



# China Reform Monitor No. 1479

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## **PLA SUFFERS FROM SHORTAGE OF RECRUITS AND "LOW TROOP MORALE"**

Last month, in a move widely seen as sign that the People's Liberation Army (PLA) has been unable to boost recruitment, Beijing enacted a law to protect the status, rights and interests of military personnel. To bring in more and higher quality troops with higher morale, the PLA has been offering better salaries and pensions for those who serve in military. The low social status of soldiers in China, coupled with the country's falling birth rate, has led to a persistent shortage of recruits. "Over 70% of Chinese soldiers are 'only children,' and the rest are the second or later children whose parents had to pay fines to bear them," notes Kinichi Nishimura, a former officer in Japan's Self-Defense Force. The impact on China's force posture is noticeable. "China's military has increased the deployment of battleships and fighter planes, but their operating rates are not high. It seems they are unable to sufficiently train enough soldiers to properly maintain and repair them." (NikkeiAsia, September 19, 2021)

## **LITHUANIA URGES EUROPEANS TO TOSS CHINESE PHONES**

Phones sold in Europe by Chinese smartphone giant Xiaomi are sending encrypted phone usage data to a server in Singapore and have a built-in ability to detect and censor 449 terms such as "Free Tibet," "Long live Taiwan independence" or "democracy movement," the Lithuanian Defense Ministry's National Cyber Centre said in a new report. Moreover, it notes, the phones' software can be turned on remotely at any time. "Our recommendation is to not buy new Chinese phones, and to get rid of those already purchased as fast as reasonably possible," Defense Deputy Minister Margiris Abukevicius has counseled. "This is important not only to Lithuania but to all countries which use Xiaomi equipment," the Centre said in the report. Security flaws were also found in phones manufactured by Chinese tech giant Huawei. (Reuters, September 21, 2021)

## **HUAWEI CHAIRMAN: U.S. SANCTIONS TO BLAME FOR \$30-\$40B IN REVENUE LOSS**

U.S. sanctions have cost Huawei at least \$30-\$40 billion in annual revenue, the company's chairman, Eric Xu Zhijun, has said. Huawei's revenue in the first half of this year fell 29.4 percent from a year ago, to \$49.5 billion. Sales from its smartphone business were halved in a year. Xu said it would take years before Huawei could cover the losses with its new businesses, including cars and 5G applications in mines and airports. Xu said Huawei has been investing in Chinese firms specializing in chip-making tools and materials, but that "there is still a long way to go" before it could become self-sufficient in the semiconductor industry. (*South China Morning Post*, September 24, 2021)

[EDITOR'S NOTE: Former President Donald Trump added Huawei to a trade blacklist in May 2019, barring the Chinese telecoms giant from doing business with U.S. companies without government approval. The administration escalated the punishment in September 2020 with a ban that cut off chip supplies for Huawei's smartphones. Since coming into office, the Biden administration has upheld these restrictions.]

## **CHINA MAKES ALL CRYPTOCURRENCY TRANSACTIONS ILLEGAL**

China's central bank has declared all transactions involving Bitcoin and other virtual currencies illegal, stepping up a campaign to block use of unofficial digital money. "Virtual currency derivative transactions are all illegal financial activities and are strictly prohibited," the People's Bank of China said in a statement. The notice warned that Bitcoin, Ethereum and other digital currencies disrupt the financial system and are used in money-laundering and other crimes. The move reflects official concerns that cryptocurrency mining and trading might still be going on in China, or that the state-run financial system might be indirectly exposed to risks. Chinese banks were banned from handling cryptocurrencies in 2013, but the government issued a reminder this year. The Chinese government, however, is developing a digital Yuan for cashless transactions that can be tracked and controlled. (National Public Radio, September 24, 2021)

## **FACING CRISIS, BEIJING ORDERS ENERGY FIRMS TO SECURE SUPPLIES**

As winter approaches, several regions of China are facing a severe energy crisis, forcing a reduction in power to the industrial sector and sudden blackouts in residential areas. In response, Vice Premier Han Zheng, who supervises the nation's energy sector, instructed China's state-owned energy companies to secure coal and oil supplies at all costs. Han delivered the order in late September, during an emergency meeting with officials from Beijing's state-owned assets regulator and economic planning agency. Government-owned power giants State Power Investment Corp. and China Energy Investment Corp. issued statements echoing Han. "We will go all-out to fight the tough battle of energy supply," said China's top coal miner, CEIC. (Bloomberg, September 30, 2021)