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# CHINA INSIDER

CHINESE APP

# 'TIKTOK'

RAISES NATIONAL SECURITY CONCERNS

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## EXCLUSIVE

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## SURVEILLANCE

# Chinese App 'TikTok,' Popular With US Teens, Raises National Security Concerns

BOWEN XIAO

WASHINGTON—Chinese-owned video-sharing app TikTok, massively popular among teens in the United States, is facing a national security review over its \$1 billion acquisition of U.S. social media app Musical.ly.

In a recent letter to U.S. lawmakers, the company insisted it's not controlled by the Chinese communist regime, but experts and politicians are becoming increasingly wary due to mounting concerns.

The app, acquired by Beijing-based ByteDance Technology Co. through a 2017 acquisition, is facing a probe by the Committee on Foreign Investment in the United States (CFIUS), which reviews deals by foreign acquirers for potential national security risks.

TikTok said it's hired a U.S.-based auditing firm to analyze the app's data security practices, in a letter to lawmakers at a hearing of a subcommittee of the Senate Judiciary Committee chaired by Sen. Josh Hawley (R-Mo.).

Hawley noted on Nov. 5 that all it would take is "one knock on the door of their parent company based in China from a Communist Party official" for the data to be sent to the Chinese Communist Party (CCP). He requested TikTok executives to testify before the panel, calling the company a threat to national security.

Nobody from TikTok showed up. Experts in cyberintelligence, technology, digital privacy, and trade policy told The Epoch Times that the United States is right to sound the alarm about what it perceives as genuine threats to U.S. cybersecurity, and that it has a warranted distrust of emerging Chinese technologies. Concerns of censorship, surveillance, and about TikTok extracting data on U.S. citizens and sending it back to China were also brought up.

"We should expect foreign surveillance efforts from China to use platforms like TikTok because they are more modern and attract a younger, easily influenceable crowd," Charity Wright, a cyber-threat intelligence adviser at IntSights with 15 years' experience with the U.S. Army and the National Security Agency, told The Epoch Times.

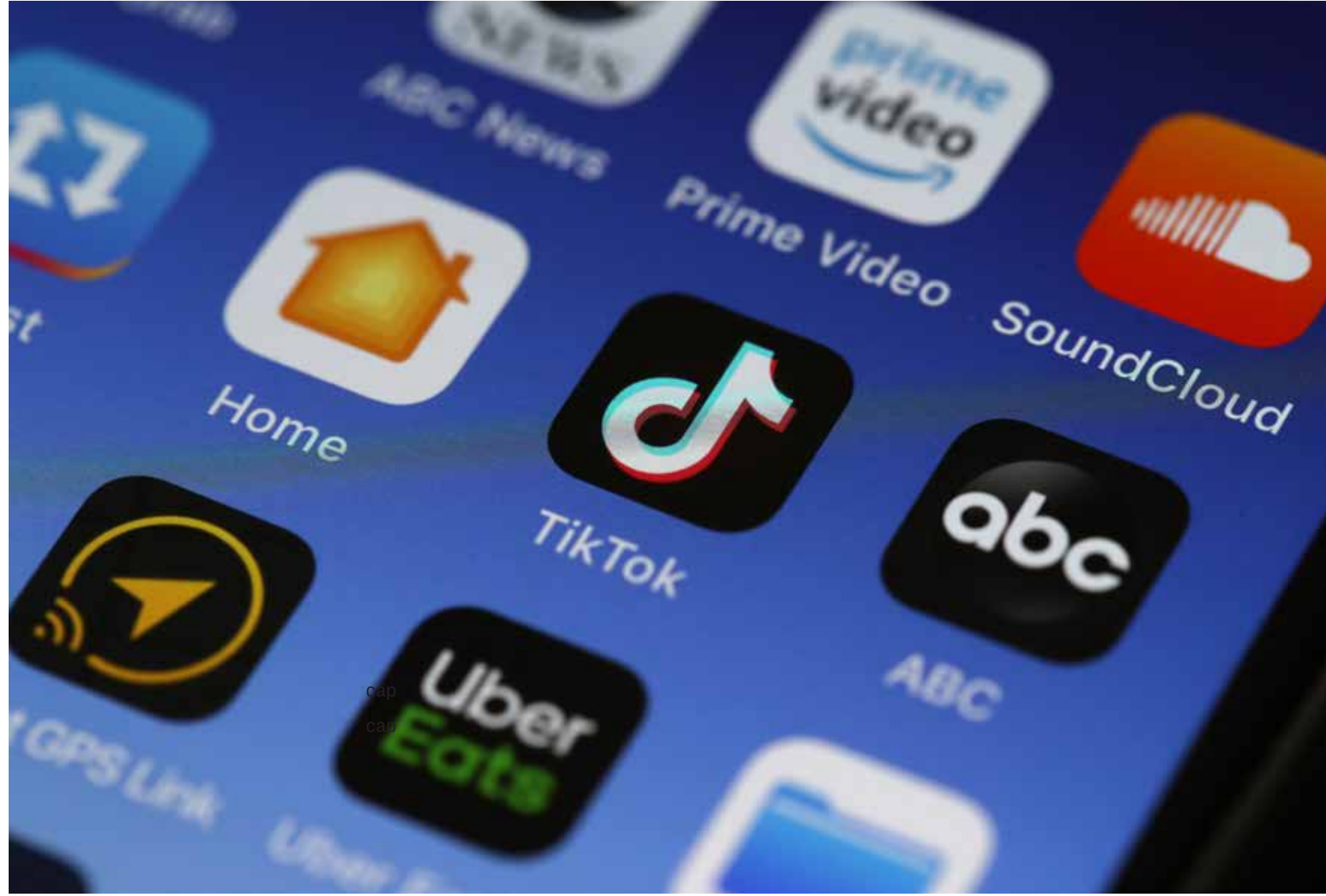
"Most Americans were not aware until this week that TikTok was owned by a Chinese company," she said. "I think understanding the culture and underlying purpose behind China's objectives is very important. China wants to be the superpower of the world and promote the CCP to the top. Right now, they have a very dangerous ability to surveil and censor."

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Charity Wright, cyberthreat intelligence adviser, IntSights

The CCP has representatives in almost every large company in China, Wright said, adding that that shouldn't be taken lightly—it means they all have the same objective in carrying out the goals of the state. She noted that TikTok should be investigated, regardless of whether it was Chinese-owned or not, due to the sheer number of times that it's been downloaded.

Over the past 12 months, TikTok has been downloaded more



JUSTIN SULLIVAN/GETTY IMAGES

than 750 million times, according to research firm Sensor Tower; that's more than companies such as Facebook, Youtube and Snapchat. In the first quarter of this year, TikTok was the most downloaded application worldwide on the App store.

The app, which allows users to create and share short videos, has surged in popularity among U.S. teenagers. About 60 percent of TikTok's 26.5 million monthly active users in the United States are between the ages of 16 and 24, the company said this year.

The concerns about TikTok come amid broader anxiety over forced technology transfers from U.S. companies to Chinese authorities and intellectual property theft. China has built up its technology largely on what it's stolen from the West, with the costs of intellectual property theft amounting to an estimated \$600 billion annually, while inextricably threatening U.S. national and economic security.

Neil Campling, head of technology, media, and telecommunications research at Mirabaud Securities, told The Epoch Times it's difficult to explicitly pinpoint why the United States is going after ByteDance only now, two years after the acquisition.

"Perhaps, it is linked to the ongoing situation in Hong Kong and some suggestions that content is being filtered, which goes against the grain of what digital networks should offer," Campling said via email.

"However, some may argue that perhaps it is because China has a digital company that is now growing significantly in the West and the U.S. Whereas Alibaba and Tencent have become massive multibillion-dollar behemoths of scale, their growth and platform scale has always been anchored on China and Asia."

Other Chinese companies such as Huawei, the No. 1 telecom equipment company in the world, and Hikvision, another top surveillance technology company, have both been subject to U.S. trade restrictions, with ByteDance being the latest to face scrutiny, Campling said.

Economic espionage by China, which is the most active perpetrator, continues to grow, according to a White House Office of Trade and Manufacturing Policy report,

A photo illustration shows the Tik Tok app on a smartphone in San Anselmo, Calif., on Nov. 1, 2019.

CHARITY WRIGHT/INTSIGHTS

titled "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World."

The report focuses on how China is acquiring key technologies and intellectual property from other countries and capturing emerging high-technology industries that will drive future economic growth and advancement in the defense industry.

When TikTok acquired Musical.ly two years ago, it didn't seek clearance from CFIUS, which gives the United States scope to investigate it now, the committee said.

In an Oct. 9 letter to Treasury Secretary Steven Mnuchin, Sen. Marco Rubio (R-Fla.) urged a national security panel to review the acquisition over concerns that Chinese-owned apps such as TikTok "are increasingly being used to censor content and silence open discussion on topics deemed sensitive by the Chinese Government and Communist Party."

A TikTok spokesperson didn't respond to a request by The Epoch Times for comment, but it told Reuters previously it "has made clear that we have no higher priority than earning the trust of users and regulators in the U.S. Part of that effort includes working with Congress, and we are committed to doing so."

Former U.S. employees of TikTok said ByteDance had the final word in deciding what content appears on the app, according to The Washington Post. In TikTok's letter to lawmakers, TikTok U.S. General Manager Vanessa Pappas said the company stores all U.S. user data in the United States, with backup redundancy in Singapore, according to Reuters.

Lawmakers have noted that ByteDance is governed by Chinese laws, while TikTok claims the Chinese regime doesn't have jurisdiction over the content of the app.

## Trade and Emerging Tech

Over the past decade, China has invested an enormous amount of resources into artificial intelligence and cognitive robotics. Beijing is also playing the field to its advantage by mandating that all IT companies operating in China store their data in Chinese data centers, according to John Boyd, founder of The Boyd Co., one of the top authorities on issues related to outsourcing and of China's busi-

ness climate.

Boyd told The Epoch Times that TikTok is an easy target for U.S. lawmakers and also a "potential bargaining chip with Beijing," as the Trump administration continues its trade negotiations with China.

"We view the controversy over TikTok and data security as an economic development issue for both Republicans and Democrats," he said. "Why? While TikTok maintains that all of its data centers are outside of China, it has brought the data center industry into the 'reshoring' discussion and has created opportunities for lawmakers to craft new incentives and regulations to promote reshoring of data center operations to the U.S."

Ray Walsh, a digital privacy expert at ProPrivacy.com, told The Epoch Times the Trump administration is keen to demonstrate that it's curbing what's perceived as China's edge in emerging technologies and to show it's taking a strong stance against China's influence in the United States.

"The U.S. decision to investigate TikTok's business practices is yet another sign of the distrust felt by the U.S. toward emerging Chinese technologies," he said.

"I'm not surprised at all that TikTok is in the crosshairs of U.S. intelligence and investment officials," Dan Ikenson, director of Cato's Center for Trade Policy Studies, told The Epoch Times. "The simple fact is that there is broad bipartisan support in the United States for getting tough on Chinese tech companies."

Ikenson said there appeared to be a firm commitment to make matters tough for companies seen as benefiting from "Beijing's lavish subsidies in the various technology sectors." According to Ikenson, the current scrutiny of Chinese companies is based on "U.S. industrial policy masquerading as a security imperative."

"This is America's way of countervailing those unfair benefits, so that U.S. companies might be put in a position to make up lost ground," Ikenson said.

In October, the Trump administration placed 28 Chinese public security bureaus and companies—including Hikvision and seven other companies—on a blacklist due to concerns related to human rights abuses.

And a U.S. defense official recently warned at a Washington panel that China is setting the pace in a number of emerging technologies such as hypersonics, quantum sciences, autonomy, artificial intelligence, 5G, and genetic engineering.

JACK TAYLOR/GETTY IMAGES



Union Jack flags flutter in the wind in front of the Houses of Parliament in Westminster in London on March 26, 2019.

## CHINESE INFLUENCE

## UK Parliament Report: 'Alarming Evidence' of Chinese Meddling in Local Universities

FRANK FANG

British lawmakers are growing concerned about the growing influence of Chinese Communist officials and organizations on UK university campuses, putting academic freedom at risk.

"We heard alarming evidence," stated a report from the House of Commons' Foreign Affairs Committee published on Nov. 5.

Among the examples cited was an incident recounted by Christopher Hughes, a professor of international relations at the London School of Economics.

"I have seen patriotic Chinese students in Trafalgar Square in London, because I went along to look at the Hong Kong demonstration, and I would say it was more like hate crime... it was really intimidating and threatening," he told British lawmakers at a Sept. 3 parliament hearing.

Chinese state media have promulgated the narrative that ongoing Hong Kong protests are a separatist movement fomented by Western countries. In recent months, many mainland Chinese studying abroad in the West have lashed out at local supporters of Hong Kong protests—harassing and sometimes physically attacking them.

Hughes added: "It is that kind of activity where there are clear links of direction from the [Chinese] consulate."

In Hong Kong, mass protests against Beijing's encroachment of the city's autonomy are now in their fifth consecutive month, as protesters demand that the city government fulfill their demands for greater democracy. Overseas Hongkongers and supporters have held

**I have seen patriotic Chinese students in Trafalgar Square in London, because I went along to look at the Hong Kong demonstration, and I would say it was more like hate crime... it was really intimidating and threatening.**

Christopher Hughes, professor of International Relations, London School of Economics

rallies in cities around the world.

Hughes also mentioned an occasion when Confucius Institute officials confiscated papers and tore out all the pages that mentioned Taiwan at an academic conference in Portugal so that other academics wouldn't see them.

Beijing considers Taiwan part of its territory, despite it being a self-ruled island with its own democratically-elected government, military, and currency. It has thus sought to undermine Taiwan's international standing.

According to a study published the U.S. Senate's subcommittee on investigations, the Chinese regime has channeled over \$158 million to fund Confucius Institutes in the United States since 2006. The study found that Beijing controls every aspect of the institutes, including funding, hiring of staff, and programming.

Beijing has established more than 100 Confucius Institutes at U.S. schools, while there are at least 29 in the UK.

The UK report also identified Chinese Students and Scholars Associations (CSSA)—which are funded by Beijing—as an instrument of interference, citing comments made by Charles Parton, senior associate fellow at the UK think tank Royal United Services Institute.

CSSAs are student groups for international Chinese students. There are now over 100,000 Chinese international students in the UK.

They also exist at virtually all U.S. universities that have enrolled Chinese students, with the associations receiving their funding from local Chinese consulates.

In another example, Ayeshagul Nur Ibrahim, a Uyghur Muslim studying in the UK,

recounted how Chinese authorities started monitoring and harassing her family in China after she became involved in human rights advocacy for Uyghurs under suppression in the Xinjiang region.

At the University of Nottingham, Chinese officials pressured managers at the school to cancel events related to Tibet and Taiwan, according to the report. Tibet has been heavily suppressed by Chinese authorities, with the Tibetan religious leader Dalai Lama currently living in exile.

The report also cited SOAS University of London professor Steve Tsang, who spoke about witnessing different university officials receiving pressure from the Chinese embassy to cancel an event or stop an academic from making political comments on China.

When asked about the report, China's Foreign Ministry spokesperson Geng Shuang, at a daily briefing on Nov. 7, suggested that people were seeking to sow "discord by promoting baseless conspiracy theories."

In March, Human Rights Watch published a 12-point code of conduct for institutes of higher education around the world that are trying to combat Chinese influence.

One of the 12 points was to reject Confucius Institutes. It stated: "They are fundamentally incompatible with a robust commitment to academic freedom."

Sophie Richardson, China director at Human Rights Watch, said in a statement: "Colleges and universities that stand together are better equipped to resist Chinese government harassment and surveillance on campuses, visa denials, and pressures to censor or self-censor."





A riot police officer chases a protester while wielding a can of pepper spray inside the City Plaza mall in the Tai Koo Shing area in Hong Kong on Nov. 3, 2019.

## HONG KONG PROTESTS

# Hong Kong Police Seeks to Hack Telegram, Key Tool in Protests: Source

ANNIE WU

## News Analysis

The Hong Kong protest movement is one built on on-line organizing, and the police are working to find out the identities of individuals who are using social media apps to spread information on the protests.

Since mass protests began in June over a now-withdrawn extradition bill that many Hongkongers feared would be the final straw in Beijing's encroachment over the city's affairs, protesters have used encrypted messaging app Telegram to plan demonstrations, initiate crowdfunding efforts, and spread information about police action during protests.

The app has also been used as a doxing ground, where users post information that could identify police believed to have acted against protesters.

One Telegram channel, "dadfindboy," has doxed police officers by collecting and releasing their photos and personal information: name, badge number, home address, their school background, and social media handles. It has over 202,000 subscribers.

Another account, "tanakayotsuba," self-described as a "hotline for scoops," has been

accused of releasing personal information about police officers and their relatives.

## Cracking Telegram

The Hong Kong Police Force has been trying to find out the identities of the people running those two Telegram accounts, including by seeking help from cyberexperts outside Hong Kong.

One cyberexpert, who wished to remain anonymous for fear of reprisal, said that over the past few months, he has been repeatedly approached by senior inspectors to use "any means necessary" to uncover the Telegram users' identities.

In one phone call from a senior inspector, the officer asked the source whether it was possible to break Telegram's encryption protocol to find out who the administrators behind "dadfindboy" and "tanakayotsuba" were, and where they live, with the intention of arresting them at their homes, the source said.

"They're very desperate," he said, adding that the police force was seeking "demigod" level access to Telegram.

He was unwilling to do it on principle, the source said, because he believed it was "Orwellian" for police to track down and punish citizens for online speech.

But the task itself would also

be technically near impossible. "You would need the NSA working with the CIA" to be able to do that, he said.

**We have seen countless incidents over the past four months that, without public scrutiny and without the fact that we could take pictures and disclose what happened regarding police brutality, there was no way we could check and balance and scrutinize the police.**

Alvin Yeung, lawmaker

Telegram provides end-to-end encryption, meaning only the sender and recipient can read the messages. The company also says on its website that all data sent and received on Telegram cannot be deciphered even if intercepted by an internet service provider, owners of Wi-Fi routers the device connects to, or other third parties.

Telegram didn't respond to a request for comment on its security measures by press time.

In two WhatsApp messages provided to The Epoch Times, another senior

inspector also asked the source to find the identities of the two channels' administrators, in addition to matching Telegram handles "with their respective registered telephone numbers."

The officer asked if he has the "capability to map all Hong Kong telephone numbers"—a total of roughly 20 million combinations—"to their Telegram IDs, if there exists such accounts."

This was widely speculated to be a tactic by which the police could track down protesters. This summer, a group of Hong Kong engineers warned in a widely circulated social media post that authorities could add a large bulk of phone numbers to a phone's contacts. That phone could then connect to a Telegram channel where protests are being discussed, at which point Telegram would sync the phone's contacts with the app. Authorities would thereby be able to tell which of the phone numbers are active in the protest chat groups.

Authorities could then compel local telecom firms to disclose the identities of those behind the phone numbers, the engineers speculated.

After this loophole was publicized, Telegram issued an update in August in which users can mask their phone numbers within the app.

The cyberexpert also showed The Epoch Times an email, sent after the mass protests began, in which the police sought his assistance in tracking Telegram accounts and messages.

Among the services they sought were: "monitoring and intelligence harvesting for Telegram names, groups, and channels" and "collection of relevant text messages, images, multi-media files and account-based information."

In one of the previously mentioned WhatsApp messages, the police also asked for "a straight-forward platform to monitor a list of Telegram messages with URLs, and log the status of each

message accordingly."

Simon Young, a lawyer and professor at Hong Kong University's law school, said that while it's legal for the police to monitor social media platforms while conducting investigations—as Telegram channels are publicly accessible—asking a cyberexpert to engage in hacking would be a "problem." "Hacking ... could be a criminal offense," he said.

## Crackdown on Doxxing?

The city's police force recently ramped up its tactics to ban the doxxing of its officers via a temporary court injunction.

First approved by the Hong Kong High Court on Oct. 25 and then amended to narrow its breadth on Oct. 28, the injunction prohibits individuals from "using, publishing, communicating, or disclosing" personal data belonging to police officers and their family members, that are "intended or likely to intimidate, molest, harass, threaten, pester, or interfere with" them.

Personal data includes names, home addresses, dates of birth, telephone numbers, social media handles, Hong Kong ID numbers, and photographs.

Those violating the injunction can be considered "in contempt of court" and fined or sent to prison.

In an Oct. 25 statement, the Hong Kong government said that since June, referring to when mass protests began, officers have been targeted for doxxing and received different forms of harassment and intimidation, such as via "telephone calls, identities being misused to apply for loans and to make online purchases, harassing Police Officers' family members by visiting their workplaces."

Young said that while such an injunction concerns the freedom of expression, it is "not an absolute right" and can be restricted by court order. "The question is does it [the injunction] go too far? Or does it overshoot the purpose?" he said.

The court would have to consider, for example, if there are other means by which police officers' interests can be protected, he said.

A hearing is scheduled for Nov. 8, when the Hong Kong Department of Justice and the police chief will argue their case for a formal injunction.

Local lawmakers, journalists, and rights groups have already expressed concerns about the scope of the injunction. "It basically removes the checks and balances over police brutality," lawmaker Alvin Yeung told media on Oct. 25.

Meanwhile, the Hong Kong Journalists Association has argued that the injunction could restrict journalists from covering the protests. It has filed for an amendment to the injunction "to protect Hong Kong's constitutionally protected freedoms of the press and expression," it said in a Nov. 5 statement.

Police have already arrested and charged people for doxxing-related offenses connected to the protests.

Local media reported that in September, a local telecoms worker, Chan King-hei, was charged for using his company computer to access and disclose a police officer's family member's personal information. The police accused him of conspiring with "tanakayotsuba" to disclose the information on Telegram.

Chan was charged with one count of obtaining access to a computer with a view to dishonest gain, and one count of conspiracy to disclose personal data obtained without consent, according to local media reports. He was released on bail; his next court hearing is on Nov. 20.

In July, police announced that they have so far arrested 9 people for "internet-related" offenses, including disclosing personal data without obtaining consent.

Epoch Times reporter Frank Fang contributed to this report.

## DISENGAGEMENT

# US Should Partially Disengage With China to Counter Threats: *Think Tank*

STR/AFP VIA GETTY IMAGES



A bank teller counts the stack of Chinese yuan and U.S. dollars at a bank in Shanghai on July 22, 2005.

CATHY HE

The United States should partially disengage with the Chinese regime to combat its predatory economic practices, according to a recent report by Washington-based think tank The National Bureau of Asian Research.

The U.S. administration should pursue defensive measures to stem the flow of critical technologies to China, and work on reaching a ceasefire in the nearly 16-month-long trade war, says the report, which was released Nov. 4.

It comes as the world's two largest economies are finalizing the text of a "phase one" trade agreement that might be signed by President Donald Trump and Chinese leader Xi Jinping in December. The interim deal is set to include U.S. agricultural purchases, increased access to China's financial services markets, improved protections for intellectual property rights, and a currency pact.

The report said the Chinese regime has for years taken a "predatory approach" to economic relations with the United States and other Western democracies,

**China is now engaged in a wide-ranging, ambitious, and well-funded effort to become a scientific and technological, as well as a manufacturing, superpower.**

From a report by The National Bureau of Asian Research

exploiting their openness to fuel its growth. At the same time, it has restricted foreign access to its domestic markets and aggressively developed native industries for the purpose of supplanting foreign competitors, the report added.

"China is now engaged in a wide-ranging, ambitious, and well-funded effort to become a scientific and technological, as well as a manufacturing, superpower," it said.

In response, the think tank recommends the Trump administration adopt a multi-pronged strategy to defend the country's security and prosperity, including curbing the transfer of sensitive information and technologies to China, and encouraging tech innovation to strengthen the U.S. economy.

"The United States can no longer afford to permit all these entities [from China] virtually unrestricted access to its own economy and society," the report said.

However, it noted the U.S. government's growing recognition of security risks posed by Chinese technology—particularly in the area of telecommunications. The administration in May effectively banned Chinese tech giant Huawei, the world's largest supplier

of telecommunications gear, from doing business with U.S. firms on national security grounds. The move arose from concerns that the firm's equipment could be exploited by the regime for surveillance or to disrupt communication networks.

It suggested that similar restrictions be placed on other portions of the country's critical infrastructure, including electricity generation, railways, water systems, and law-enforcement agencies.

The Chinese regime has embarked on a long-running campaign to acquire foreign technology and intellectual property "by any means necessary," the report noted, including both illegal means, such as cyber theft and industrial espionage, and legal approaches, such as investing in foreign companies that are developing technologies of interest to Beijing.

"The federal government should impose tight restrictions on direct Chinese investment in sensitive areas," the report recommends. It noted that reforms last year that gave more powers to the federal body in charge of reviewing foreign investment deals for national security concerns were a step in

the right direction.

A recent FBI report said among Chinese students who are studying in the United States, "mostly post-graduate and post-doctorate researchers" working in the science, technology, engineering, and math fields (STEM) are likely to be used by the Chinese regime to transfer sensitive information to China. Thus, the report suggested imposing restrictions on the entry of certain advanced researchers.

"The U.S. government should bar students or researchers that it has reason to believe have ties to the PLA [People's Liberation Army, the Chinese military], and it should discourage or, if the U.S. participants receive federal funding, ban outright joint research projects with PLA-linked institutions."

In addition, the United States should invest in innovation, technology, and science, technology, engineering, and mathematics—or STEM—education to fend off the challenge posed by China, the report stated.

"The United States needs to run faster if it wishes to stay ahead, and innovation will therefore be essential to its prospects for success."

A close-up view of the Telegram messaging app on a smartphone in London on May 25, 2017.



CARL COURT/GETTY IMAGES

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## OPINION

# China Sees Risks With or Without Trade Agreements

New trade agreements with United States, EU would add challenges to China's already troubled economy

JAMES GORRIE

Does China actually want a new trade deal with the United States or the European Union? Given the current situation in the country, the realization of any trade deal that is actually signed is less than certain.

As much as President Donald Trump talks up the potential signing of "phase one" of a new trade deal, the facts of China's current economic decline just don't point to a real, enforceable agreement. The risks associated with entering into new trade agreements, or not, cut both ways.

## Can China Even Afford Phase One?

The much-touted phase one agreement supposedly has China purchasing \$50 billion in U.S. soybeans. Such levels would double 2013 highs of \$29 billion in U.S. soybean exports to China. There's no market precedent for such high levels of imports from the United States, especially with China buying soybeans from Brazil and other suppliers. With its purchase of Brazilian soybeans and its falling GDP, there's no good reason to think China will be buying record levels of soybeans from the United States.

The phase one agreement would also increase the protection of foreign intellectual property (IP) and provide relief to the forced technology transfers that come with doing business in China. But is China about to allow foreign companies to withhold their IP and therefore increase their market share requirements at the expense of purely Chinese firms? Again, in the current state, there's no real economic reason for the Chinese Communist Party (CCP) to agree to do so, much less actually follow through on such an agreement.

## 'China First' Policies

China needs foreign investment and also fears it, frustrating the efforts of U.S. and EU firms. Under the current trade war challenges, that's more than understandable. Declining economic activity abroad, combined with near-zero domestic growth, are proving difficult for Chinese firms to manage.



Chinese shipping containers stored at the Port of Los Angeles on May 14, 2019.

They're under economic as well as political pressures to keep their market shares for themselves.

For both U.S. and EU companies, however, meager progress on getting access to Chinese markets is, unfortunately, the natural outcome of those pressures.

That fatigue may well apply to the United States as well. Rising protectionism is a fundamental hurdle that all foreign firms are finding increasingly difficult to overcome. Market barriers, such as restrictions on foreign direct investment, state-owned enterprise subsidies, the long-term policy of forced technology transfers, and the requirements of regional governments to "buy Chinese," remain in force. As a result, the business climate for foreign firms operating or seeking to expand in China is even less friendly than before.

But it's not just that China desires to keep much of its markets closed to foreign competitors, but that it wants to keep the Chinese cyber environment open. China seeks to prevent the use of virtual private networks, it restricts data encryption, it doesn't like cross-border data transfers and other data use and protection means and requirements. These aspects of China's surveillance state prevent for-

No matter what the Chinese offer to sign or really do sign, the only agreements that will see fruition are those that will benefit China most, with the least political risk.

eign firms from protecting their data and intellectual property, and they stifle cooperation.

## China's Financial Markets

One area in which China is now eager to open its market to U.S. and European firms, however, is the financial sector. According to China's chief banking regulator, foreign financial firms own just 1.6 percent of Chinese banking assets and just 5.8 percent of the insurance market. But all that may be about to change.

In a recent statement, China's central bank said that foreign investors can take equity stakes or even controlling positions in entities involved in commercial lending, pension funds, currency trading, and other financial operations. This unprecedented level of foreign access to China's financial sector was announced last week after given approval by Vice Premier Liu He. He acknowledged that risk management and other challenges will be a priority to the country's \$44 trillion financial market.

But the timing of China opening its massive financial sector to foreign financial firms is suspicious. With a serious and growing liquidity problem in both its banking and non-banking

financial institution sectors, as well as the deadweight of trillions of dollars of underperforming or even zombie loans, China's rosy invitation to foreign financial giants definitely comes with some thorns.

More critically, foreign firms' engagement with China's vast financial market may not be nearly as easy or rapid as Chinese authorities would like it to be. There are huge and fundamental differences between Western, credit-worthiness-based lending institutions and China's politically driven, state-owned banks.

Determining the value and health of financial institutions may be more problematic as hidden debt and liquidity issues are exposed. As Bloomberg notes, "global firms need to navigate an often opaque regulatory environment and take on state-controlled [financial] rivals that drive much of China's economic activity."

## China's Conflicting Objectives

It's no secret that the Chinese economy is suffering from the multiple effects of the trade war. Domestic growth continues to be negative, foreign reserves are dwindling, and China's export-led economy struggles to find relief in European and Japanese markets. The truth is that no matter what the Chinese offer to sign or really do sign, the only agreements that will see fruition are those that will benefit China most with the least political risk.

Contrary to what Party bluster says, the CCP leadership knows that it's in a tough position. It needs to sell products to the West for its very economic survival. But U.S. and EU firms are demanding more access to China's markets.

That presents increasing competition for Chinese firms, and therefore, risks to the economy and ultimately, to the Party.

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.



A security guard stands at the entrance to the China International Import Expo in Shanghai on Nov. 5, 2019.

## TRADE WAR

# Resolving China's State Subsidies Key to Calming Trade Tensions

EMEL AKAN

WASHINGTON—The new partial trade deal with Beijing fails to address Chinese subsidies, one of the top concerns of the Trump administration and the impetus for starting a trade war, and it will be difficult to ease U.S.-China tensions if the issue of state subsidies remains unresolved, according to experts.

Unfair and trade-distortive government subsidies have become a major problem in the world trading system. And the World Trade Organization (WTO) rules on subsidies have plenty of shortcomings, particularly in responding to the Chinese economic model, according to Chad Bown, senior fellow at the Peterson Institute for International Economics, and Jennifer Hillman, senior fellow for trade and international political economy at the Council on Foreign Relations.

In a paper released in October, Bown and Hillman argued that the WTO should revisit its definition of a subsidy, in light of the activities of nonmarket economies such as China.

"China has important elements of a nonmarket economy and deploys an array of policies that, even though they may not fit the traditional WTO definition, can have the economic effect of a subsidy," the paper stated.

Such problems aren't new to the trading system, but "today's concerns are heightened by China's economic size and evidence that China is moving even farther from market economy principles."

In the past decade, through hefty government subsidies, China has managed to create its own national champions in key industries. These include steel, aluminum, and solar panels—industries in which the Chinese regime has been accused of heavy subsidization, according to the paper.



Chinese leader Xi Jinping and President Donald Trump in Osaka, Japan, on June 29, 2019.

The financial scale of China's state subsidies is unknown, as is the extent of the spillover costs for the U.S. and global economy.

However, an Organization for Economic Co-operation and Development (OECD) study released in January lays out how Chinese companies operating in the aluminum sector—both state-owned and private—receive unconventional government support in the form of coal and other input subsidies, below-market interest rates, and value-added tax rebates.

These subsidies have helped China in the past 15 years to rise as the leading producer of aluminum by a wide margin, according to OECD. These market practices explain the persistence of excess capacity in the industry that depresses aluminum prices globally and threatens the survival of other producers worldwide.

The world's two largest economies announced on Oct. 11 that they had reached a partial trade agreement, in principle, on intellectual property, financial services, and agriculture.

President Donald Trump said that there could be two or three

Remedies permitted by the WTO to counter state subsidies fell short of solving the problems involving steel, aluminum, and solar panels, according to Bown and Hillman. As a result, the Trump administration started imposing tariffs on steel and aluminum imports in 2018, citing national security concerns.

And for solar panels, the administration imposed comprehensive protection under Section 201 of the Trade Act of 1974 to support domestic producers that are harmed or threatened by foreign competition.

## 'Incredibly Difficult'

The world's two largest economies announced on Oct. 11 that they had reached a partial trade agreement, in principle, on intellectual property, financial services, and agriculture.

President Donald Trump said that there could be two or three

phases in China trade talks. Both sides are actively working to finalize the "phase one" agreement for signature. However, there are still uncertainties about the timing of a bilateral meeting between Trump and Chinese leader Xi Jinping.

It would be "incredibly difficult" if the subsidies were made part of a "phase two" deal, according to Jude Blanchette, Freeman chair in China Studies at the Center for Strategic and International Studies.

China has made no indication of how it would cut state subsidies and, politically, there seems to be no appetite to do that, he said at a press briefing on Oct. 29.

"I think there's a reason that nowhere in the negotiations have we really gotten close to making a dent in Chinese subsidies," he noted. "This will be the sticking point. That is what's going to make this so hard."

The financial scale of China's state subsidies is unknown, as is the extent of the spillover costs for the U.S. and global economy.

## CHINESE TECHNOLOGY

# Investors Sink Bonds of China's State-Backed Chipmaker

FAN YU

Investors are casting doubt about the financial health of one of China's most strategically important technology companies.

Tsinghua Unigroup Co., the company spearheading China's developing microchip business, has seen the price of its dollar-denominated debt crater.

According to Bloomberg, Tsinghua Unigroup's Hong Kong-traded \$750 million bonds, due in 2023, plunged to as low as 75 cents on the dollar on Nov. 1 before recovering.

Trading of the Shenzhen-listed subsidiary of the company—Unigroup Guoxin Microelectronics Co.—was halted on Nov. 6 after the stock suddenly fell 10 percent.

Tsinghua Unigroup, which is among a handful of chipmakers with central government backing, had to release a statement reassuring investors of its liquidity. On a call with investors, it said that it had ample cash on hand, totaling \$2.4 billion, and up to \$16 billion of undrawn credit lines, according to Bloomberg.

Most importantly, it announced that it hadn't defaulted on its bonds. Credit Suisse is currently working with Tsinghua Unigroup on extensions related to existing bank loans.

The company has levered up in recent years to fuel its growth—mostly accruing technical know-how by acquiring other companies. Tsinghua Unigroup has issued three series of U.S. dollar-denominated bonds in Hong Kong, totaling \$1.875 billion.

## Hope for Homegrown Semiconductors

Tsinghua Unigroup is one of China's most important indigenous companies. It's the leading Chinese semiconductor maker, developing and producing chips used in a variety of functions including domestically made smartphones and China's national



Workers check laptop parts inside a factory in Lu'an City, China, on Nov. 19, 2018.

ID system.

Unigroup is critical to Beijing's plans for digital self-reliance. Its success has become increasingly urgent as the United States has moved to block Chinese manufacturers such as telecom giant Huawei and security hardware firm Hikvision from purchasing U.S.-made microchips. Unigroup's homegrown chips are supposed to replace that supply.

In 2015, Unigroup offered to acquire U.S. chipmaker Micron Technologies for \$23 billion; the transaction was ultimately scrapped because of opposition in Washington.

In 2018, the company was able to acquire French chip component maker Linxens—for an estimated 2.2 billion euros (\$2.6 billion), according to estimates by Chinese business magazine Caixin, as exact terms weren't publicly disclosed. Technology transferred from Linxens forms the bulk of Unigroup's assets and technical know-how.

In early 2019, Unigroup completed the de-

velopment of China's first 64-layer 3D NAND flash memory, a major breakthrough given that the technology is currently dominated by manufacturers in Japan, South Korea, and the United States.

## Beneficiary of State Backing

Tsinghua University, the elite Beijing-based research university, is a majority shareholder in Unigroup. Xi Jinping and Hu Jintao, the current and previous Chinese Communist Party regime leaders, both attended Tsinghua.

Another major investor in Unigroup is China's National Integrated Circuit Investment Fund, an investment vehicle launched specifically to support indigenous developments of semiconductors. The fund contributed capital to build Unigroup's \$24 billion memory chip plant currently under construction in Wuhan City, Hubei Province.

The fund, which has around 140 billion yuan (\$22 billion) of capital, has concerned

U.S. authorities due to its support of Chinese chipmakers that could threaten the global market position of U.S. chipmakers such as the San Diego-based Qualcomm Inc.

Beijing is now fundraising for a second fund to support the chipmaking sector, and interestingly, is soliciting foreign investors to contribute. This decision was approved even as disagreements over forced technology transfer and technological competition between China and the United States have been a major cause of the ongoing trade war.

Its success has become increasingly urgent as the United States has moved to block Chinese manufacturers such as telecom giant Huawei and security hardware firm Hikvision from purchasing U.S.-made microchips.

Last year, the U.S. Trade Representative Office's investigation of China's trade practices detailed Beijing's aggressive development of its domestic semiconductor sector in order to supplant global competitors, which ultimately led to the Trump administration's decision to impose tariffs on Chinese imports.

At the same time, Beijing has been looking to reduce public universities' stakes in companies such as Unigroup, citing concerns over corruption. In October 2018, Tsinghua Holdings sought to transfer a 36 percent stake in Unigroup to Shenzhen Investment Holdings, an investment vehicle owned by the Shenzhen City government.

But the sale wasn't successful and has been shelved indefinitely.





TRUTH *and* TRADITION

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