesman.com](#), March 23). Moreover, the economic

damage that would be unleashed by an invasion would also be hugely counterproductive to China achieving its ends.

Conclusion

A lavish extravaganza is about to be held in Beijing to celebrate the tenth anniversary of the BRI, the sprawling global brainchild of the Chinese despot ([Global Times](#), August 31; [Hindustan Times](#), August 31). Few heads of state from wealthy Western countries are expected to attend the BRI bash. And while Xi may see much to celebrate, the initiative is now facing competition from the Indo-Middle East-Europe Corridor (IMEC), established at the recent G20 summit ([The Diplomat](#), September 21; [The Indian Express](#), September 10). Many leaders, particular in developed nations, have criticized Beijing of resorting to “debt trap” diplomacy—as well as bribery of local officials—to push grandiose BRI-related schemes. While there is debate about the validity of the “debt-trap” label, it is undoubtedly the case that some BRI projects have become white elephants (those whose ballooning costs far outweigh their utility), and that several developing countries are now heavily indebted to the PRC.

Uncertainty about what lies ahead could push Xi to launch an invasion for two reasons: first, he could be compelled by a sense that his window of opportunity will not be open for much longer; and second, uncertainty from the rest of the world is something that Xi might attempt to take advantage of. However, it is the uncertainty at the top of the PLA Rocket Force and the Equipment Development Department which are currently most determinative, suggesting that such an event is at least not an imminent possibility. Should Xi eventually feel emboldened to take such a drastic step, even if the PLA’s missiles were able to prove their worth in a relatively swift conquest of Taiwan, it could take several decades before Taiwanese will cower before the harsh dictatorship of the CCP regime. Without a victory over Taiwan, Xi’s status as the “Mao Zedong of the 21st Century” in the CCP pantheon could be threatened. The likelihood would then increase that the Party core responsible for country’s failure to improve the economy, expand its global clout, and upgrade its military prowess could be driven from power some time in the coming decade, though how that might unfold cannot be predicted at present. Much therefore hinges on Xi’s choices, and his ability to execute them, in the next few years.

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Trust Deficit in PLA Navy Submarine Command: Origins and Consequences

by Conor Kennedy



Submarine officer supervises junior sailor. (Source: Military.China.com)

Since Xi Jinping became chair of the Central Military Commission in 2013, the People's Liberation Army Navy (PLAN) has increasingly sent its submarine force further afield on longer distance deployments. [1] Submarines operate relatively independently below the waves, so the competence of individual boat commanders can have a significant influence on the effectiveness of operations. However, autonomy is something to which the PLA has historically given short shrift ([China Brief](#), August 17, 2012). Chinese-language sources indicate that this logic extends throughout the PLAN. Within the submarine force specifically, experts have highlighted longstanding shortfalls in trust and confidence between submarine unit leadership and the commanders of their subordinate boats. [2] For decades, this manifested in an unofficial practice (which has never been stipulated in official regulations) of dispatching additional commanders—who are also Party members—on every mission alongside boat commanders. Experts have criticized the policy for constraining the autonomy, and thus the efficacy, of the boat commanders. This led to some proposed reforms across the PLAN in 2016. However, while references to the practice in the literature have dwindled in the years since, sources suggest that it persists within the submarine force. The continuation of this practice must therefore be factored into any analysis of the force's capabilities in the event of a kinetic conflict.

“Nannies” on Submarines: The Practice’s Origins

PLAN submarines are assigned to flotillas (支队), consisting of both diesel and nuclear submarines home ported at PLAN bases. Submarines are led by submarine (or “boat”) commanders. However, PLAN submarines have long sent an additional “mission commander” or “headquarters guiding group” to oversee missions. These officers are posted on bases or are members of the flotilla Party Committee, and usually hold the rank of deputy flotilla commanders or trainer captains. Trainer captains, 教练艇长, are boat commanders that have been promoted into more senior positions, and who provide mentorship to junior commanding officers. They outrank boat commanders and are thus referred to as the “highest commander” on the boat. These officers are assigned to individual submarines, often forming an “At-Sea Temporary Party Committee” (海上临时党委) to implement a more centralized command on the boat. [3] The practice of sending senior officers on board submarines in a supervisory capacity began during the force’s early development. For example, in 1976 deputy flotilla commander Xu Zhiming (许志明) was tasked with leading the first PLAN submarine (No. 252) on a training mission beyond the South China Sea’s first island chain. During the voyage, his responsibilities even extended to commanding watches. The literature is unclear about how widespread this practice was in the earlier years of the force’s development. It may be the case that senior officers were only dispatched for significant missions, such as in 1989 when First Submarine Base Commander Yang Xi (杨玺) took part in the first training mission on a nuclear submarine that ventured beyond the first island chain as commander of the temporary Party Committee on board. [4]

Variations in Regulations and Practice

The PLAN has traditionally considered long-distance deployments to be highly sensitive and meriting extra political and operational supervision by unit leadership. Around 2010, one East Sea Fleet submarine flotilla established formal rules to strengthen political work for such deployments. The flotilla leadership drafted and implemented “Twelve Measures for Strengthening Political Work on Long-Distance Voyages” and amended the “Procedural Rules for At-Sea Temporary Party Committees,” so that a minimum of three or more senior officers from flotilla headquarters were on board every boat on long-distance deployments for the stated purpose of “strengthening leadership.” [5] While it is never explicit what strengthening leadership involves, it is common for Party officials to operate in small groups, effectively to keep each other in check: in this way, if one diverges from the Party line, the others can report them.

The practice of assigning senior officials has held for both conventional and nuclear submarines. For example, the nuclear-powered attack submarine Type 091 No. 403, which launched in 1984 and is still active, embarked on a long-distance combat readiness patrol in the early years of the Xi era. It contained a temporary Party Committee which included an “At-sea Commander” (海上指挥员) in addition to the boat commander and political commissar. This was reportedly to ensure the boat complied with “higher strategic intent.” [6] The activities and exact nature of the submarine’s mission is unknown, but its long-distance deployment may have necessitated having more senior leadership on board.

Mission commanders have also been assigned to oversee submarine training. Judging from available sources, their role in these cases has primarily been to “guide training activities at sea (随艇指导训练)” and to assess boat officers and crew throughout the process. In some cases, they have also had to ensure that training meets the requirements set out in training plans or provide more direct supervision for special training events. [7] The official justification given for the assigning of mission commanders to training activities is to maintain the safety of all on board the vessels. Over time, what may have begun as an informal practice slowly became institutionalized (“成为一项制度”). [8]

Issues with the Practice

As the frequency and duration of deployments for combat readiness and other missions increased, submarine base administration and flotilla senior officers became overburdened with excessive responsibilities. The demands on these officers, some of whom were at sea for an average of 90–110 days per year, forced many to forgo scheduled leave and important familial matters, leading to dissatisfaction and morale issues. [9] One account refers to a scheduled meeting of a flotilla Party Committee Central Group (党委中心组) from a flotilla stationed East China Sea, from which several senior officers, including the flotilla commander and chief of staff, were absent. Not only were these officers busy overseeing training on board submarines, but their deputies were also otherwise engaged, working with other PLAN units in an anti-submarine combat exercise. Meanwhile, the flotilla deputy political commissar, one chief engineer, and another deputy flotilla commander had embarked on a separate special mission. [10] The intended takeaway from this account is that the system as it has been constituted leads to a small cadre of officers being substantially overstretched, as they are forced to micromanage aspects of the force’s activities that would not usually be part of a senior officer’s purview. Part of the logic behind this comes down to the fact that there is very little tolerance for mistakes in submarine operations, and so there are special requirements for training and building the submarine force that have to be managed closely. This is a context that naturally leans towards a desire for more micro-management. However, this style of leadership is unsustainable, especially as the force’s size and number of missions and tasks have grown in recent years.

The problem has worsened over time, with mission area experts (业务长) and other “reinforcement” personnel from headquarters joining individual submarine deployments. [11] These senior officers, the most senior personnel on the boat, have caused problems for the autonomy of boat captains. [12] They are described in PLA writings as “safeguards” (保驾), providing a kind of check on the boat’s command structure. As one deputy flotilla commander is recorded complaining, “how can the flotilla leadership bring every boat to the battlefield in wartime? With these ‘safeguards,’ how can frontline commanders and sailors obtain the qualifications to lead forces in combat?” [13] The issues are also compounded by the fear that the practice has inadvertently stifled the development of commanding officers. Another concern is the lack of scalability, due to a finite number of trained professionals who can take on the role of “safeguards.” This supply deficit of trusted, trained personnel could be critical in the event of a conflict. [14]

Attempts to Reform the Practice

Once boasted about openly, Chinese experts have now candidly recognized that the practice of assigning senior officers to submarines is problematic and in need of correction. In early 2018, the PLAN held a themed study activity for Party Committees at the regiment level or above, referred to as the “Three Discussions and Three Rectifications (三讲三整顿).” The most significant outcome of this event was the decision to prohibit the dispatch of mission commanders and guiding groups to oversee the missions of individual ships and submarines. [15] After some experiments in surface ship units, the practice appears to have ended in some arms of the PLAN. [16] Subsequently, references to flotilla or base senior officers being stationed on board ships now appears less frequently in PLA media reports.

Even if the rules have changed, this does not necessarily entail the practice’s disappearance.. Nor is it clear that submarine commanding officers have been given more autonomy and authority to command their own submarines. At least one source suggests that trainer captains still spend at least some time on board to provide guidance to new boat commanders in certain situations. However, it is unknown if they are also sent on long-distance deployments or other important missions. [17] In one recent report regarding a submarine base, the leadership continued to assign senior officers and those from headquarters to boats for “training purposes (随艇跟训).” But the strains on these officers do not appear to have changed: On top of having to manage coordination between the PLAN’s various arms (the Submarine Force, Surface Force, Coastal Defense Force, Marine Corps, and Naval Air Force), they must also manage crew evaluations, emergencies, equipment maintenance, and long training timelines. Some analysts, such as Deng Boyu (邓博宇), argue that the rationale for this higher-level assistance is to address problems and improve training and the quality of military exercises. [18] To complicate matters, practices may not be uniform across the submarine force owing to the lack of clear stipulations in any of the official regulations. For instance, conventional and nuclear submarines may be treated differently. This makes it difficult to glean a clear picture of what is already a fairly opaque system.

Any reduction of senior offices on board submarines may not necessarily improve the autonomy of commanding officers, as these boat commanders may be hampered by other stringent rules. For example, in the summer of 2022, after attending a training course focused on loyalty to the Party and to Xi Jinping, the deputy political commissar of a Southern Theater Navy submarine flotilla produced written remarks on maintaining the submarine force’s loyalty from the depths of the ocean. Among the officer’s takeaways were the need to strengthen organizational procedures in submarines reporting back up the chain of command. Submarines should, in accordance with regulations, report any issues or problems when they occur. He further noted that

“even if a submarine is under extreme conditions and it is difficult to report immediately, after the situation is handled, it must be reported in a timely manner ... to ensure that General Secretary Xi’s decision-making and tasking are fully implemented while diving to the ocean’s depths and at the furthest extremity of the grassroots without compromise.” [19]

It is difficult to assess how rigorously such reporting requirements are observed in practice, but the deputy political commissar's statement implies a continued lack of trust in boat commanders. If this is the case, this suggests an increasing desire to monitor submarine commanders and their activities, beyond the mere oversight obligations that the practice was ostensibly designed for. Such a desire for constant awareness of what individual units are doing could end up being particularly detrimental to the submarine force, as micromanagement and requirements for constantly seeking approval from higher up the chain of command lead to inflexibility and delays to decisive action.

Conclusion

The PLAN's trust in independent submarine commanders has been severely lacking, and its efforts to cultivate them have been largely unsuccessful. Despite attempts to correct longstanding command and control issues through broader PLAN initiatives, evidence points to a continued predisposition on behalf of base and flotilla commands to micromanage as much as possible. This could have serious repercussions on the actual readiness and tactical performance of individual submarines and the overall force. As more materials come to light, further research should provide insight into how these policies continue to change over time, and how the PLAN is attempting to square the circle of achieving its desire for a fully functional, combat-ready force while necessitating comprehensive and direct Party control over every aspect of the Navy's operations. It will be difficult to fully wean submarine units away from higher-level management and empower them with more autonomy. Whether or not it will prove too difficult remains to be seen.

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This article reflects the personal opinions of the author and not the official assessments of the U.S. Navy or any other U.S. government entity.

Notes

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[3] Roderick Lee, "China Maritime Report No. 27: PLA Navy Submarine Leadership – Factors Affecting Operational Performance," (2023). CMSI China Maritime Reports. 27. p. 15; 吴寒月 [Wu Hanyue] and 曹结

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[13] Li and Wang, p. 3.

[14] Martinson, p. 5, 12; 侯融 [Hou Rong], 孙国强 [Sun Guoqiang], and 陈国全 [Chen Guoquan], 海军深化“三讲三整顿”专题学习教育的启示与思考 ["Enlightenment and Reflection on the Navy's Deepening of 'Three Discussions and Three Rectifications' Thematic Study and Education"], 解放军报 [PLA Daily], 16 April 2019, http://m.xinhuanet.com/mil/2019-04/16/c_1210110628.htm.

[15] Ibid.

[16] Martinson, p. 6.

[17] 王冠彪 [Wang Guanbiao], 茆琳 [Mao Lin], and 董存金 [Dong Cunjin], 虎鲸嘴中最锐利的那颗牙 – 潜行大洋深处, 捍卫水下国门。某潜艇支队教练艇长赵爱军 ["The Sharpest Tooth in the Killer Whale's Maw – Diving Dive Under the Ocean and Protecting the Country's Underwater Doorway. A Submarine Flotilla Trainer Captain Zhao Aijun"], 人民海军 [People's Navy], 25 November 2022, p. 1.

[18] 邓博宇 [Deng Boyu], 海军某基地聚焦战斗力建设深化主题教育——向难攻坚担使命 潜航大洋为打赢 ["A Navy Base Focuses on Building Combat Effectiveness and Deepens Thematic Education – Shouldering the Mission of Overcoming Difficulties and Navigating Under the Ocean to Win"], 解放军报 [PLA Daily], 11 July 2023.

[19] The training is focused on the "two establishes" (两个确立), which refers to establishing the core role of Xi Jinping in the Party and the guiding role of Xi Jinping thought in ruling the Party-state. 周亚文 [Zhou Yawen], 大洋深处书写忠诚篇章 ["Writing Chapters of Loyalty While at the Ocean's Depths"], 人民海军 [People's Navy], 20 July 2022, p. 3.

Beijing's Aggression Behind Emerging India-Philippines Defense Relationship

by Peter Chalk



Philippine Coast Guardian cuts cord anchoring Chinese floating barriers in the South China Sea. (Source: Philippine Coast Guard via Almayadeen)

The People's Republic of China's increasingly assertive stance on affirming its territorial claims in the Indo-Pacific is informing the evolution of a closer defense relationship between New Delhi and Manila. On September 25, the Philippine Coast Guard removed a floating barrier that China had installed at Huangyan Dao (黄岩岛, an island in the Scarborough Shoal) in the South China Sea (SCS) the previous day.

Responding to questions about the incident, PRC Foreign Ministry spokesperson Wang Wenbin (王文斌) maintained that "China Coast Guard did what was necessary to block and drive away the Philippine vessel," and that "Huangyan Dao has always been China's territory. What the Philippines did looks like nothing more than self-amusement" ([FMPRC](#), September 26; [FMPRC](#), September 27). Earlier in September, New Delhi's Ambassador to the Philippines Shambu Kumaran expressed solidarity with Manila by pointedly rejecting the Chinese Communist Party (CCP)'s new extended ten-dash map of its sovereignty claims in the South China Sea (SCS) and Line of Actual Control (LAC). He criticized the move from Beijing as unhelpful "cartographic expansionism" ([Manila Times](#), September 3).

These two incidents, occurring in the space of less than a month, are only the most recent in a string of aggressive acts in recent years. The reactions of both India and the Philippines are indicative of growing unity among some of China's neighboring countries as a direct response to the security threat that China poses. In

recent years, these two partners have increased the areas of engagement for security collaboration and expressed an intent to further such initiatives. The PRC lambasts the Philippines for choosing “to ignore China’s goodwill and sincerity” ([MOFA](#), August 8), but this rhetoric only reaffirms Manila’s shifting calculus. There are limits to how close the Indo-Philippines defense relationship will get, but there is still ample room to explore various forms of cooperation short of a mutual defense treaty. The coming years will see much more of that exploration start to materialize.

The PRC has several options in terms of responding to this emerging dynamic. These range from economic coercion, influence operations, and leveraging its relationship with Russia to put pressure on India. It is unclear which combination of these the PRC will ultimately pursue, though the PRC has made it abundantly clear that backing down in the South China Sea is not an option it is willing to entertain.

India’s Reorientation over the SCS and Growing Defense Cooperation with the Philippines

In June, the fifth session of the Joint Commission on Bilateral Cooperation (JCBC) took place at Hyderabad House in New Delhi. At the meeting, the Philippine Secretary for Foreign Affairs, Enrique Manalo, and Indian External Affairs Minister (EAM), Dr. Subrahmanyam Jaishankar, issued a joint communiqué calling for full adherence to the 2016 Arbitral Award on the SCS. [1] This was the first time that the Narendra Modi government explicitly endorsed the Permanent Court of Arbitration (PCA)’s ruling in favor of Manila. Until then, the administration had adopted a neutral stance on the issue, merely stressing that it supports freedom of navigation, overflight, and unimpeded commerce in the region, based on the principles of international law. Even after the 2016 judgment, India only acknowledged the outcome of the award, and did not take sides on the legitimacy of the decision ([Observer Research Foundation](#), July 12; [South China Morning Post](#), July 9). The June 2023 statement is therefore a highly symbolic diplomatic gesture, indicating a burgeoning bilateral relationship between New Delhi and Manila to promote an open, rules-based order in the Indo-Pacific.

India’s tensions with China have long revolved around managing disputed territory along their 2,100-mile-long northern border in the Himalayas, known as the Line of Actual Control. For a long time, the Modi administration maintained a neutral stance on the SCS disputes. This is not just to avoid unwanted provocation: The Modi government has also been sensitive to the possibility that blanket opposition to the PRC’s stance in the SCS could provoke Beijing to expand naval deployments in the Indo-Pacific, potentially undermining the regional balance of power—and concomitant stability—that is critical to India’s own economic development. New Delhi has also generally been unwilling to comment on the domestic policies of its neighbors in Southeast Asia, lest this be construed as violating the two cardinal principles of the so-called “ASEAN way”: non-interference in internal affairs and mutual respect for national sovereignty.

Although these considerations are still germane, the Modi administration has recently exhibited a more outspoken and proactive position on the SCS. Not only is preserving peace and stability in this body of water now a central tenet in the prime minister’s reinvigorated Act East Policy (EAP), in August 2021 his government sent naval ships to the region to take part in a series of coordinated sailings and exercises with Australia,

Indonesia, Japan, the Philippines, Singapore, the United States, and Vietnam ([The Tribune](#), August 3, 2021; [South China Morning Post](#), August 13, 2021). New Delhi is also a member of the Quad, a grouping of like-minded states that in 2022 declared their joint opposition to any unilateral or coercive actions that seek to change the status quo in the East and South China Seas. [2] While the wording of the declaration does not mention the PRC by name, its message clearly aims to denounce Beijing's activities as a threat to stability, transparency, and the rules-based order in the region. Indeed, during a state visit to Washington, DC in June 2023, Modi and President Biden declared themselves "among the closest partners in the world" and committed to forging a more robust relationship—within the parameters of the Quad—to countering a clear and upward trend of Chinese aggression in the SCS ([Asia Financial](#), June 29).

India has also been more direct in articulating its concerns over the harmful effects the PRC is having on diplomatic efforts to resolve territorial disputes in the SCS. For instance, at the 15th East Asia Summit in November 2020, EAM Jaishankar expressed concern about actions and incidents in the SCS that "erode trust" and said ongoing negotiations on the proposed code of conduct "should not be prejudicial to legitimate interests of third parties and should be fully consistent" with the UN Convention of the Law of the Sea (UNCLOS) ([The Hindustan Times](#), November 14, 2020). It is in this context that India has steadily moved to ramp up its defense cooperation with the Philippines.

Security Collaborations

In recent months, New Delhi and Manila have closely collaborated on a range of security matters beyond the explicit recognition of the 2016 PCA's ruling against Beijing in the SCS.

In January 2022, the government of Ferdinand Marcos Jr. signed a deal worth \$374.96 million to obtain a shore-based variant of the BrahMos supersonic anti-ship cruise missile system. This makes Manila the first foreign customer for the weapons platform jointly developed by India and Russia ([The Hindu](#), January 28, 2022). The Philippine Marine Corps' newly developed Coastal Defense Regiment (CDR) will receive three batteries, the first of which will arrive before the end of 2023 ([Indian Aerospace & Defence Bulletin](#), August 3). Notably, during Balikatan 23 (April 11–28), the most recent iteration of the annual military exercises between Manila and Washington, the CDR played a leading role in helping to retake the Filipino island of Bosco from a fictitious foreign aggressor, i.e. China.

During the 13th India-Philippines Foreign Office Consultations in August 2022, both sides expressed their desire to deepen security cooperation, which they again reiterated at the conclusion of their 4th Joint Defense Cooperation Committee and 2nd Service-to-Service meeting in March 2023 ([Manila Times](#), August 23, 2022; [The Economic Times](#), June 30). To give substance to this commitment, the two countries agreed to work together on projects related to cyber and space security, military medicine, and humanitarian assistance and disaster relief. They also pledged to look into the possibility of deploying a permanent Indian Defense Attaché (DA) to Manila ([Philstar](#), April 4). This latter possibility was again highlighted as a shared desire by both parties at the fifth JCBC meeting in June 2023, as was enhancing security ties through regular or upgraded interactions

between defense agencies and combined maritime drills. India also offered the Philippines a concessional line of credit to buy indigenously manufactured military equipment, including naval and aviation assets ([The Hindu](#), June 29; [South China Morning Post](#), June 30; [Mint](#), August 15).

In August 2023, the Philippine and Indian coast guards signed a memorandum of understanding (MoU) to enhance professional maritime linkages in the areas of law enforcement, search and rescue, and pollution response. The MoU additionally mentioned exploring future avenues for joint exercises and training collaboration, while the two services also inked a Standard Operating Procedure for exchanging “white” (aka, licit) shipping information ([The Economic Times](#), August 23).

Rationalizing India’s Recalibrated Policy to the SCS and the Philippines

Accounting for India’s recalibrated approach to the SCS issue and its defense relations with the Philippines relies on several interrelated factors. First, the Modi government has clearly balked at the CCP’s growing assertiveness in the region. New Delhi views it as a direct threat to freedom of navigation in a strategic sealine of communication that plays a crucial role in fostering the Act East Policy’s long-term goal of deepening engagement with Southeast Asia. Beijing’s extensive territorial claims in the SCS also undermine political and economic stability in the broader Indo-Pacific region and challenge the legitimate sovereign rights of littoral states. All of this runs counter to New Delhi’s prioritization of a peaceful, transparent, and inclusive maritime order.

Second, India’s membership of the Quad has further reinforced and entrenched the country’s commitment to offsetting the PRC’s rapidly rising influence by supporting an open and rules-based Indo-Pacific and opposing unilateral actions that unduly raise tensions in the South and East China Seas. This was precisely the message that emanated from the Quad’s most recent Ministerial Meeting in New Delhi on March 3, 2023, where the grouping expressly presented itself as a force for regional and global good ([The Hindu](#), March 3).

Third, the June 2020 border clash with China in the Galwan Valley on the LAC (and subsequent periodic flareups) have encouraged New Delhi to assume a much more forceful stance against Beijing. Modi’s government now sees the PRC as the only major power in the region that poses a direct threat to its core national security interests ([China Daily](#), July 27). Moreover, the border clash, which left 15 Indian soldiers dead, has encouraged India to be more supportive of countries in the Indo-Pacific that have similarly suffered from China’s belligerence. The Philippines is one such country, having borne the brunt of the PRC’s incursions in the SCS (especially in and around the Manila-controlled Second Thomas Shoal in the Spratly Island chain).

Fourth, forging a closer defense relationship could open the door for India to ink more high-tech arms agreements with the Philippines. In this way, the sale of the BraMos cruise missile system in 2022 could be the first of many. As noted above, in June 2023 the Modi administration offered Manila a concessional line of credit to buy indigenously produced military hardware, so a suitable funding mechanism for orchestrating munition transfers is in place. Any future agreement to send advanced weapon platforms to the Philippines

would represent a significant export revenue stream for New Delhi. The country's coast guard has already expressed interest in buying a batch of MK III multi-role light helicopters from India ([The Print](#), July 17; [The Eurasian Times](#), August 24). Just as importantly, such deals would send a strong signal to the PRC of the type of security and diplomatic headaches India is willing to instigate for Beijing if it pushes its territorial claims along the LAC too aggressively.

Fifth, since assuming office on June 30, 2022, President Marcos has reversed the previous administration's foreign policy agenda to one that is now largely congruent with India's: emphasizing adherence to democratic principles, ensuring the country's sovereign border rights, reconsolidating the military alliance with the United States, and shoring up links with regional allies to counter Chinese intimidation. With similar outlooks on regional affairs and no immediate conflict of interests, it should come as no major surprise that the two nations have found common ground in strengthening and enhancing their bilateral defense cooperation.

Deepening Collaboration Short of Alliance

The PRC's aggressive advances in the Indo-Pacific provide a mutual motivation for New Delhi and Manila to cooperate militarily. A serious escalation of tensions along the LAC or an act of overt aggression in areas of the SCS that fall within the Philippines' exclusive economic zone could well precipitate a renewed push to further intensify bilateral ties based on a common commitment to deter and blunt Chinese adventurism.

The likelihood of a codifying bilateral defense commitments, however, is low. India has always been wary of such formalized arrangements, especially in the conflict-prone Indo-Pacific theater, as they could ultimately force the country into a costly confrontation with China. The statutory strategic partnership agreement that Australia concluded with Manila in September is therefore something that the Modi administration would likely eschew. [3] Rather, future defense relations can be expected to take the form of more flexible MoUs and protocols calling for greater information sharing, additional port calls, a higher tempo of exercises and training, and increased support for international rulings on the law of the sea. None of these will transform the Indian-Philippine partnership into a "mini alliance." Nevertheless, opportunities for deepening the strategic coordination of two nations that already engage in a range of security collaborations represent an enhancement of India's positioning in the region, to the exclusion of China.

The PRC will doubtless interpret closer ties between New Delhi and Manila as part of a wider U.S.-led containment policy aimed at shutting China out of its own geostrategic "backyard." As it routinely does when outside nations dispatch forces to the SCS, Beijing will almost certainly reject any Indian naval presence in the area as an unjustified—if not illegitimate—intrusion in its sovereign sphere of influence. For instance, an August article from Baijiahao, one of China's largest blog platforms for independent writers, argues that New Delhi's approach to the Philippines is part of a broader plan to wrest control of the entire SCS ([Baijiahao](#), August 27). This echoes a line that CCP propaganda has often deployed in recent years ([Remin Zixun](#), March 3, 2021). Despite these rhetorical protestations, the PRC would probably not move to actively counter any such deployment for fear that this could spark a direct clash both with New Delhi and its partners in the Quad. The

preferred strategy would likely default to economic coercion—wielding the country’s considerable financial leverage to pressure pliable Southeast Asian actors into distancing themselves from the Indo-Philippine partnership. As has been evident with past “lobbying” efforts directed at Cambodia, a precedent exists for this type of economic offensive. [4]

The PRC may also look to subversive foreign influence operations (FIOs) as a means for decoupling Indian-Filipino maritime defense cooperation. The CCP’s United Front Work Department (UFWD), which has a remit for exercising political influence inside and outside China, enjoys an active presence in the Philippines. Local intelligence sources have already linked the Department to FIO campaigns aimed at manipulating public and elite opinion in favor of Beijing’s claims in the SCS ([China Brief](#), May 19). As it has done with regards to negatively shaping popular attitudes on Manila’s alliance with Washington, the PRC could easily use the UFWD as a conduit for generating opposition—if not outright hostility—to Marcos’ closer security collaboration with Modi.

Finally, the CCP may move to capitalize on Russia’s growing reliance on Chinese support—which has become more pronounced in the wake of the Kremlin’s international isolation over its war in Ukraine—to pressure President Vladimir Putin into towing an anti-India agenda in the Indo-Pacific. While Moscow and New Delhi have historically enjoyed warm ties, bilateral relations have cooled somewhat in recent years due to the latter’s closer alignment with the United States. This, combined with the fact that Russia continues to have strategic relevance for India, accounting for around 45 percent of the country’s arms imports ([The Hindu](#), March 13), could make Putin a useful ally in backing a PRC drive to counter Modi’s evolving defense outreach to the Philippines.

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Notes

[1] “Joint Statement on the 5th India-Philippines Joint Commission on Bilateral Cooperation,” Ministry of External Affairs Press Release, June 29, 2023, https://www.mea.gov.in/bilateral-documents.htm?dtl/36743/Joint_Statement_on_the_5th_IndiaPhilippines_Joint_Commission_on_Bilateral_Cooperation.

[2] The Quad also includes the United States, Japan, and Australia. “Quad Joint Leader’s Statement,” White House Press Statement, May 4, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/24/quad-joint-leaders-statement/>.

[3] In September, Australia signed a new partnership agreement with the Philippines, upgrading the two nation's bilateral defense ties to the strategic level and cementing arrangements for joint patrols (as opposed to coordinated sailings) in the SCS.

[4] In 2012, Australia and the Philippines concluded a bilateral pact to upgrade their defense ties to the level of strategic partnership. ASEAN member states were unable to agree on the wording of a final joint communiqué following a regional summit in Phnom Penh. The failure to reach consensus, which was a first for the Association, was largely due to Cambodian reluctance to make any reference to the SCS disputes—even though they were a major topic of discussion—following pressure from its largest economic and investment partner, China. A near identical replay occurred in 2016 after a meeting of the bloc's foreign ministers in Vientiane, when Cambodia threatened to veto a final ASEAN statement if it mentioned the PCA's ruling against Beijing's 9-dash line in the SCS.

China's Anti-Corruption Efforts Gain Momentum in Finance and Healthcare

By Alexis Brown



Cartoon of the CCDI anti-corruption campaign against the finance industry. (Source: [Sohu](#))

Editor's note: Tables at the end of this article detail a selection of the officials who have been investigated as part of probes into the health and financial sectors this year.

On September 27, Chinese President Xi Jinping presided over a meeting of the Politburo, where he announced the end of the current round of finance inspections but suggested that more were to follow ([Xinhua](#), September 27). The authorities may have chosen to focus on financial corruption to coincide with the restructuring of financial regulators in March, in which a central finance commission was created to give the Party center more direct control over the finance sector. This move indicates that the Party has taken a greater interest in the sector.

So far in 2023, China's anti-corruption organs, the Central Commission for Discipline Inspection (CCDI, 中国共产党中央纪律检查委员会) and the National Supervisory Commission (NSC, 中华人民共和国国家

监察委员会), have intensified investigations across both the healthcare and finance sectors. Authorities have investigated at least 180 hospital chiefs and 80 senior employees in financial institutions between January and early September. [1] By comparison, the CCDI and NSC only targeted 12 hospital leaders from 2019-2022 (CCDI). Through the anti-corruption campaigns, the party leadership is likely to bolster support among certain demographics, eliminate political opponents, and address some real instances of graft. However, due to the absence of robust institutions and transparency, systemic corruption will persist after the current drives wind down.

The Party and state organs carry out anti-corruption in healthcare regularly, but in 2023 they have elevated the importance of this work. This is the first time the CCDI and NSC were involved in the National Health Commission's annual conference on anti-corruption, where a national centralized campaign to crack down on graft was launched. The campaign will continue until mid-2024 (National Health Commission, July 21). [2] One motivation may be to address public frustrations with healthcare from the COVID-19 pandemic. There was an uproar over incidents like hospitals turning away ER patients for not having negative Covid tests and testing centers generating huge profits but producing fraudulent test results (Joint Prevention and Control Mechanism of the State Council, December 9 2022 Credit China, December 23 2022). Another reason may be to combat illegal healthcare charges in order to boost household consumption, one of the government's top economic targets for 2023 (Xinhua, March 14).

A Shift in Focus: Social Well-Being and Monopoly Industries

Education and healthcare are among the problem sectors that the CCDI has previously identified as damaging popular interests. Anti-corruption organs have focused in recent years on industries that have a large impact on social well-being. The CCDI laid out their priorities for anti-graft work for 2023–2027 at their second plenary session in January 2023 (Xinhua, January 10). The meeting emphasized addressing corruption issues that “harm the interests of the masses (坚决整治各种损害群众利益的腐败问题)” (Work report of the 19th CCDI to the 20th National Congress of the CPC, October 27, 2022).

Sectors which tend toward monopolistic practices are another key focus of the Party's campaigns. With high concentrations of power, capital, and resources, the financial sector is identified as a primary target by the CCDI's sightlines for the next five years. This follows similar campaigns in recent years at the technology sector, where Alibaba was fined Renminbi (RMB) 18 billion (\$2.75 billion) for anti-monopoly violations (Reuters, April 9, 2021).

The CCDI's focus on social well-being and monopolies is part of a broader Party concern with enhancing equality—or at least signaling such a concern to the public. (China remains a highly unequal society by comparative standards (CSIS, May 26, 2022).) In his inaugural theoretical presentation of “Common Prosperity” in 2021, Xi Jinping said that “in some countries, there is a polarization between rich and poor, and the collapse of the middle class has led to social divisions, political polarization, and the proliferation of populism. The

lessons are very profound (一些国家贫富分化，中产阶层塌陷，导致社会撕裂、政治极化、民粹主义泛滥，教训十分深刻).” Xi Jinping emphasized the need to equalize basic public service provision, including healthcare. Discussing monopolies, he urged China to “accelerate the reform of monopoly industries ... to deliver more balanced development” ([Qiushi](#), October 15, 2021). Following this pronouncement, the State Administration for Market Regulation (SAMR), which oversees market competition, targeted the technology sector. They fined giants such as Alibaba and Tencent for violating anti-monopoly rules ([Xinhua](#), March 15, 2021; [SAMR](#), July 10, 2022). The Ministry of Education also announced its “Double Reduction Policy (双减政策)” in 2021, cutting down homework and after-school tutoring to try to reduce families’ spending and equalize students’ opportunities ([General Office of the Central Committee of the CCP](#), July 24, 2021; [Youth.cn](#), June 6; [Hunan Daily](#), September 15). The policy led to tens of thousands of layoffs, bankrupted tutoring companies, and wiped billions of dollars from education firms’ market values, while failing to achieve its aims ([Japan Times](#), July 22).

Healthcare

Healthcare is the last of the “three new mountains (新三座大山),” that constitute a significant strain on families’ budgets. [3] According to the World Bank, out-of-pocket expenditures accounted for 34.8 percent of healthcare costs in China in 2020. While the percentage has declined over the past two decades, it is still much higher than in high-income countries, where the figure stood at 12.1 percent. People who suffer from serious diseases face much higher out-of-pocket expenses—a contributing factor to China’s relatively high household savings rate (which stood at 45.9 percent in 2021) ([CEIC](#), 2021). For instance, a 2022 study found that half of households with cancer patients faced catastrophic health expenditure, constituting over 40 percent of non-food expenses ([National Library of Medicine](#), November 10, 2022). [4]. Such failures of China’s healthcare system have led to instances of social unrest: For example, in February 2023, hundreds of people protested against medical insurance benefit cuts in Dalian, Liaoning, and Wuhan, Hubei ([China Labour Bulletin](#), March 9). While the government is implementing regulatory reforms to reduce out-of-pocket payments, the anti-corruption drive addresses kickbacks, bribery, and other activities that illegally and unfairly contribute to healthcare expenses and provoke public protestation.

In February, the CCDI published an article on investigating hidden benefits in healthcare, signaling its intentions to launch a new round of healthcare probes ([CCDI](#), February 2). The SAMR had found evidence of pharmaceutical companies disguising bribery as research and conference funding, paying kickbacks to hospital staff for purchasing certain medicines and medical equipment, and inflating pharmaceutical prices. [5] The National Health Commission (NHC) and other ministries held a video conference to kick off a national one-year centralized campaign to combat graft in pharmaceuticals in July ([NHC](#), July 21). That same month, the CCDI and the NHC deployed local Discipline Inspection Commissions (DICs) to oversee the operation ([MOJ](#), July 28).

The authorities subsequently investigated and charged a wave of high-profile figures. As of the end of September, the authorities had placed over 180 hospital chiefs under investigation nationwide. Some notable examples include Chen Minsheng, the former party secretary of Southern Medical University in Guangdong, Fan Yuqiang, the former party secretary of the First Affiliated Hospital of Tianjin University of Chinese Medicine, and Zhang Jie, former party secretary and president of Edong Medical Group (鄂东医养集团). One corollary of this drive has been to spook the financial markets. The CSI 300 healthcare index, which tracks the largest Chinese pharmaceutical and medical equipment companies, started to decline in January 2023, and lost one-quarter of its value before reaching a low point in August ([CSI 300 Health Care index](#)). The index has since recovered slightly but remains far below its value at the beginning of 2023.

Finance

The scale of the financial industry, coupled with its implicit backing by the government, makes it ripe for abuse of power. Xi can establish his control of this pillar of the economy by tackling opposing party factions who hold interests in the sector. This could lead to more centralized and homogeneous decision-making processes. Chinese banks had RMB 379.4 trillion in assets at the end of 2022 (\$55.03 trillion), while US banks had just \$23.6 trillion ([CBIRC](#), February 15; [FDIC](#)). Large commercial banks hold 41.2 percent of all assets in China, and the top commercial banks are among the largest in the world ([S&P Global](#), April 26). These state-owned banks have implicit backing against failure from China's central bank, the People's Bank of China (PBOC).

The CCDI outlined its views on the sector in February 2023, stating that it needed to break links between power (or the holders of power) and capital (or the resources they control). In an article on its website, the CCDI wrote, "We must continue to increase the punishment of corruption in areas such as finance... [R]esolutely severing the link between power and capital creates a powerful deterrent to combat corruption in finance and state-owned enterprises (持续加大金融、国有企业、粮食购销等权力集中、资金密集、资源富集领域腐败问题惩治力度...坚决斩断权力与资本的勾连纽带，在金融、央企领域形成惩治腐败的有力震慑)" ([CCDI](#), February 23).

In March 2023, following the government reshuffle of financial regulators, CCDI announced plans to inspect over 30 major state-owned firms, including the Agricultural Bank of China and China Development Bank ([CCDI](#), March 27). During the calendar year to date, the CCDI and NCS have now probed or penalized at least 80 financial executives. These include the former central bank chairman Liu Liange (刘连舸), former chairman of China Life Insurance Wang Bin (王滨), and former chairman of state-owned financial conglomerate China Everbright Group Tang Shuangning (唐双宁). Bao Fan (包凡), founder and CEO of China Renaissance, an investment bank, was taken into custody by the CCDI in February for an investigation into suspected bribery. Bao's detention was extended further in May, and he remains in custody ([Eeo](#), May 31; [Caixin](#), August 1). Charges against these men include graft, accepting bribes, non-disclosure of assets, and concealing overseas

savings. Most recently, in September, Charles Wang Zhonghe (王仲何), a senior banker at the Japanese firm Nomura, was prohibited from leaving mainland China by the Chinese authorities, potentially so that he can be questioned as part of their investigation of other executives ([Financial Times](#), September 24).

Financial institutions are heeding the signals from Beijing, and have cut pay and bonuses following government demands to rein in excessive wage growth. For example, CITIC Securities, an investment bank, cut base salaries by up to 15 percent in June ([Reuters](#), June 19). China International Capital Corp (CICC) reduced bonuses by 30–50 percent in May, compared to the previous year ([Reuters](#), June 19). It will be more difficult for the Party to pressure private firms to making similar moves, though as the economic growth slows, the Party will likely be increasingly opposed to profligacy and excess.

The Road Ahead

Based on the length of preceding regulatory crackdowns in other sectors, the current anti-corruption campaigns are likely to continue until the end of 2024. The crackdown on education has been ongoing since June 2021, while the real estate and technology sectors faced regulatory heat for the last two years. [6] In the healthcare sector, pharmaceutical and medical equipment manufacturers, healthcare service providers, hospitals, and healthcare regulators may all be at risk of being targeted over the coming months. Banks, financial service providers, regulators, and their staff are also likely targets. [7] Those convicted will not have the right to a fair trial.

There are several short-term effects of this anti-corruption drive. People could be dissuaded from working in these sectors, especially in positions of authority, for fear of reprisals or simply due to potential instability. This could also lead to paralysis in decision-making. Firms in both sectors will continue to be exposed to political risk, with attendant downsides to their valuation and abilities to raise further capital. Due to the size of these industries, any market volatility could impact the performance of Chinese and even international stock markets.

Once these campaigns wind down, the anti-corruption organs will target other areas. Judging from the readout from the CCDI's second plenary session in January ([Xinhua](#), January 10), these could include the judicial organs and the staple food market, which includes rice and wheat—especially given the Party's emphasis on food security ([China Brief](#), March 2, 2017). The CCDI also identified pensions, social security, and environmental protection as additional problem areas in their report to the NPC in October 2022 ([Work report of the 19th CCDI to the 20th National Congress of the CPC](#), October 27, 2022). These sectors were also included in a draft Criminal Law amendment in July, indicating they could face stricter punishment for graft ([China Law Translate](#), July 26).

Conclusion

The CCP has long made anti-corruption drives a feature of political activity, a function of the Party's Leninist origins. Economic growth, which used to be a major source of political legitimacy, is slowing. The Party is

increasingly looking to ideology and political campaigns to ensure popular backing, placing less importance on the resulting short-term economic turmoil. Anti-corruption campaigns will continue to make the policy environment more unpredictable and will cause businesses to be increasingly risk-averse. Meanwhile, other governments and organizations will find working with the Chinese authorities more challenging as anti-corruption halts policymaking. This has already played out over the summer, with foreign delegations to Beijing having to be rescheduled as officials disappear without official explanation ([Reuters](#), July 21). Government, companies, and other entities will therefore need to pay close attention to the CCDI's official announcements to track the progress of the anti-graft campaigns.

The authorities will have some success in achieving their ends in the healthcare and finance anti-corruption drives. They will convince certain groups that they are protecting the public's interests, thereby boosting party and government legitimacy. They may eliminate opposing political factions, convict certain genuinely corrupt individuals, and prevent some future corruption through fear. However, the government's lack of transparency makes it challenging to objectively assess the true scale of corruption over time. Without political opposition, independent courts, and free media, China lacks the robust institutions and civil society necessary to address corruption in a broad, systematic, and fair way. In particular, once the CCDI and NSC stop scrutinizing them, graft will persist in healthcare, finance, and other sectors where there is potential for the abuse of power and a concentration of capital. The authorities' approach remains dependent on the arbitrary decisions of a small group of elite decision-makers, while the public and non-state actors do not have a reliable avenue to request accountability on their own terms.

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Notes

[1] These figures for finance only cover those working for the highest levels of the CCP, the central government, central state-owned enterprises and financial institutions.

[2] 14 ministries and commissions have taken part, up from nine in previous years.

[3] The original three mountains (三座大山) were imperialism, feudalism, and bureaucratic capitalism, Mao Zedong's main three targets as part of his New Democratic Revolution concept.

[4] Other studies found almost four-fifths of families of lung cancer patients and two-thirds of the families of breast cancer patients had CHE: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8665572/>; <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8287064/>

[5] The National Health Commission (NHC) and National Healthcare Security Administration (NHSA) followed up with concrete announcements of inspections in May and July; National Health Commission and others, May 10 2023, Key Work Tasks for Correcting Improper Practices in Pharmaceutical Sales and Healthcare Services in 2023 (纠正医药购销领域和医疗服务不正之风工作要点),

<http://www.nhc.gov.cn/ylyjs/pqt/202305/e3d690702571455dbdd301f2bc9e7a3c.shtml>; National Healthcare Security Administration, July 14 2023, Notice on an Unannounced Inspection of Medical Security Funds in 2023 (2023 年 医 疗 保 障 基 金 飞 行 检 查 工 作 的 通 知), https://www.gov.cn/zhengce/zhengceku/202307/content_6892128.htm

[6] Real estate from August 2020 to November 2022. Technology from March 2021 until January 2023. Xinhua, January 7 2023, Authoritative Interview · “Strong Confidence · Seize Implementation” | Monetary policy is precise and powerful, financial services have great potential - Interview with Guo Shuqing, Secretary of the Party Committee of the People’s Bank of China and Chairman of the China Banking and Insurance Regulatory Commission(权威访谈·“强信心·抓落实” | 货币政策精准有力 金融服务大有可为——访人民银行党委书记、银保监会主席郭树清), http://www.news.cn/2023-01/07/c_1129264200.htm

[7] While the CCDI says that it investigates and convicts based on evidence of corruption, the real reason behind the probes cannot be verified, given the lack of an independent judiciary and free media. Who the authorities will target next is, therefore, hard to predict.