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# CHINA INSIDER

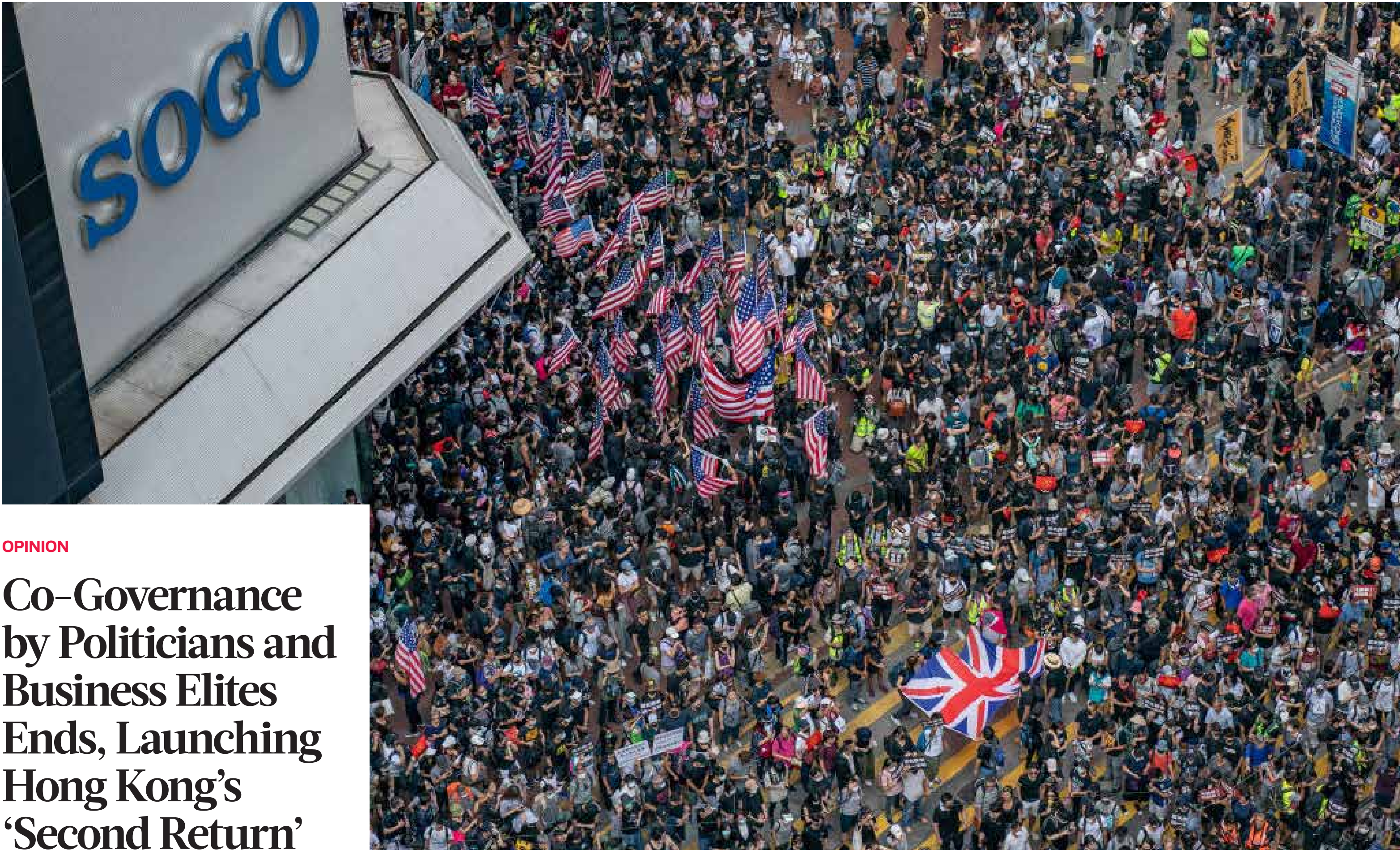
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## ECONOMIC WARFARE

**BEHIND THE SUDDEN ESCALATION IN  
THE US-CHINA TRADE WAR**

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OPINION

# Co-Governance by Politicians and Business Elites Ends, Launching Hong Kong's 'Second Return'

HE QINGLIAN

Sept. 16 marks the 100th day of the Hong Kong anti-extradition law movement. The final direction of Beijing's solution to the Hong Kong issue is already very clear—the co-governance between government officials and business elites will end, bringing to fruition the “second return” of Hong Kong to Beijing. Several major indications released through various channels, including an exclusive article released by Reuters on Sept. 13, seem to confirm this. The article states that China urged its biggest state-owned enterprises to step up their investment and assert more control of companies in Hong Kong, so as “to calm months of unrest in the city.” It is an indication of the Chinese Communist Party's (CCP) attempts to control Hong Kong to a greater extent. In addition, on Sept. 13 the CCP mouthpiece The People's Daily criticized Hong Kong billionaire Li Ka-shing, as the pro-Beijing Democratic Alliance for Betterment and Progress of Hong Kong (DAB) asked the Hong Kong government to consider citing the Lands Resumption Ordinance to reclaim the four major Hong Kong developers' approximately 9.3 million square meters of agricultural land to build homes. Then on Sept. 17, China's domestic websites posted various columns and comments, pointing to plans for the “second return,” which is to end Hong Kong's government officials and business elites co-governance for the CCP's full control of Hong Kong's economy.

**Beijing Says Hong Kong Business Elites Are 'Not Its Own People'**

The Reuters' article title, “China prods state firms to boost investment in crisis-hit Hong Kong,” suggests that China encouraged

state-owned enterprises (SOEs) to increase investment in Hong Kong. It was pointed out that the Chinese regime has recently convened hundreds of large SOEs to meet in Shenzhen. The high-level representatives of more than 100 large SOEs have promised to invest more in major Hong Kong industries, including real estate and tourism, to stabilize the financial markets and create jobs for local residents, and to do everything they can to help Beijing solve the most serious political crisis Hong Kong has faced. One of the SOE executives who was at the meeting told Reuters: “The business elites in Hong Kong are definitely not doing enough. Most of them are not one of us.” This view suggests that the Hong Kong business elites' reliance on the privileges granted by the Chinese regime to seek rent and profit in both Hong Kong and mainland China will come to an end, and so has the city's political and business alliance. In Hong Kong, real estate and other industries will be taken over by SOEs. At present, it is not clear how the SOEs will increase their investment, but the principle has been set: “Chinese SOEs are not only holding shares in Hong Kong companies, but also have decision-making power and control of the companies.” Demanding from Hong Kong's wealthy elites to sell their ownership and let SOEs take control is one of the possible ways. It is estimated that companies that have “behaved poorly” in Beijing's eyes since the “anti-extradition law” protests will be among the first for such acquisitions. In the article, “The Second Return” Would Be Nightmarish for Both Hong Kong and China, I said that ending the government-business co-governance model is an important part of the “second return” plan. The rift between the Chinese regime and the united front of the Hong Kong business elite did not begin with the “anti-extradition

law” campaign. As early as the Hong Kong Occupy Central movement in 2014, there were few people among Hong Kong's business community who expressed their support for the government. China Daily recently published an English article criticizing Li Ka-shing as being ambiguous on his stance. Others such as Li Zha-oi, Guo Henian, Wu Guangzheng, and other tycoons also remained silent, not expressing their support for the Hong Kong government or the Hong Kong police's handling of protesters.

**Beijing's View of Hong Kong Business Elites: Rent-Seeking, Profit-Taking, but Unwilling to Fulfill Political Obligations**

Since China's reform and opening up, Hong Kong business tycoons have indeed relied on the protection of the Chinese regime to seek rent and monopolize most of Hong Kong's economic development achievements. Studies suggest that the two decades from 1978 to 1997 were critical to the economic and commercial development of Hong Kong. Besides the transfer of sovereignty, there were several intertwined changes, including de-industrialization, British capital flight, local commercial alliances, emergence of hybrid businesses, political restructuring, and the redefinition of politics itself, triggering a wave of restructuring. The manufacturing sector was quickly replaced by services, which included banking, real estate, tourism, and transportation. This process has formed a number of large-scale enterprises and business tycoons. A typical case is the Yangtze River Holdings of Li Ka-shing's family, who owns a large number of companies and holding companies in different industries and across more than 50 countries. The researchers believe that Li started in the plastics manufacturing industry in the 1950s, with the consolidation of his business empire beginning in 1979. When he bought Hutchison

Whampoa from the British, Li's commercial empire laid the foundation for further expansion from there. Since then, he has formed a close political and business alliance with Beijing and has received support from Beijing. The situation of other tycoons were similar to that of Li. Due to the close relationship between these tycoons' business holdings and Beijing, the geo-economic relationship between mainland China and Hong Kong developed rapidly. This integration encompasses Hong Kong capital entering the mainland, a large amount of mainland investment entering Hong Kong, and cross-border commerce. Local and mainland capital formed a symbiotic relationship and they have jointly developed a large number of commercial projects and networks across China and Hong Kong. At the time of Hong Kong's handover in 1997, the top 10 Chinese business families in Hong Kong (including the Li Ka-shing family, the Lee Shau Kee family, the Guo Desheng family, the Wu Guangzheng family, and the Cheng Yu-tung family) had already controlled assets that accounted for 45 percent of Hong Kong's stock market value. This kind of wealth has granted the families enormous influence over Hong Kong politics. These people have been in turn rewarded by Beijing, receiving the honor of participating in the National People's Congress and the Standing Committee of the Chinese People's Political Consultative Conference. However, an advantage is often accompanied by a disadvantage. The Chinese capital entering Hong Kong has changed Hong Kong's wealth distribution. In the 20 years since 1997, the prominent position of Hong Kong's local capital has gradually been overtaken by mainland capital, especially real estate-related capital from Chinese SOEs. By the end of 2016, half of the

20 listed companies with the highest market capitalization in Hong Kong were mainland-based, including Tencent, China Mobile, China Construction Bank, CNOOC, Industrial and Commercial Bank of China, CITIC Group, BOC Hong Kong, Bank of China, Ping An Insurance, and China Overseas. Only four companies, including Cheung Kong (Li Ka Shing family), Sun Hung Kai Properties (Guo Bing Lian), Hang Seng Bank, and the Hong Kong Stock Exchange can be regarded as local companies based in Hong Kong.

**Hong Kong business elites' reliance on the privileges granted by the Chinese regime to seek rent and profit in both Hong Kong and mainland China will come to an end.**

Compared with the top four local companies in the market value of Hong Kong's stock market in 1997, this shift has squeezed the Hong Kong business community. It is particularly worth mentioning that after 1997, cross-shareholdings between China and Hong Kong companies have become increasingly common, which has led to a blurring of boundaries between private companies and SOEs, resulting in a new hybrid business model. The operations of this hybrid business is based on different economic rationalities. It does not only pursue the maximization of profits, but also fulfills political obligations and acts as Beijing's proxy in Hong Kong. However, Beijing is ending the government-business co-governance model earlier than planned. This is due to two reasons. One is that Hong Kong business elites such as Li Ka-shing and others have expressed sympathy toward

the protesters in the anti-extradition law movement, which Beijing considers as intolerable. The CCP reasons that the existing “government-business co-governance of Hong Kong” is the real source of unrest in Hong Kong as it has created a large wealth disparity between the rich and the poor and has served to intensify social conflicts. And the CCP no longer wants to be a scapegoat for the Hong Kong tycoons. In addition, Hong Kong's flag carrier Cathay Pacific reportedly supported its employees' participation in anti-government protests, daring to do so because of the company's British ownership base. Enraged, Beijing plans to simply let the SOEs buy the company, fire non-compliant employees, and control firm policy.

**Why Was Li Ka-shing Criticized by the People's Daily?**

The Chinese regime believes Li, who relies on Beijing's political blessing to maintain a business empire, has acted against the party and its regime in at least three instances. First, since 2011, Li hasn't acquired any land in mainland China, but has quietly divested from the mainland and continuously sold off his Chinese assets. After 2012, Li has not purchased any Hong Kong land either. The scale of divestment is estimated to be 100 billion HKD (\$12.8 billion). At that time, Chinese public opinion expressed dissatisfaction in Li's divestments. Among Hong Kong businessmen, Li was closest to the Beijing power base. As the most prominent elite in Hong Kong's business community, Li has met with successive leaders of the CCP. Since Deng Xiaoping met Li twice in 1978 and 1990, Li was given “blessing” of the highest degree from the CCP. Since then, Li has operated unimpeded in Hong Kong and the mainland, and his privilege exceeded that of any mainland princeling. The Sina.com column “Don't Let Li Ka-shing Run Away” states, “In view of the

nature of Li Ka-shing's acquisition of wealth in China in the last two decades, it seems that it is not just as simple as business... The wealth of real estate is not entirely gained from a true market economy. I am afraid it is not appropriate for him to leave as he wishes.” Another column, entitled “What Requirements Did the Central Leaders Put on Li Ka-shing?” states that the Li family's wealth was created by the CCP's policies and special treatments, so it should have stayed “with the country.” Now when economic difficulties have begun to appear in China, Li's family decides to move abroad with their wealth. Second, during the Hong Kong Occupy Central movement in 2014, Li refused to support Beijing and the Hong Kong government. Third, since this year's anti-extradition law movement, Li has spoken out three times, but never expressed explicit support for the Hong Kong government. He first published the “Huangtai picking melon” advertisement, alluding that the Chinese regime is too harsh on Hong Kong. Then Li said, “I hope that the young people will understand the overall situation, and the ruling party can open up one corner of the net for the futures of our society.” With these seemingly defiant acts, Li has become a target of the CCP media. They used harsh language to humiliate him and implied that Li is a hypocrite. I'm afraid that this is only the tip of the iceberg. Hong Kong's wealthy business elites will soon feel the chill of fear from the bottoms of their hearts. In summary, since the occurrence of Hong Kong's Occupy Central movement in 2014, Beijing has planned to use the “boiling frog in warm water” method to carry out its “second return” plan.

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

OPINION

# China's Crackdown on Think Tank Illustrates Importance of Hong Kong Protests

BENJAMIN POWELL

As protests in Hong Kong continue, Chinese government actions on the mainland continue to illustrate why the protesters must prevent any further encroachments on their autonomy. After years of harassment, the communist government has finally shut down the Unirule Institute of Economics, one of the few independent think tanks in Beijing. Founded in 1993 to promote economic liberalization in China, Unirule promoted—among many issues—the strengthening of private property rights, the rule of law, and the shrinking of the importance of state-owned enterprises in China's economy. Unirule employed prominent Chinese scholars and became a respected source of policymaking advice. That advice, while often pushing for more radical liberalization than Communist Party officials were comfortable with, generally coincided with government reforms. China's economic freedom score improved 53 percent, from 4.09 to 6.26 (out of 10), between 1990 and 2010. However, economic liberalization has stalled since Chinese leader Xi Jinping came to power in 2012, and the Chinese government cracked down on Unirule for its continued advocacy of economic reforms. I visited Unirule's offices in Beijing two years ago and witnessed the crackdown while researching a book, “Socialism Sucks: Two Economists Drink Their Way Through the Unfree World.” My co-author, Robert Lawson, and I both spoke at a Unirule conference attended by Chinese academics on the ideas of noted free-market economists Ludwig von Mises and Friedrich Hayek, and the anti-communist philosopher-novelist Ayn Rand. Our conference session was much like hundreds of others we've attended. But the next day, the government cracked down. Agents chained the doors to Unirule's offices and prohibited people from entering, while police went to the home of Unirule founder, 88-year-old Mao Yushi, and prevented him from leaving. Unirule would endure worse harassment over the next two years, as government censors shut down its social media and web pages and

**The Chinese regime's treatment of Unirule is an important warning of what's at stake for the protesters in Hong Kong. Economic, civil, and political freedoms usually go together.**

forced it to vacate two different offices in Beijing. The Chinese regime recently completed its crackdown, and Beijing authorities have ordered Unirule to close permanently. Executive Director Sheng Hong has now dismissed most of his staff, saying, “We have no choice but to shut down.” The Chinese regime's treatment of Unirule is an important warning of what's at stake for the protesters in Hong Kong. Economic, civil, and political freedoms usually go together. Hong Kong has long been a beacon of economic freedom, ranking as the freest economy in the world every year since 1970, when rankings began. While, under British rule, Hong Kong didn't have full democratic freedoms to elect all its leaders, it did protect other political rights and related civil liberties. The Chinese government has started to erode those rights and liberties in recent years. Freedom House, which publishes an annual report measuring political and civil freedoms around the world, notes that Hong Kong's “freedoms and autonomy have come under threat in recent years due to growing political and economic pressure from the mainland.” The protests in Hong Kong were sparked by an extradition bill that would have allowed people in Hong Kong to be sent to the mainland for trial, enabling the Chinese regime to crack down on dissent, in a way that's similar to what it has done to Unirule in Beijing. That bill has finally been fully withdrawn, as protesters have demanded. That's an important step in the right direction, because the future of Hong Kong hangs in the balance. Hong Kong's economic freedoms created its economic prosperity; if the protesters don't preserve their civil and political freedoms, their economic freedoms and prosperity could go next.

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

Demonstrators hold up their hands to symbolize the five demands that protesters are asking for, as they take part in a pro-democracy rally in Hong Kong's Tuen Mun district on Sept. 21, 2019.



PHILIP FONG/AFP/GETTY IMAGES



OPINION

# What Can We See From the Sudden Escalation of the Sino-US Trade War?

CHENG XIAONONG

The back-and-forth tussle between the United States and China in the Sino-US trade war has taken a new turn, with Beijing's sudden offensive aimed at the American economy and causing a political fiasco for Trump that could affect next year's U.S. presidential elections. For the first time in history, a world economic power has taken the method of attacking the economy of another world power in order to alter the short-term domestic political prospects of that country. There is no longer any doubt that China and the United States are not engaged in a trade war, but in economic warfare. And the goal is beyond the economic scope, pointing directly at the position at seat in the Oval office.

**Targeting the American Economy**  
According to Duowei News, an overseas Chinese-language media with ties to Beijing, the Chinese Ministry of Finance announced Aug. 23 that it would impose tariffs on \$75 billion worth of U.S. imports, to be implemented starting Sept. 1 and Dec. 15 respectively, and would resume import tariffs on U.S. auto parts that had been previously paused last December. Subsequently, starting in September, additional tariffs on U.S. soybeans would reach 30 percent, tariffs on seafood, fruit, and meat will rise to 35 percent; starting mid-December, U.S. grain and vehicles will also incur additional tariffs of 35 percent, which is the first time that Beijing has gone after American crude oil. A few hours later, Trump announced on Twitter that on Oct. 1, the United States would raise the existing tariffs on \$250 billion of Chinese goods from 25 to 30 percent. At the same time, effective Sept. 1, tariffs on the other \$300 billion of Chinese imports would rise from 10 to 15 percent.

From the above reports from the CCP's mouthpieces, it's clear that this time it is Beijing that has taken the initiative in adding tariffs on U.S. goods, and it is Trump who is on the defense. The CCP's overseas media also admitted that in this sequence, Trump is counterattacking; in other words, Beijing is the aggressor. However, some overseas media reversed the chronological order of the events, thus misleading the audience into believing that the United States first added tariffs, and that the CCP reacted out of necessity. Therefore, it is crucial that the facts are clarified, but more importantly, since it is the Party that made the first move, it is necessary to analyze its motives and goals in depth. Moreover, the CCP's move has caused a reversal in Sino-US relations of the past decades, making an in-depth analysis of the origin and background of the event even more relevant.

In combating the United States, the Chinese Communist Party (CCP) has gone public with a strategy of "creating an enemy for itself", on the strategic scene, it has escalated to economic confrontation.

**A US Counterattack Is Precisely What Beijing Wants**  
Beijing's initiative to increase tariffs seems to be a tactical response, but its purpose is very clear. Since China abandoned its sincerity in Sino-US negotiations, this tactic carries the clear connotation of challenge. The U.S. economy is now the main target.

After the Chinese side suddenly overturned the negotiating table in early May and threw away the agreements it had made to 90 percent of the U.S. demands, the United States increased tariffs on China's exports to the United States to exert pressure, while continuing to express its willingness to continue negotiations. Were the Chinese side willing to play along and go through the motions while stalling for time, its relationship with Washington would not be good, but neither would it be in its current state of rapid deterioration. However, Beijing no longer has that kind of patience. It has now assumed an offensive posture by suddenly tak-



President Donald Trump speaks during a trade meeting with China's Vice Premier Liu He (L) at the White House on April 4, 2019.

ing the initiative to impose tariffs on American products.

In response to this sudden "offensive" by Beijing, Trump's across-the-board tariff increase is an entirely predictable measure. After Beijing overturned the negotiation table in May, the United States lost the space for friendly consultation and settlement of problems. Although Trump is still arranging for communication between the two parties, it's been reduced to little more than a formality. Now, Beijing has taken the initiative to exert pressure on the United States and completely prevent the export of U.S. goods to China, which blocks any possibility of the United States narrowing its long-term trade deficit of hundreds of billions of dollars with China. The United States can no longer expect cooperative intent from China in resolving the trade deficit between the two sides nor on issues such as intellectual property theft. The only option Trump has left to reduce the U.S. trade deficit with China is to comprehensively and substantially increase tariffs on Chinese goods.

Since then, the complete deterioration of U.S.-China economic and trade relations has all but become a foregone conclusion. In fact, this is also part of Beijing's plan. The Beijing-run Global Times has stated that it is necessary to fight a war of attrition with the United States.

Duowei reported: "After the end of the first exchange of blows, the market is stained with blood. Besides skyrocketing gold prices, the U.S. stock index, the offshore RMB exchange rate, crude oil prices, and U.S. Treasury yields have all fallen sharply. Although the losses from the trade war for the two sides have reached a new peak... the possibility of a recession for the United States is gradually emerging." This is China's basic calculus in its current economic war with the United States.

**Why Has Beijing Adopted a Lose-Lose Strategy?**  
In a little more than a year, Beijing's attitude in the Sino-US trade and intellectual property negotiations has taken a 180-degree turn. It has gone from cooperative negotiation to torpedoing discussions, and then from passively responding to the pressure of the United States' gradual tariff in-

creases to actively increasing tariffs, to which the United States has countered with steep tariff increases.

Does Beijing's motive for "pressing home the victory" come from its realizing the "inevitability" of America's decline? Or is China instead trying to make the best of a bad situation by enduring short term pain for long term gains, such as forcing Trump out of office, that it hopes to reap by landing a heavy blow upon the U.S. economy?

Beijing has chosen to go for a scenario in which neither side can win. Why? By now it is apparent that the U.S. economy has remained prosperous while the Chinese economy is in a continuous downward spiral. Normal Sino-US relations cannot drag the U.S. economy into an abyss, and China hardly has the means of "pressing home a victory."

Does Beijing intend to stop before things go too far? If the Chinese regime wanted to save China's economy, the most sensible step would be to put up a face of cooperation with the United States, rather than taking such a confrontational, lose-lose stance. However, the Chinese are not doing this; on the contrary, it has embarked on the path of strategic confrontation with the United States, and its plans for economic war has the clear political goal of interfering with the U.S. presidential election. This strategy has now come to the fore, and Beijing has brought an end to the era of polite Sino-US relations.

**Who Suffers Most in the 'Lose-Lose' Scenario?**  
Since Beijing has adopted this strategy, what exactly does it want to achieve? Beijing's actions will undoubtedly hurt the Chinese economy in the short term. For example, cheap agricultural products from the United States cannot be imported, so China will have to look to other means to get the necessary soybean and corn imports. However, the price of soybeans exported from Brazil to China has recently increased by 70 percent, and within them include soybeans imported to Brazil from the United States. This has not only allowed Brazil to take advantage and make easy money, but also greatly increased the prices of China's vegetable oil and animal feed, exacerbating China's rapidly

rising meat and food prices.

Many people both in China and abroad previously thought that for the sake of citizens' livelihoods, the Chinese authorities would not take the "lose-lose" approach. Now it turns out that the Chinese people's concerns about the deterioration of Sino-US relations have not shaken the determination of authorities to do precisely that. The reason is just as I wrote in "Distinguishing True and False in the Winning and Losing of US-China Negotiations," my July 20 article published in The Epoch Times: "People who silently endure economic pressure cannot change the policies of the authorities. This is the source of the CCP's 'resistance to economic pressure.'"

How the American people will react to the price hikes caused by the United States imposing tariffs on Chinese imports, as well as US stock market volatility and US corporate panic, remains to be seen. The United States will undoubtedly suffer some form of short-term pains from the dramatic restructuring of Sino-US trade relations.

Broadly speaking, people in democracies usually have less of what the Chinese call the "big picture, overall" concept, as when their lives are affected, they can express themselves through the next presidential election. Beijing dares to put both itself and the United States through a period of short-term pain precisely because the "resistance to economic pressure" that U.S. leaders can muster is weaker than that of China's authoritarians. Beijing's hope is to use economic war to shake the hearts of the American people and bring about change in the White House.

The long term pains that China and the United States face involve a great number of issues that I will explain in my follow-up article "Why the Sino-US Trade War Has Escalated Into an Economic War: A Second Analysis of the Reversal in Diplomatic Relations."

**The Strategic Shift**  
Knowing that U.S. politicians have a relatively low tolerance for "short term" pain, while the Chinese Communist Party's totalitarian system can ignore it, Beijing has changed its strategy from "delay and wait for change"

HONG KONG PROTESTS

## Amnesty International Accuses Hong Kong Police of 'Brutal Beatings,' Torture

EVA FU

Amnesty International has warned of an "alarming pattern" of violence used by Hong Kong police in their handling of the ongoing pro-democracy protests, which has included officers beating protesters during arrests and reportedly torturing detained demonstrators.

In a Sept. 19 report based on 38 interviews with lawyers, medical professionals, and arrested activists, Amnesty International's East Asia Director Nicholas Bequelin said the rights group found that "time and again, police officers meted out violence prior to and during arrests, even when the individual had been restrained or detained," in breach of international human rights law.

"The evidence leaves little room for doubt—in an apparent thirst for retaliation, Hong Kong's security forces have engaged in a disturbing pattern of reckless and unlawful tactics against people during the protests," said Bequelin.

Protesters interviewed recounted severe beatings by police, delayed access to medical care and to legal counsel, and other forms of abuse even when they showed no resistance.

The rights group said that 18 out of the 21 arrested protesters interviewed were admitted to hospital for injuries or illnesses relating to their arrest or detention, which included fractures and head wounds.

One protester told Amnesty that police hit him from behind with batons while he was retreating at a protest in Tsian Sha Tsui in August.

"I was beaten to the ground. Three of them got on me and pressed my face hard to the ground. A second later, they kicked my face," the protester said, adding that he then felt a sharp pain in his left chest and had trouble breathing.

The man spent two days in the hospital for a broken rib.

In another case, Amnesty said the police continued to beat a female protester after knocking her to the ground and zip-tying her hands.

The report also found that police meted out retaliatory violence

I was beaten to the ground. Three of them got on me and pressed my face hard to the ground. A second later, they kicked my face.

Protester

against detained protesters, some of which amounted to torture.

One protester, who was detained at a police station after a protest in the New Territories in August, said that officers beat him severely and threatened to break his hands after he refused to answer a question.

"I felt my legs hit with something really hard. Then one flipped me over and put his knees on my chest," the man said. "I tried to shout but I couldn't breathe and couldn't talk."

An officer also forced his eye open while pinning him to the ground and shined a laser pen into it, in apparent retaliation of protesters' use of laser pointers during protests, he said. The man later suffered a bone fracture and internal bleeding.

Protesters have used laser pens during protests as a tactic to blind cameras and deter police.

The report also found injured protesters had been held in detention facilities for up to 10 hours without receiving medical attention. A man said that police zip-tied his hands to his back for hours even though he was suffering from multiple fractures.

"It was extremely painful," he said. "I told them I had broken my arm, but they didn't bother."

The findings directly contradicted the Hong Kong government's and police's claims that they have been showing "a high level of restraint" while dispersing protesters.

Demonstrators have consistently called for an independent probe into alleged police violence. The U.N. High Commissioner for Human Rights previously condemned Hong Kong police for violating international norms in their use of force, causing "considerable risk of death or serious injury."

Bequelin similarly said that the police use of force was "excessive, violating international human rights law."

Echoing protesters, he called for an independent investigation of the police force.

"Given the pervasiveness of the abuses we found, it is clear that the Hong Kong Police Force is no longer in a position to investigate itself and remedy the widespread unlawful suppression of protesters," said Bequelin.



Riot police detain a protester at Kowloon Bay in Hong Kong on Aug. 24, 2019.

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





Paramilitary policemen patrol in front of the People's Bank of China in Beijing on July 8, 2015.

ANALYSIS

# China Prepares State-Controlled Digital Currency

FAN YU

*News Analysis*  
As much as Beijing heaves vitriol on cryptocurrencies—having banned all exchanges, issuers, and miners—it has no qualms about introducing its own.

The People's Bank of China has been secretly working on its own version of digital currency for years, and reports indicate that its state-controlled central bank digital currency (CBDC) could be released as early as this year. Citing insiders, a Forbes report gives a launch date of Nov. 11, which also happens to be “Singles Day,” China's biggest online shopping day of the year.

In essence, Beijing has thrown down the gauntlet in its bid to end the U.S. dollar hegemony in global payments, and that poses a huge threat to the financial security and privacy of users.

Chinese state-owned newspaper Global Times said earlier this month that companies within the Shenzhen Special Economic Zone have been leading research to support the development and distribution of the CBDC.

The central bank recently appointed Mu Changchun, deputy director of its payments and settlement group, to lead its digital currency department.

While China's CBDC is a digital currency, it will behave vastly different than bitcoin. Unlike most cryptocurrencies, transacting in the CBDC won't give users any degree of anonymity, and its value will be pegged to one yuan.

The CBDC also doesn't completely rely on blockchain technology. It has a two-tier structure, with a central bank layer and a separate commercial bank layer, presumably in order to deal with the volume and size of transactions used in such applications.

## First Major Central Bank Digital Currency

Beijing's plans to distribute its digital currency marks the first major CBDC to be introduced in the world. (Venezuela rolled out the world's first national cryptocurrency with its petro currency.) Initially, CBDC will be distributed through at least seven organizations, including internet firms Alibaba and Tencent, credit card issuer China UnionPay, and several large commercial banks, the Forbes report said.

The closest comparison to China's CBDC is Libra, the cryptocurrency recently proposed by Facebook Inc. Libra's goal is to facilitate global payments without the need for bank intermediaries. But unlike China's CBDC, Libra utilizes one blockchain and is pegged to a basket of several global currencies.

Libra's announcement earlier this summer unnerved governments and central banks around the world, forcing Congressional hearings in the United States and fierce debate in Europe.

**A central bank digital currency affords several benefits for the Chinese regime: It's a digital currency it can control, the government can track where it's going, and it's a domestically developed technology that doesn't rely on foreign entities.**

A team of developers from the People's Bank of China's Digital Currency Research Lab has been feverishly working on the CBDC, in a closed-door environment away from the central bank's Beijing headquarters, a person with knowledge of its development recently told CoinDesk, an online cryptocurrency publication.

The team was moved away from the central bank headquarters to expedite its work, since Facebook announced the Libra project in June, the report said.

A major use case could be for mobile payments, a segment dominated by Tencent and Alibaba. Forcing all mobile and internet transactions to move over to the CBDC could grant Beijing authorities more control and also decrease the risk of loss, in case a private company such as Alibaba is shut down or goes out of business.

## Exerting More Control

China has long argued that cryptocurrencies create chaos and disorder. Cryptocurrencies' key benefits are hugely negative for the Chinese Communist Party (CCP); they cannot be centrally controlled and users must sell fiat currency (e.g., the yuan) to purchase digital currencies.

China's CBDC affords several benefits for the CCP regime. It's a digital currency it can control, the government can track where it's going, and it's a domestically developed technology that doesn't rely on foreign entities.

According to Beijing News, China has positioned its CBDC as a substitute—for now—for “narrow money” or M0 money supply, meaning the amount of physical cash in circulation.

Beijing argues that M1 and M2 supply, which encompass deposit, savings, and money market accounts, are less liquid and therefore already digitized and can be tracked easily by the government. M0 (cash), on the other hand, is largely anonymous, its movement can't be as easily tracked, and can be used for money laundering.

While using that definition, mobile payments are already digitized. Consumers must deposit cash into accounts held by Alibaba or Tencent to transact using Alipay or WeChat, which means that the initial transfer is recorded. However, payments made with Alipay or WeChat—since they aren't technically state-owned or -regulated as banks—are n't as easily tracked by the central government.

And given the convenience factor of mobile payments, consumers aren't incentivized to convert back into bank deposits. This means that as mobile payment usage increases, the harder it is for Beijing to track where cash is going and integrate such activities into the rest of the banking sector.

With all of the conveniences of mobile cash, the CBDC solves that issue.

“One problem is that CBDcs will raise fears of state surveillance, especially from China, whose encroachment on civil freedoms has

fueled wild protests in Hong Kong. Enterprises and people don't want their own governments, much less foreign governments, monitoring their expenditures,” Michael J. Casey, senior adviser at MIT's Digital Currency Initiative, wrote in a recent column for CoinDesk.

The CBDC grants China even more control over its people. And when it is used internationally, Beijing will have the ability to control and track those users as well. Potentially, the CCP reserves the ability to kick out those who don't abide by its rules from the financial system altogether.

“And we're seeing a semblance of this starting in China with sesame credit, where people are being blocked from buying flights or insurance or anything else because maybe they have said something that is not in agreement with the central government or even one of their friends have said something,” Arthur Hayes, CEO of cryptocurrency exchange BitMEX, said at the CoinDesk Consensus Conference in June.

## A Moonshot for Yuan Internationalization

“A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution,” wrote Satoshi Nakamoto in the original Bitcoin white paper.

That's an important statement, because financial institutions are regulated by governments. And international transactions across currencies are often routed through more than one financial institution.

China is expanding its influence across the globe. With its “One Belt, One Road” initiative, China could mandate that payments and transactions be made using digital yuan. It would be a first step in forcing the greater adoption of yuan internationally.

Beijing has already alluded to this plan. “In the promotion of the internationalization of the renminbi, we will try first and explore innovative cross-border financial supervision,” a report by state broadcaster CCTV said on Aug. 18.

The United States and its Western allies are falling behind in this effort. China's digital currency development could soon allow Beijing to circumvent established Western rules through direct settlements, Jeremy Allaire, CEO of payments company Circle, said on a recent “Global Coin Research” podcast.

“A digital currency version of renminbi that runs on software platforms that can be run over the internet, it really creates an opportunity for China and Chinese companies ... and bypass the western banking system,” Allaire said.

Central banks in the United States and across Europe have so far resisted the idea of a “digital dollar,” but inaction could spell doom if China is successful in convincing its allies to bypass established global financial order.

## CHINESE REGIME

# China's Top Hospital Reveals ‘Health Project’ Aimed at Prolonging Leaders’ Lives to 150

OLIVIA LI

In China, the slogan “Serve the people” can be seen almost everywhere, but any sensible citizen knows that the country's system is actually designed to serve the communist party and by extension, its leaders.

In a video ad that went viral on Sept. 15, Beijing's 301 Hospital, touted that it is running a project dedicated to maintaining Chinese leaders' health, and that the next stage is prolonging their lives to 150 years.

The ad was shown on WeChat, a Facebook-like social media platform. It soon sparked public outrage and was blocked the next day.

## Impressive Ad

The 301 Hospital is rated the number one hospital in China and is where top Chinese leaders often receive medical care. The ad was intended to promote the hospital, by bragging about its advanced health project for Chinese Communist Party (CCP) leaders.

“With 60 years of development, the health project for our leaders has made tremendous progress,” the ad says. “From preventative medicine, medical care to recuperation, this comprehensive project focuses on prevention of cancer and cardiovascular disease, anti-aging, chronic disease management, regeneration of organ function, and healthy lifestyles. It is a unique health regimen that combines traditional Chinese medicine principles with Western medical technology.”

The ad claims that this health regimen is the best in the world, and supports this claim by telling the audience that the average life expectancy of the CCP leaders is 88, based on available data in 2008. This is generally older than that of the leaders of the Western developed countries.

The very end of the ad revealed that a project called “981 Health Project for Leaders” was launched in 2005, aimed at extending Chinese leaders' lives to 150.

According to Radio Free Asia, the ad was blocked the next day for “inappropriate use of the image of state

Medical treatment, education, and housing are commonly referred to as ‘three oppressive mountains’ in China, which means, they are the top three burdens for Chinese civilians.

organs or staff.”

## Organ Regeneration or Organ Transplant?

One prominent phrase in the ad is “regeneration of organ function.”

Exiled Chinese billionaire and whistleblower Guo Wengui once revealed that many Chinese communist leaders indeed live very long lives; but the secret of their longevity lies in killing young people for their organs when a leader has an organ failure or experiences problems caused by organ aging. They also transfuse blood serum from young police officers to help keep the transplanted organs in a healthy state.

Guo further explained that former Chinese leader Jiang Zemin's son Jiang Mianheng contracted cancer several years ago, and has undergone several organ transplants to prolong his life. That means, several young people have been murdered as involuntary organ donors.

It's reported that transplanted organs may last up to 10 years, but some only function for two or three years. If someone relies on organ transplants to prolong his life, he will have to undergo organ transplantation several times.

## Chinese Leaders' Longevity

Phoenix News, a Hong Kong-based pro-Beijing news group, revealed in a 2007 article that nutritional expert Zeng Xuyuan, dedicated to serving Chinese leaders, once shared some of the health tips that the leaders strictly follow to maintain good health: “They eat at least 25 different types of food every day. For each type, their daily intake is just a small amount, the key is that the diversity of food helps them get a relatively complete sets of nutrients.”

To be able to eat such a diverse spectrum of food, these leaders routinely consume a variety of snacks between meals.

Many Chinese netizens expressed their anger when this article came out, saying that the Chinese leaders must be eating all the time, no wonder the Chinese government is one

of the least efficient governments in the world.

There is also an interesting anecdote about former Chinese leader Mao Zedong.

Sima Lu, an expert in Chinese Communist Party history, recalled a political study session he attended in Yan'an during the Sino-Japan war. Despite that Yan'an was one of the most impoverished regions in China at the time, the CCP top leaders decided that Mao should eat one chicken a day.

During a political session, Chen Yun, a top leader and host of the session, received a question slip from a communist cadre who asked, “Communists emphasize egalitarianism. So why is it that Chairman Mao can have a whole chicken every day when the rest of us are having a miserable life?”

Chen, after reading the question aloud, answered: “Yes, Chairman Mao eats chicken every day. Actually, this is against Chairman Mao's will. He hopes to be treated the same as everyone else. But think about it, comrades, how important Chairman Mao's health is for China's revolutionary undertaking! That's why the central committee ordered Chairman Mao to eat chicken, even though he doesn't want to. Each comrade has a task in the revolution. Similarly, eating chicken is a revolutionary task for Chairman Mao.”

According to Sima Lu, Chen was well respected among communist cadres. After Chen provided such an explanation, no one questioned him.

## Medical Cost Is Civilians' Burden

A previous Epoch Times report quoted a top executive at a Chinese biotech company as saying that most terminally ill patients in China exhaust 60 percent of their life savings within a month.

Medical treatment, education, and housing are commonly referred to as “three oppressive mountains” in China, which means, they are the top three burdens for Chinese civilians.

Conversely, high-ranking Chinese officials enjoy free health care, even after they retire.



LIU JIN/AP/GETTY IMAGES

The 301 military hospital in Beijing on July 6, 2011.





TRUTH *and* TRADITION

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