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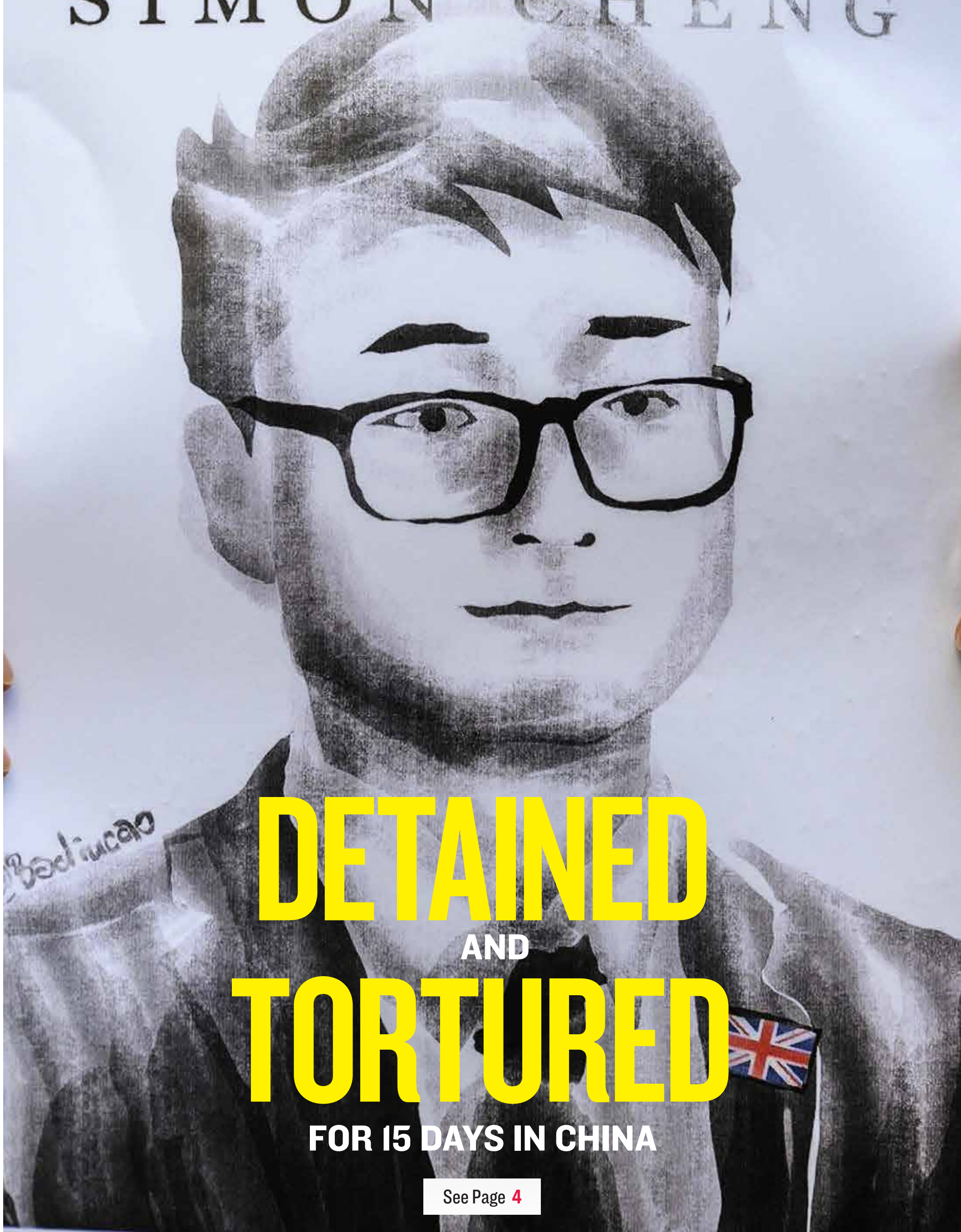
THE EPOCH TIMES

CHINA INSIDER

MISSING

SIMON CHENG

**How the Chinese Communist Party's
'Performance Legitimacy' Has Fallen 3**



**DETAINED
AND
TORTURED**

FOR 15 DAYS IN CHINA

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WANG ZHAO/AFP VIA GETTY IMAGES



Investors watch screens showing stock market movements, at a securities company in Beijing on Aug. 26, 2019.

The Realities of ‘Socially Responsible’ Investing in China

FAN YU

Commentary

Environmental, social, and governance (ESG) investing standards—also called “sustainable investing” and “socially responsible investing”—have taken on greater importance in the investment community in recent years.

Such investing has also reached the shores of China.

With this, ESG investing reaches an inflection point. Will the standards have real bite, effecting change at companies, or will they become an irrelevant article for portfolio managers to simply “check the box” and move on?

ESG Standards

What factors are usually considered in ESG investing?

There isn’t a uniform standard of ESG, but generally speaking, it looks at a company’s environmental impact and policies such as waste management, emissions impact, and environmental protection; social policies such as labor standards, employee relations, equal employment, and impact on local communities; and governance factors such as ownership and structural transparency, investor voting rights, independence of the board and oversight, business ethics, and executive compensation fairness.

Today, this trend has migrated from a niche investment product to the mainstream, whereby many portfolio managers consider ESG factor even when constructing non-ESG investment portfolios. And many companies, desperate to add new investors or keep existing ones, are voluntarily publishing reports on how they meet

Without fundamental changes to China’s broader political and economic system, mandating the implementation of ESG standards within this environment is fruitless.

Greenhouses built with solar panels in Yangfang village, Guizhou Province, China, on June 10, 2017. The Chinese regime has pushed for financing “green energy” projects to drive foreign investment.

various ESG criteria.

Proponents say that ESG will finally compel companies to become better corporate citizens, as well as allowing investors to use their cash to force change at companies. Critics argue that ESG is another costly regulatory measure that creates another cottage industry, allowing cash-rich companies to rubber-stamp their ESG credentials and skate by, while smaller companies are crippled by the increased burden.

Regardless, one cannot escape ESG. When BlackRock CEO Larry Fink—who oversees the world’s biggest asset manager with \$7 trillion in assets—says sustainability will bring “a fundamental reshaping of finance” in the firm’s annual open letter to CEOs, company executives will pay attention.

Investing in China

Chinese Communist Party (CCP) regime leader Xi Jinping made environmental protection one of the three biggest priorities in December 2017, and green finance has been a key policy initiative for Beijing. Green finance in this application means private capital to fund environmental improvement infrastructure projects. Technically, it is different from ESG, but it is nevertheless a component of the CCP’s broader virtue-signaling efforts.

Beijing certainly doesn’t want to jeopardize its foreign inflows, so Chinese officials are increasingly beating the drum on ESG factors to attract more capital.

On Dec. 18, 2019, the Hong Kong Stock Exchange (HKEX)—where many successful mainland companies have listed their publicly traded shares—published its ESG guidance to man-

date improved ESG disclosures among companies listed on the bourse.

Hong Kong’s new requirements govern fiscal years starting in July 2020. From that point forward, companies must produce a statement documenting the board’s discussion of ESG risks as they relate to the company, how the board considers the importance of ESG factors, and how they impact the company’s business.

Later this year, stock exchanges in Shanghai and Shenzhen are expected to follow suit.

One firm’s response to HKEX’s May 2019 open consultation period regarding its ESG mandate said, “We do not consider a mandatory disclosure of this statement will motivate companies to improve on ESG matters.”

An individual investor’s response was blunter: “Please be reminded that wasting a listed company’s money is [the] same as wasting investors’ money,” and the ESG disclosure is “not more than a paper target for fulfilling the listing rules (no matter how silly and stupid and unrealistic it is, something that an issuer has to do).”

While one can understand the HKEX’s intentions, most mainland-domiciled companies likely cannot meet globally recognized ESG criteria and the exchange runs the risk of devaluing the entire ESG effort. At best, Chinese companies will view this as a meaningless “tick-the-box” exercise and waste investor resources, and at worst, companies will lie on their disclosures and bribe ESG consultants.

Even for Western companies operating in a more established and tenured ESG environment, such disclosures are difficult to implement in earnest. But for many Chinese companies, this is simply impossible to fulfill, at least not in the short term and not without some fundamental changes in mainland China.

Let’s examine each pillar of ESG with respect to Chinese companies. The environmental disclosure is probably the easiest to assess—since Beijing has made it such a priority—but progress simply hasn’t been fast enough. That means the initial disclosures by Chinese energy companies would likely look far from ideal.

China has about 1,000 gigawatts of national coal power capacity and another 121 gigawatts of new capacity under construction, a figure that is more than the rest of the world combined, according to Global Energy Monitor. The Wall Street Journal declared on Dec. 23, 2019, that “the world’s biggest carbon emitter is putting economic growth and energy security above its ambitions to be a leader in combating climate change.”

In China, national policy always trumps individual company policies. But at least on the environmental front, there’s a path forward.

What about social issues? This requires some fundamental changes. Chinese technology companies are known for their “996 working hour” culture, meaning workers work from 9 a.m. to 9 p.m., six days a week. That’s a total of 72 hours per week. Technology workers are sick of this and have increasingly taken to the internet to complain.

However, the long hours at China’s technology giants must seem like a blessing to China’s hoard of factory workers. China Labor Watch in 2016 documented workers in southern China’s toy factories working in toxic and dangerous environments while earning minimum wages.

So social issues likely won’t go away any time soon.

Lastly, governance is the aspect of ESG that Chinese companies will have the hardest time passing. It cuts to the heart of the CCP.

Many Chinese-listed companies have an opaque and confusing ownership structure in which investor voting rights have no actual weight. And that’s not an accident or error—it’s by design. In addition, Chinese companies, even nongovernment-owned ones, must implicitly answer to local CCP bosses and party cells. This is an overhang for each and every Chinese company no matter where its stock is traded—and a key reason why Huawei, a privately owned company, poses a national security risk to the United States.

And what about business ethics? Last October, the U.S. Commerce Department put 28 Chinese companies and organizations on a U.S. trade blacklist for their role in the persecution of Uyghur Muslim minorities in Xinjiang. Hikvision, a Shenzhen-listed global leader in making surveillance equipment, is one of those companies.

This isn’t to say companies elsewhere don’t have degrees of ethical issues; many do, and it remains to be seen how they tackle this on their ESG reports. But these issues are more pervasive and harder to address for Chinese firms. Often, the boards of their publicly listed subsidiaries have no power to challenge the parent companies.

Without fundamental changes to China’s broader political and economic system, mandating the implementation of ESG standards within this environment is fruitless.

Views expressed in this article are the opinions of the author and do not necessarily reflect the views of The Epoch Times.

How the Chinese Communist Party’s ‘Performance Legitimacy’ Has Fallen

Beijing is the biggest loser in Trump’s presidency and hopes to avoid a second term as it scrambles to hold onto legitimacy

JAMES GORRIE

Commentary

A confluence of major events and poor decisions over the past several years have put the Chinese Communist Party (CCP) leadership in the crosshairs of the Chinese people’s blame and distrust. In the minds of many, including, perhaps, Party members themselves, the CCP is in danger of losing its claim to legitimacy.

In particular, China’s leadership is feeling the anxiety of performance legitimacy, or the lack thereof. And it’s all U.S. President Donald Trump’s fault.

Well, not really. Beijing has made some horrendous blunders in the past several years, and economic malaise had set in by 2015, well before Trump took office.

Trump’s Pushback

Still, Trump’s policies have made things much worse for the CCP. A broad and aggressive trade war has been an effective pushback against China’s “inevitable” economic and military rise. The Party leadership is rightly concerned about its future in dealing with this president.

Consider, for example, China’s performance failures of 2018, the year the trade war began. According to the China Academy of Information and Communications Technology, in 2018, smartphone sales were down 15.5 percent, and the China Association of Automobile Manufacturers reported that car sales were down by 4.1 percent. Worse, China’s trade surplus had dropped by 16.8 percent.

Add to these negatives the many unoccupied housing developments, high unemployment among university graduates, and the exodus of Western businesses and entrepreneurs. And then, of course, are the hundreds

of billions in bad loans in the Chinese financial system (many financing unused development projects).

And then there is the growing unrest and impatience among workers. In 2018, there were at least 1,700 labor incidents, up from 1,200 in 2017. As a result, the Party leadership is looking for answers—or excuses—for these failures.

That’s why the “phase one” agreement is a welcome “win” for Beijing.

Phase One: A Temporary Fix?

But even the phase one deal is more of a band-aid than a solution. It halves the 15 percent tariffs on \$120 billion worth of Chinese goods, halted tariffs scheduled to hit in December 2019 and took China off the currency manipulator list. This gives the CCP a much-needed relief that it can point to—at least temporarily. But 25 percent tariffs are still in effect on \$250 billion worth of Chinese goods.

For the United States, it’s a good deal as well. China has agreed to buy \$200 billion worth of U.S. goods—including \$40 billion more in agricultural products—over the next two years. That would bring U.S. exports to China up to more than \$260 billion in 2020 and about \$310 billion in 2021. That’s significant, given that, pre-trade war in 2017, China purchased \$185 billion from the United States.

Or a Trap?

There are additional wrinkles to the deal worth mentioning. For one, Chinese leader Xi Jinping sent his vice premier to sign the deal. Why? Xi loves the attention of signing big deals in Asia and Africa. Why skip the biggest deal of all?

There are several reasons, but primarily, Xi, as well as the

people of China, know that it’s a win for the United States and a capitulation for China. Their economy is crashing as supply chains leave and Chinese lose their jobs. China needs relief from Trump’s tariffs and loses face getting it.

There’s also the probability that Xi knows he can’t hold up his end of the deal. Why sign a big deal with Trump only to be humiliated when you fail to deliver on it?

Better to send your No. 2 man to sign it. That way, when the deal goes sideways and the United States lays on the agreed punishment of more tariffs for nonperformance, Xi avoids the blame from the people and the Party. That’s his hope, anyway.

Will the phase one deal hold up? And if so, will it lead to a phase two, three, and other phases of deals? Many observers think that phase one will not likely remain in force for long. Enforcement of the agreement itself remains an unresolved issue, especially on intellectual property protections and unfair subsidies to China’s state-owned enterprises. Both are sticky subjects for China and will likely be deal-breakers down the line.

Falling GDP: Another Huge Problem

For the CCP, the need to reverse the country’s economic trajectory is urgent. According to Deutsche Bank, GDP for 2020 is anticipated to fall below the 6 percent level, to about 5.8 percent. That’s the worst in 30 years and a political minefield for the CCP. Rising GDP is what the Party built its political legitimacy upon after the Tiananmen Square Massacre of 1989.

It’s no wonder China’s Vice Premier Liu He has responded to that low figure. First, they fired

the statistician who reported falling growth. Then Liu pronounced that China’s 2020 GDP growth will surpass that key 6 percent level. He also promised that “China will continue to enhance the legal environment” and “welcome investors from around the world.”

The fact that China is now allowing foreign financial services firms full ownership of offices shows how desperate Beijing is to stop their financial system from crashing. It’s also an admission of the CCP’s lack of financial finesse and need for foreign guidance.

Hong Kong Pulls the Curtain Back

But it isn’t just economic performance legitimacy that plagues the CCP. The Hong Kong crisis, now in its ninth month, demonstrates the Party’s lack of confidence in itself and its legitimacy. Furthermore, Trump’s linkage of Hong Kong to a trade deal was a big blow to the CCP’s credibility. It destroyed any prestige or mystique the Party may have had with regard to its immunity from Western criticism and pressure.

Hong Kong also pulled back the curtain of legitimacy that surrounded the Party leadership. It revealed a leadership that has no clue about how to preserve the genius and value that Hong Kong has provided the mainland economy. It has also resulted in more mainland Chinese learning the truth about Hong Kong, and perhaps more critical, the truth about their own regime.

Taiwan Election: A Rejection of the CCP

Going hand in hand with the CCP’s Hong Kong protest disaster is the landslide re-election of anti-unification President Tsai Ing-wen. Other than a firm

rejection of Beijing, there are two other notable facts about the Jan. 11 election.

First was the unusually high voter turnout, which saw 75 percent of voters this election. In the 2016 election, voter turnout was about 9 percent lower. Contrary to Beijing’s bluster, the Taiwanese people definitely showed their rejection of the idea of unification with the mainland.

Second, the high turnout was a result of high numbers of young voters. That, too, is a problem for Beijing. It may be that Hong Kong has taken the idealistic blinders from the eyes of young Taiwanese.

A Call for Multiparty Cooperation and Unity—Really?

It’s lonely at the top—especially when your performance isn’t living up to the hype. That’s about where the CCP leadership finds itself right now. Beijing’s ambitions are proving elusive to attain and its promises impossible to keep.

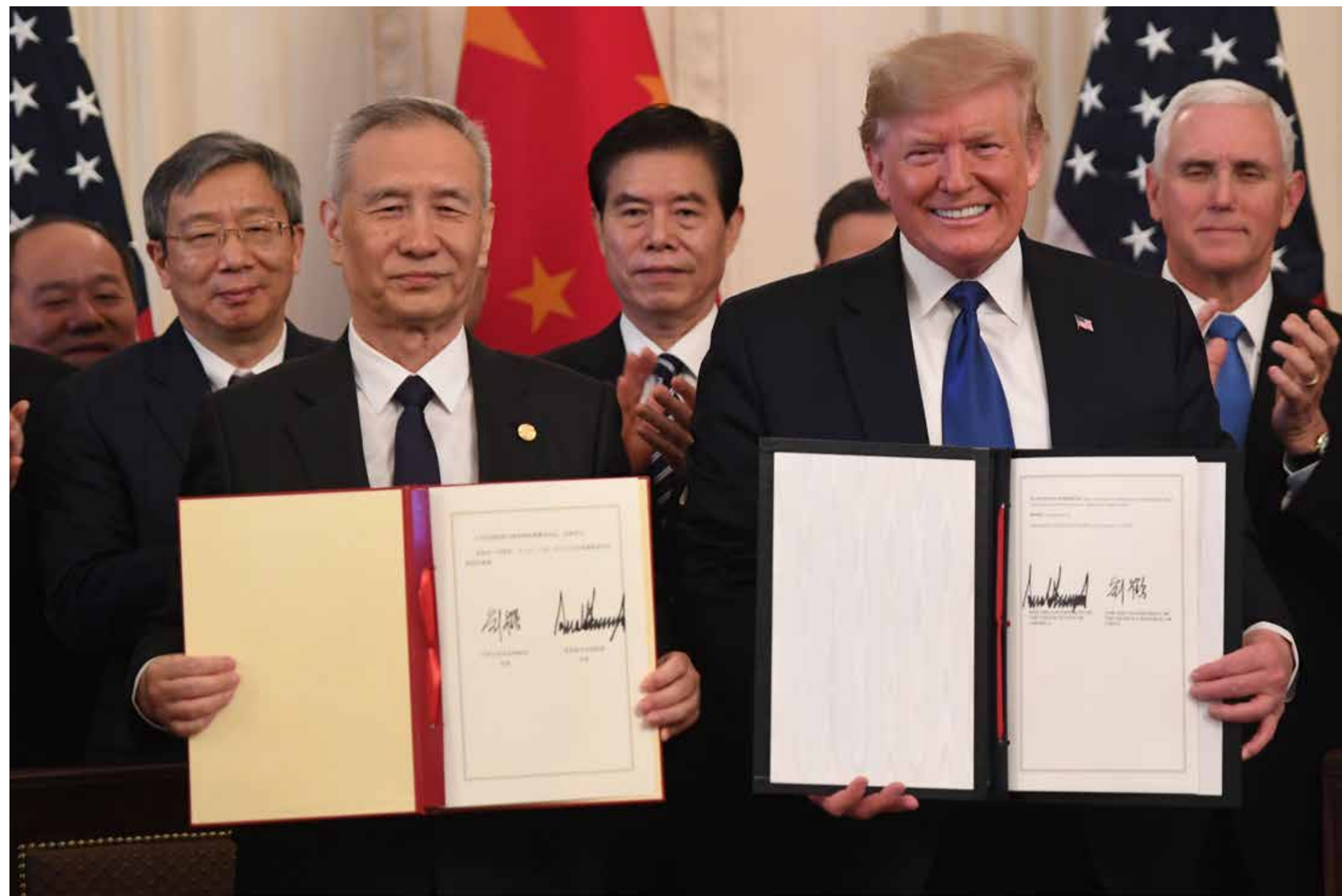
In light of China’s cratering economy, is it any wonder that the Party is now calling for multi-party cooperation and unity, as well as an end to extreme poverty? That isn’t very omniscient of a Party that’s all-wise and knowing, is it? Especially since it condemned multi-party systems in 2014.

It looks much more like a ploy to spread the blame of widespread and deepening leadership failure in order to avoid a performance legitimacy crisis—or worse.

James Gorrie is a writer and speaker based in Southern California. He is the author of “The China Crisis.”

Views expressed in this article are the opinions of the author and do not necessarily reflect the views of The Epoch Times.

SAUL LOEB/AFP VIA GETTY IMAGES



Chinese Vice Premier Liu He and President Donald Trump display the signed trade agreement between the United States and China at the White House in Washington, on Jan. 15, 2020.



STR/AFP VIA GETTY IMAGES

HUMAN RIGHTS

Former UK Consulate Employee Details ‘Nightmare’ of Being Detained, Tortured in China

EVA FU

Former British consulate employee Simon Cheng says he couldn't have imagined that his participation in the Hong Kong pro-democracy protests would land him in a prison in China and labeled an "enemy of the state."

In August 2019, the Hongkonger's short business trip to the Chinese border city of Shenzhen turned into a nightmare: For 15 days, Cheng was held incommunicado, accused by Chinese authorities of being a British spy, and tortured to extract intelligence about protesters in his home city.

Since June 2019, demonstrators have massed in the streets of Hong Kong in opposition to the Chinese regime's growing interference in the city's affairs.

Cheng was only released after making a televised appearance on a state-run broadcaster "confessing" his crime of "soliciting prostitution," a violation of Chinese law. But he's disavowed that confession, saying he was forced to admit to the charge, which he described as politically motivated.

He's since resigned from his post at the UK consulate in Hong Kong and is speaking out about his experience, insisting that he won't be silenced.

That's come at a cost. Cheng has cut ties with his relatives in Hong Kong and mainland China, in the hope that they can "live in tranquility and peace, without external harassment and threat," he wrote in a Jan. 9 Facebook post.

A Nightmare

Over the summer of 2019, the then-28-year-old was at the forefront of several protests in Hong Kong. Sometimes, he would try to negotiate with local police who had surrounded demonstrators and blocked their way.

In early August, however, an encounter with mainland authorities turned his life upside down. While on the way back from his business trip, he was arrested at a mainland Chinese checkpoint at Hong Kong's West Kowloon Station, steps away from Hong Kong territory.

Mainland customs officers seized his backpack and phone, and put him in custody. Late that night, he was escorted onto a high-speed train to Shenzhen and handed over to Chinese police officers on the high-speed train to Shenzhen.

Cheng tried to ask the escorting police what they would do to him.

"Don't be so insolent, brat!" he recalled a burly plainclothes officer saying, in a Dec. 31, 2019, interview with The Epoch Times in London.

At this, Cheng immediately threw his hands up.

The officers took him to a police station in the district of Futian, in Shenzhen.

"Once the car got into the police station, you had nowhere to turn for help, because you are basically left to their mercy," he said. "You are in their domain."

That marked the beginning of what Cheng would remember as a 15-day "nightmare."

'No Human Rights'

The interrogation began shortly after his arrival at the station.

Cheng was made to sit inside a steel cage, with his hands cuffed and body shackled to an iron stool, while interrogators grilled him for seven to eight hours.

They pressed Cheng about his—and the UK government's—role in the Hong Kong "riots," and asked him to give names of mainlanders who joined in the protests.

"Suppose what you do is legal in Hong Kong, but where are you right now? ... Once you are in mainland China, you are subject to the mainland's judicial standard," they told him.

"It was a blatant contradiction of the 'one country, two systems' policy, but I couldn't retort back under the circumstances. I could only express my sense of remorse," Cheng said, referring to the framework governing the city, under which the Chinese regime pledged to maintain the city's autonomy and freedoms.

Cheng was transferred to two detention facilities throughout his ordeal. At each of these facilities, he was taken to a secret location for interrogation almost on a daily basis.

The guards would put a hood over his head, and shackle and blindfold him before taking him to the interrogation location by van. He was also ordered to wear his prison uni-



Simon Cheng in London.



Simon Cheng in an interview with The Epoch Times.

form—which bore his name and where he was from—backward so as not to reveal his identity.

Each of the interrogation sessions lasted about seven to eight hours.

During some sessions, he was blindfolded with his hands and feet bound into the spread-eagle position—a pose he had to hold for hours. At other times, he was made to squat while raising his hands over his head.

If he made a slight move or if his pose wasn't "perfect," the interrogators beat him and hit vulnerable areas, such as his ankle and knee joints, with what seemed to be a sharpened baton. He had to say "master" whenever he wanted to speak, or get slapped in the face.

The interrogators said it was a "training" to keep him healthy.

"They are the ones who make the call, this is their stage ... they don't care if you talk or not, and they only let you talk when they feel like it," Cheng said.

An interrogator speaking flawless Canton-

ese said Cheng was "no better than human waste," while a Mandarin-speaker told him there were "no human rights to speak of."

As Cheng drew close to a mental breakdown and burst into sobs, he said they would release him for a while and feed him, while still prodding him for intelligence. They also labeled him a "state enemy."

Inmates From Hong Kong

During the second week of interrogation while at Luohu Detention Center, Cheng said he passed a group of around 10 young prisoners who were held inside glass cells. Wearing orange prison uniforms, they all looked down at their handcuffs, looking dejected. He suspected that they were Hong Kong protesters.

Cheng said he heard a Cantonese voice from a guard while walking through the hallway: "Raise your hands higher, didn't you raise flags very high during the protests?"

He also brushed past a young girl of around

15 or 16. An officer said she was arrested for protesting in Hong Kong, and asked if they were acquaintances. He shook his head.

"Then that's the best," the officer said.

He said interrogators also handed him photos of about 1,000 protesters, with some appearing to be images pulled from social media, and asked him to provide information about those he knew. He was told to fold one corner of the photo if he recognized the face and stamp with his fingerprint; he said he had no choice but to comply.

New Start

In late August, Cheng was released to Hong Kong. Soon after, he booked a flight to Taiwan, where he stayed for three months and spoke with local media about his experience.

Three days after arriving, he found that a man was following him: the person didn't react when Cheng took a photo of him. About an hour later, he saw the same man checking his phone near him—but in a different outfit. After reporting the incident to Taiwanese police, he said officers told him that the man wasn't a local resident.

Alarmed by the occurrence, Cheng said he soon left for England, where he stays on a business visa.

Cheng has cut off communication with his relatives in the mainland and Hong Kong because of fear that the Chinese regime will retaliate by harming or harassing his family.

He says that exposing such human rights abuses perpetrated by the Chinese regime is a moral obligation and what ensures his own safety.

"I don't want to be silenced by the CCP's [Chinese Communist Party] threats and blackmail ... otherwise, I will regret for life."

"It has been a difficult choice ... a price I paid."



Activists holding placards gather outside the British Consulate-General building in Hong Kong on Aug. 21, 2019.

CHINESE INFLUENCE

Beijing Employs New Tactics to Influence Media: Report

CATHY HE & FRANK FANG

For years, China has pushed its narratives and propaganda through media outside of its borders. Since 2017, that influence campaign has been accelerated with new tactics, according to a report by the U.S.-based nonprofit Freedom House.

"Journalists, news consumers, and advertisers in countries ranging from Sweden to Russia, South Africa, the United States, and Australia are encountering intimidation or censorship of political content that the CCP [Chinese Communist Party] considers undesirable," Sarah Cook, Freedom House's senior research analyst and author of the report, said in a press release.

In a telephone interview with The Epoch Times, Cook explained that Beijing has three goals for its influence campaigns: promoting a positive image of China and the CCP; promoting China's openness to economic engagement, especially Chinese investment in other countries; and suppressing viewpoints and coverage of topics that are critical of the CCP.

Positive Image

Cook says Beijing added a new goal in 2017: presenting China as a model for political-economic development for developing countries.

Beijing's messaging, while intentionally portraying China in a positive light, "omits the objective negative dimensions of China's authoritarian political system and rapid economic development," according to the report.

Examples include egregious human rights violations against ethnic and religious minorities, and the dark side of China's foreign engagement, such as corrupt deal-making and the opaque accumulation of public debt, according to the report.

Beijing has been accused of putting developing countries in a 'debt trap,' after these countries join China's massive 'One Belt, One Road' investment initiative. Rolled out in 2013, it aims to build up trade routes linking China, Southeast Asia, Africa, Europe, and Latin America.

Beijing has been accused of putting developing countries in a "debt trap," after those countries sign on to China's massive investment initiative of "One Belt, One Road" (OBOR, also known as Belt and Road). Begun in 2013, the plan aims to build up trade routes linking China, Southeast Asia, Africa, Europe, and Latin America.

Chinese Tactics

Cook told The Epoch Times that Beijing has resorted to "covert, corrupt, and coercive" tactics in pushing its narrative abroad.

One illustration of the covert element of Chinese media influence: Chinese state media often use misleading taglines. For example, China Global Television Network (CGTN), the overseas arm of China's state broadcaster China Central Television (CCTV), uses the tagline of "China's preeminent 24-hour news channel" on its Facebook page.

Cook explained that people who don't know much about China may not necessarily know that these media outlets are CCP mouthpieces.

The regime is spending millions in Western countries to insert its propaganda into mainstream media outlets, Cook said. China Daily, overseen by the CCP's Publicity

Department, the agency in charge of disseminating propaganda, has partnerships with many Western newspapers, including The Wall Street Journal, The New York Times, and The Washington Post in the United States.

These publications have published supplements in print or online written by the English-language state-run newspaper.

China also is active in the digital television broadcasting sector, with investments throughout Asia, Africa, and Latin America. For instance, Chinese telecom equipment and systems company ZTE signed a deal with state-owned Pakistan Television Corp. (PTV) to expand the latter's digital services in 2017.

Searching for the keyword "Taiwan" on PTV's website reveals no coverage on the most recent Taiwan elections, nor Taiwan's local elections in 2018. It did, however, report on Taiwan's 2016 election, when Tsai Ing-wen won her first term in office, but that preceded the ZTE deal.

The third tactic, coercion, manifests through the bullying of journalists.

According to the report, the Chinese embassy in Sweden issued at least 52 statements between January 2018 to February 2019 that were critical of specific journalists and news outlets, while peppering them with insults and threats.

The report also pointed to the case of an arson attack that targeted the printing press of the Hong Kong edition of The Epoch Times on Nov. 22, 2019. The attack is widely believed to have been an effort by the CCP to silence the newspaper, which has reported extensively on the protests in Hong Kong and the CCP's human rights abuses.

"These [Chinese] activities really undermine fundamental aspects of democratic governance, transparency, the rule of law, and fair competition," Cook stated.

Cook warned that as a form of censorship, the Chinese regime has also displaced independent media with its state-run media, as evident by a case in Papua New Guinea in 2018.

According to media reports, Chinese officials prevented local and international journalists from covering Chinese leader Xi Jinping's meeting with eight regional leaders in the South Pacific island nation that year. These officials then told the reporters that they should use Xinhua's (state-run news agency) reporting or CCTV's video as the basis for their coverage.

Pushing Back

Cook said countries could do more to push back against the regime's aggressive influence campaign, including imposing penalties on Chinese diplomats and tightening broadcast regulations.

"When Chinese diplomats and security agents overstep their bounds and attempt to interfere with media reporting in other countries, the host government should vigorously protest," the Freedom House report stated, recommending that such officials could be expelled or barred reentering the country.

The United States should also properly enforce the Foreign Agents Registration Act (FARA) by requiring more Chinese state-run outlets and overseas Chinese-language media to register, Cook said. FARA requires organizations and individuals to register with the Department of Justice (DOJ) if they seek to influence U.S. officials or American public opinion on behalf of foreign governments. As part of registration requirements, organizations and individuals must disclose their annual budget and expenditures.

Currently, only CGTN and China Daily are registered, and while state-run news agency Xinhua was ordered to register by the DOJ, it hasn't yet done so.

Media investors and governments should also support independent Chinese-language media outlets, such as through funding and training, the report recommends.



A China Daily newspaper box alongside those of other daily papers in New York on Dec. 6, 2017.



Copies of Chinese-owned newspaper China Daily fresh off the printing press in Nairobi, Kenya, on Jan. 3, 2013.



A newspaper consumer reads a copy of China Daily's Africa edition at a newsstand in Nairobi, Kenya, on Dec. 14, 2012.



Sarah Cook, China analyst at Freedom House, at a Jamestown Foundation event on Oct. 15, 2019.



Russian S-400 anti-aircraft missile systems take part in a military parade at Dvortsovaya Square in St. Petersburg on Jan. 27, 2019.

Standard Measure May Vastly Understate Russia, China's Military Spending

SIMON VEAZEY

The United States famously spends more on defense than the next seven countries combined, almost three times that of its nearest rival China and 10 times that of Russia.

But commonly used data is flawed, according to a handful of analysts and academics who are trying to persuade think tanks to adopt a different set of numbers to rank military spending.

According to their analysis, Russia's defense spending in 2018 wasn't the \$61 billion noted in internationally accepted data, but \$159 billion. And China's spending is almost double the latest \$250 billion figure, at around \$450 billion, reaching 75 percent of U.S. military spending.

The new numbers come from using a different way of calculating: eschewing the time-honored method of comparing spending via exchange rates for a method that adopts a measure known as power purchasing parity (PPP), which compares what currencies can buy locally.

For military analysts and generals steeped daily in details of missile batteries, warship numbers, troops, training, terrain, asymmetric advantages, and theories of victory, neither set of crude figures is likely to much affect overall assessment of an adversary's military prowess.

But these top-line spending figures are resulting in misleading newspaper reports and skewing threat perceptions among some key decision-makers, those producing the new data claim.

"I think this crude military spending analysis has permeated every level of the decision-making apparatus," said Richard Connolly, director of the Center for Russian, European, and Eurasian Studies at the UK's University of Birmingham, referring to the regular numbers as calculated using the market exchange rate.

"I've been banging this drum for about two years," he told The Epoch Times. "I think I am the only person who has written about Russian military expenditure at PPP. Nearly everybody, be it think tanks, such as the IISS [International Institute for Strategic Studies], CIPRI [Stockholm International Peace Research Institute], or the media more widely or policymakers, will use market exchange rate."

That market rate is the standard measure used to rank military spending internationally,



DF-41 ballistic missiles on display during a parade to commemorate the 70th anniversary of the founding of the People's Republic of China, in Beijing on Oct. 1, 2019.

he says. "Most key decision-makers use it."

He says it distorts because it doesn't account for the cost of labor or fluctuations in currency markets.

"It understates military expenditure in poorer countries and overstates it in richer countries."

An Alternative Measure

In October 2019, Connolly wrote an occasional paper for CNA—a research organization with a 75-year history of military analysis—breaking down how the exchange rate data doesn't reflect Russia's military spending and proposing a new set that's based on a PPP analysis.

Connolly says it is sometimes obvious that using market exchange rates just doesn't add up, giving the example of Russian military spending around 2014–2016—a time when Russia was ramping up military spending. "They were buying more equipment, they were engaged in more operations, they had peaked in military procurement, they had in that year dozens of intercontinental ballistic missiles with nuclear warheads, tens of fast fighter jet aircraft, and over 100 helicopters. You go through this phenomenal list in just that year (2014) alone. Measured in rubles terms, [military spending] was rising pretty sharply during this period."

"But at market exchange rates, because the price of oil collapsed in the late summer/early autumn of 2014, the ruble weakened. So according to the market exchange rate,

military expenditure [apparently] declined in 2014 and then into 2015."

When he produced a PPP-based estimate, it set Russian military spending at \$159 billion in 2018, instead of the \$61 billion from the exchange rate figure. Russian defense spending peaked at more than \$200 billion in 2016, according to his data.

According to Connolly's PPP calculation, Iran's spending would be nearly \$50 billion last year, compared to the \$13 billion exchange rate figure, which he points out is cited in the U.S. Defense Intelligence Agency Report last year.

China's spending is more than \$450 billion, according to his calculations.

Chairman of Joint Chiefs Agrees

Chairman of the U.S. Joint Chiefs of Staff Gen. Mark Milley alluded to these issues in 2018 when challenged by a senator wielding the usual exchange rate figure for Russian military spending during a Senate Appropriations Committee hearing.

"We're spending \$600 [billion], \$700 billion against an enemy that's spending \$80 billion," said Sen. Dick Durbin (D-Ill.), the ranking Democrat on the panel. "Why is this even a contest?"

In response, Milley picked up on the problems with the numbers.

"We're the best-paid military in the world by a long shot. The cost of Russian soldiers or Chinese soldiers is a tiny fraction.

"I think you'll find that Chinese and Rus-

The answer that we are looking for in our work is, 'If I choose A, how does it impact the ability to choose B in the future?' So that's the level of detail we are going for.

Harrison Schramm, senior fellow, Center for Strategic and Budgetary Assessments

sian investments, modernization, new weapons systems, etc., their [research and development]—which is all government-owned and also is much cheaper—I think you'd find a much closer comparison," Milley added.

The cost of labor is the main factor that skews the figures, Connolly said.

The problem with PPP is that there is no commonly agreed-upon formula for military spending, says Richard Bitzinger, visiting senior fellow, military transformations program at the S. Rajaratnam School of International Studies. "So it is natural that most analyses of military spending would use the standard exchange rates."

He says that the argument about whether to use PPP has been around for a while.

"The main advantage is that a PPP, if done right, can provide a more accurate and comparable figure of defense spending, reflecting true spending power," Bitzinger told The Epoch Times. "The disadvantages are that it can overstate spending power, and fail to take into account intangibles like training, leadership, morale, quality of equipment, etc."

Bitzinger agrees that the exchange rate figure is misleading to an extent.

"But using top-line defense budget figures is always a risk: It can only tell so much about a country's military priorities, directions, etc. One should always be wary of 'one data point' analysis."

Even if you can figure out what a spending figure is, most military analysts say it is only a broad indication of military power, and even further from any analysis of how any two adversaries would fare on each other's turf or in any other given context.

"A true assessment of a country's military prowess (and whether it's improving or comparatively better than another's) always requires a broad approach: budgets, procurement, quality, training, tactics, etc.," Bitzinger says.

For Russia, and even more so for China, making any kind of assessment of military spending is hard, because spending is often obscured or fabricated.

"While most analysts and governments understand that China's published military spending figures are stark fiction, they are used to provide at least one kind of 'official' indicator of the growth of China's military spending," Rick Fisher, senior fellow at the International Assessment and Strategy Center, told The Epoch Times.

"Government and private sector researchers, however, are able to assess what little China does reveal and combine that with unique sources to arrive at useful estimates, but this remains a daily and intensive chore."

Professor Peter Robertson, dean of the University of Western Australia Business School, has been crunching the numbers on military spending and is convinced that exchange rate-based spending figures are misleading and the PPP-based figures are a better option.

Like Connolly, he doesn't think the numbers are causing problems of perception deeper in the corridors of the Pentagon.

"But certainly I think in the media in discussion and so forth, people are using this as a quick benchmark on how it compares with the U.S., or how it has changed over recent years," he told The Epoch Times.

More Bang for the Tourist Buck

Explaining the difference between the exchange rate and PPP, Robertson gives the example of tourists heading to poorer countries.

"The exchange rate that you get at the airport is a market exchange rate, and in a global economy, that kind of reflects an average price of traded goods across countries."

"If I buy a TV in Australia, and then I convert my dollars to yuan and go to China and buy the same TV, it might cost around the

same," he says.

"But if you are buying things that are labor-intensive—like street food, home care services, a hotel, a housemaid—you will find that your money goes a lot further."

"So the question is: For the military, does the effect hold or not?" he said.

In theory, an exchange rate comparison might hold roughly true for military equipment, such as machine guns, which are also sold on the international market, Robertson says.

"But the military also consists of personnel. And that's where the problem occurs. China's got a lot of personnel. Roughly speaking about one-third of the military budget goes on soldiers or defense staff, generally."

Robertson has calculated the costs of roughly comparable security services in the United States and China.

"It turns out that Chinese soldiers are very cheap in comparison to U.S. soldiers, even when adjusted for differences in skill level and so forth."

According to his analysis, China's defense sector is about twice as large as measured by the exchange rates.

"Russia is about three times larger," Robertson said. "Turkey about four times larger."

Using exchange rate-based data not only skews comparison between countries but can also skew the year-to-year comparison within the same countries, Robertson and Connolly both say. Robertson offered the example of Chinese military spending.

"In recent years, there has been a lot of stuff in the press about double-digit percentage growth in China's military spending," Robertson said. "What's actually happening in the background is that there is rapid wage growth in China—and so the military, like the factories are facing increasing personal costs, pensions. So the amount of real resources they are getting for the same expenditure is going down."

PPP: Better, But not Perfect?

Once the adjustment has been made for the cost of rising wages, that increase in military expenditure is a lot more moderate than the exchange rate figures indicate, he says.

Robertson says that he compared his own more tailored data—crunching of military spending against PPP numbers and the exchange rate figure.

"You've got one that's good for machine guns (the exchange rate) and one that's good for personnel (PPP). The question is: Which one's going to be better on average for military spending?"

"I worked out that the PPP ones—even the ones based on the consumer index—do a better job than those based on market exchange rate. But they're still not exactly the right number either."

Connolly said he came to a similar conclusion.

"Using the PPP measure is not perfect—but I think it's roughly right," said Connolly. "U.S. dollars at the market exchange rate is precisely wrong."

RUSSIAN DEFENSE MINISTRY PRESS SERVICE VIA AP



An intercontinental ballistic missile lifts off from a truck-mounted launcher somewhere in Russia, in this file photo.



Chairman of the Joint Chiefs of Staff Army Gen. Mark Milley at the Pentagon on Dec. 20, 2019.

[Russia was] buying more equipment, they were engaged in more operations, they had peaked in military procurement.

Richard Connolly, director, Center for Russian, European, and Eurasian Studies, University of Birmingham

He notes that some people say that consumer price baskets used for PPP aren't military-specific. However, he believes that basket is still related to the costs a military will incur, which is why the comparison holds.

"What's the cost of transport? That's going to relate to the cost of logistics. What's the cost of living? That's going to help to measure the purchasing power of a soldier. What's the cost of a car? That will be related to the cost of manufacturing, etc."

Connolly concedes the need for a simple figure for a side-by-side comparison. "All I would say is use PPP, rather than market exchange rate. Just that one change, I think, would be massive."

He says he is working on a PPP formula specific for the Russian military and that others are working on one for China.

Spending and Strategy

For analysts at the Center for Strategic and Budgetary Assessments (CSBA), the challenge of comparing military spending isn't simply putting a set of simple numbers in policymaker's hands—but getting them to think about the strategic implications.

Drilling into the details of military spending reveals military-strategic choices and their limitations, according to Harrison Schramm, a senior fellow at the CSBA.

"In our current work, we are focused on the strategic choices—and money ends up being a proxy because money is easy to measure," Schramm told The Epoch Times. "The answer that we are looking for in our work is, 'If I choose A, how does it impact the ability to choose B in the future?' So that's the level of detail we are going for."

Making a true "apples-to-apples comparison" of spending is very hard, Schramm says.

"The real art in this is to choose assumptions that are tractable and explainable," he said. They are choosing less-than-perfect classical statistical methods to crunch out equations to figure out the cost of ships or planes, precisely to make the process more accessible.

Machine learning or neural nets might give a better answer, Schramm says, "but it's an answer that you would never be able to explain."

"It is almost more important to be able to explain why we think that's the number than to actually have a precise number because that gets into the choices a nation has to make."

"I would consider this to be a runaway victory if I could simply get people to acknowledge openly that there are choices that have to be made [by adversaries writ large], and that it's not 'everything all of the time.' So people have this idea that China is this juggernaut and that they can just build ad infinitum. And that is not true."

But getting to the numbers isn't easy.

Hiding the Numbers

"There's a wealth of data that the U.S. has in open forums about how they spend their money," Schramm said. "The Russians and Chinese don't do that. We have their top-line, by which I mean the total sum of the checks that they are able to write. And then we have it broken down by a couple of categories. It's extremely opaque."

"What makes this hard is that it is possible that the Chinese and Russians themselves don't know what it really costs. When doing analysis or trying to apply statistics against it, you find yourself having to make a lot of assumptions because the problems have so much freedom."

"Under Civil-Military Fusion, you now have a broader requirement for the economy to serve the military. In essence, anything under the control of the Chinese Communist Party that it deems is necessary for military power construction can be diverted to that end. So it is possible to ask: is it now essentially impossible for anyone, even Chinese, to tell you a real number for Chinese military expenditures?"

He explained that the U.S. Department of Defense has been publishing an annual assessment of China's military strength, now called the China Military Power Report, since 1998.

"For 20 years this report has for American taxpayers and the rest of the world defined the rise of China's power. China's political and military leadership will never produce a report as credible as the U.S. report. Every year they complain and howl about this report, but my assessment is that they are very thankful as this report produces the fear they very much desire."

Meanwhile, in Russia, the market exchange rate numbers suit President Vladimir Putin, who frequently quotes them, Connolly notes. He says they play up the notion of "the encircled fortress," of a plucky beleaguered Russia surrounded on all sides by far better-funded Western military powers.

Connolly says that although his figures might suit the budget-pushing military hawks, he believes the market exchange rate figures are used in the West partly because it suits a certain narrative about the Western countries far outmuscled their rivals.



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