

China Using Facebook Ads to Attack America, Spread Virus Disinformation 2

COMMUNIST SUBVERSION OF SUBVERSION OF PANDEMIC RESPONSE UNDERMINED BY BEIJING'S INFLUENCE

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PROPAGANDA

China Using Facebook Ads to Attack America, Spread Virus Disinformation

BOWEN XIAO

e Chinese Communist Party (CCP) is using its state-run social media accounts, which boast tens of millions of

followers, to spread disinformation via Facebook and Instagram advertisements in an attempt to criticize President Donald Trump and alter the narratives on the CCP virus pandemic

The ads, many of which ran with no political disclaimer, were spread to English-speaking audiences across the world through China's major statecontrolled media companies, including the Global Times, Xinhua News Agency, China Central Television (CCTV), and China Global Television Network (CGTN).

The political ads, which have drawn roughly 45 million views since Feb. 15, represent another escalation of Beijing's already brazen disinformation campaign. As Renée DiResta-the technical research manager at Stanford's Internet Observatory-noted, state-run media advertisements in 2019 mostly included "friendly images of pandas and kittens ... and amplified feel-good political stories."

That changed when February hit. "The ads began boosting state media coverage of the coronavirus, with dozens of ads praising [Chinese leader Xi Jinping] for his leadership and emphasizing China's ability to contain the disease," DiResta, whose team studied hundreds of state-run media ads, wrote in The Atlantic. "By March 2020, angry ads appeared in the mix, promoting outraged coverage of President Donald Trump's use of the term Chinese virus.'

Undisclosed political ads on Facebook don't show information Facebook account, while The such as who was being targeted or who had financed the spots; however, Facebook later began flagging the items. Some of the Facebook and Instagram ads can be found in their ad library, which is searchable online. "President Trump ... seems

impatient when it comes to epidemic controls. He and his team are still misleading American society," one ad in the Global Times as recent as April 13 stated. "Racism in ink," a March 20 ad in China Xinhua News read, referring to the story of Trump crossing out "corona" and replacing it with "Chinese" in his notes.

"China's efforts to fight #CO-VID19 were met with incessant defamation and stigmatization from the beginning ... #Western-FallaciesDebunked," one ad that ran from March 27 to April 2 in the Global Times stated. That ad ran without a disclaimer.

"U.S. President Donald Trump and his opponents have shamelessly politicized one of the most naturally occurring things ever-a global pandemic," another ad, posted by CCTV, stated on April 13. Meanwhile, numerous ads have portrayed Xi's response to the outbreak in a positive light.

The racism narrative pushed by Beijing is one of many gaining traction in U.S. media and asserts that calling the pathogen "the Wuhan virus" is racist, despite the fact that Chinese state-run media have used the term themselves, as seen in Xinhua, the Global Times, and elsewhere. Previous diseases such as Ebola, Zika, the West Nile virus, Lyme disease, and the Spanish flu are all named after the places where the viruses emerged. Emerson Brooking, resident fellow at the Digital Forensic



Chinese police officers wear protective masks as they march during a shift change in Beijing on April 14, 2020.



A screenshot of the text portion of the state-run media ad above.

Research Lab of the Atlantic Council, told The Epoch Times that the barrage of political advertisements are a "natural next step" for Beijing's digital influence operations. For example, Global Times has more than 52 million followers on its official New York Times, by comparison, has just over 17 million followers.

The CCP seeks to draw attention to the failures of other nations as they grapple with CO-VID-19 and deflect scrutiny from their own bungled response, Brooking said.

Walter Lohman, director of The Heritage Foundation's Asian Studies Center, called the pivot to attack ads "another front for the CCP to use," adding that from China's perspective, "this is a matter of an existential threat."

"While outlets like the Washington Post have been condemned for running advertisements from China Daily, those had been marked as 'advertisement," Lohman told The Epoch Times. "This is different, in that the ads are not labeled as advertisements (nor is the source always made explicit)."

Social media platforms have been major tools utilized by the CCP to push its propaganda. State-run media such as Xinhua News last month began including the hashtags "#Trumpandemic" and "#TrumpVirus" on its news posts on Facebook and Twitter.

In a phone call at the end of March, meanwhile, Trump and Chinese leader Xi Jinping agreed to "tamp down their war of words over the novel coronavirus.'

But Brooking, like other China experts, says the truce is temporary, if at all.

"Just because the information war is less visible, this does not mean that it has stopped," he said. "The rhetoric between Trump and Xi has indeed softened, but conspiracy theories about coronavirus continue to spread at an alarming rate. "This perceptual battle is too

important to both the United States and China for either side to abandon it entirely," Brooking added.

Internal government documents obtained by The Epoch Times have highlighted how the Chinese regime purposefully underreported cases of the CCP virus, commonly known as the novel coronavirus and which causes the disease COVID-19, and censored discussions of the outbreak, helping to fuel its spread.

Lohman said Beijing will do whatever it takes to preserve its own rule and that this "will always involve a sort of publicopinion warfare aimed at the U.S."

The political ads, which have drawn roughly 45 million views since Feb. 15, represent another escalation of Beijing's already brazen disinformation campaign.

Facebook officials didn't immediately respond to a request by The Epoch Times for comment. A spokesperson told VICE News that some of the ads weren't caught by their systems even though they should have been, while others ran "in countries in which Facebook does not require disclosure

"We are progressing on our plans to label state-controlled media pages on Facebook, including from China, and will have more to share on this soon," the spokesperson said. "We are continuing to work with publishers and third-party experts on this issue to ensure that we get this right."

Facebook said the ads not labeled as "political" by staterun media would "simply have disappeared once they expired, making it virtually impossible to assess the full scale of China's propaganda effort," according to VICE

Last month, almost 15,000 contractors who moderate Facebook's content were placed on paid leave due to the pandemic; the company is increasingly relying on AI and algorithms in lieu of human moderators.

'Soft Power'

The CCP is attempting to use its "soft power" to influence public opinion around the world, which is now turning decisively against Beijing, says Steven Mosher, president of the Population Research Institute and a founding member of the Committee on the Present Danger: China. "In 2007, Hu Jintao (former general secretary of the CCP) told the Seventeenth Party Congress that it was time to fight back against the West and launch its own soft-power initiative," Mosher told The Epoch Times. "Since then, the CCP has spent billions to extend its media outreach around the world." China has deliberately masked the total number of COVID-19 cases in China in a bid to safe-

guard its image both nationally and internationally, as a growing list of countries express anger and frustration over Beijing's handling of the CCP virus. Beijing officials have previously

accused the United States of being the origin of the CCP virus as part of a wider propaganda initiative that draws upon every weapon in its arsenal, including "online, print, and broadcast media that it has purchased or fostered over the past 12 years," Mosher said.

The extent or effect of these ads on Americans is unclear. The "less they know about China, the more they will be swayed" by disinformation, Mosher said. Due to the CCP virus, however, more people are paying attention to the dangers of the regime in Beijing, he added.

"A few Facebook ads are prob-

ably not sufficient to counter the fear and anxiety they are feeling for themselves and their families that the CCP's evil and incompetence have stoked," he said,

referring to the American public. The political ads may "muddy the waters," but Lohman said the reaction is far more likely to center on people's confirmation bias.

"Those who already feel favorable toward China will feel that they are not alone, that there are others who feel the same way," he said. "And of course, it will be unwittingly picked up by some who are motivated principally by their political opposition to Trump."

Attila Tomaschek, digital privacy expert at ProPrivacy. com, told The Epoch Times that the CCP propaganda machine "is working at full tilt" and that should come as no surprise because it's exactly how the regime operates. Despite some political advertisements gaining a large number of views, he said most Americans know to take anything from China's state-run media with a "giant grain of salt."

An April 8 survey from Harris Poll found that 77 percent of Americans nationally blame the CCP for the spread of the virus. That belief was echoed across the political spectrum, with 67 percent of Democrats, 75 percent of independents, and 90 percent of Republicans attributing the virus to the communist regime.

At the same time, the CCP wants to exploit the pandemic to "hold itself up as a 'model' on how to deal with the epidemic," Mosher said, noting that China is worried that other nations will unite against it.

"The ultimate reason is that [China] is at war with the United States across all domains except the kinetic, and is desperately and belatedly trying to turn defeat into victory where the CCP virus is concerned," he said.

Some China experts told The Epoch Times that U.S. tech companies shouldn't ban Chinese officials and state-run media from their platforms, while others said they should.

"Chinese officials and staterun media are trying to reach a global audience. That is why they have access to social media," Lohman noted. "The U.S. government, and Americans more generally, business and media, should miss no opportunity to point out this contradiction."

"I have long thought that we should demand absolute parity with China in all things," Mosher added.

Some experts suggest that the United States is increasingly closing its doors to engagement with China. Bipartisan opposition to the CCP may also be at an all-time high because of the pandemic.

In addition, U.S. lawmakers have called for the Chinese regime to be punished for its role in covering up and lying about the pandemic, which allowed the virus to spread to more than 200 countries.

In the United Kingdom, ministers and senior Downing Street officials said China now faces a "reckoning" over its handling of the outbreak and risks becoming a "pariah state," according to a report in The Mail on March 28. That report detailed how scientific advisers warned Prime Minister Boris Johnson that China's official statistics on the virus might be being "downplayed by a factor of 15 to 40 times" and that Beijing is attempting to exploit the pandemic for economic gain.



Chinese commuters wearing protective masks look at their cellphones while riding the subway in Beijing on April 15, 2020.

CENSORSHIP Revealing the Operations of China's **Official Troll Army System**

NICOLE HAO

The Chinese regime employs online trolls to push its agenda on the internet. They are commonly referred to as the "50-cent army," so named because they are paid 50 cents for each online post that praises the Communist Party's policies, or insults those who express opinions that stray from the Party line.

hired by internet companies or the regime's censorship and propaganda departments.

But confidential government documents obtained by The Epoch Times reveal that the Party's security apparatus, known as the Political and Legal Affairs Commission (PLAC), is also in direct control of such troll armies.

The PLAC is a central government agency that oversees the country's police, courts, and prisons-and previously had no known role in monitoring internet speech. It has branches in each province, city, and township.

Trolls' Organization

The documents were from the Fangzheng county PLAC, released to different teams of trolls under its supervision. Fangzheng

in northeastern China's Heilongijang Province.

The PLAC oversees a "professional army," a "local army," and "internet commentators."

The "professional army" are those who work in government agencies. The "local army" are government staff in charge of five members. residential areas and villages, as well as They are typically ordinary citizens those who work in state-run companies. the "local army," with 336 individuals' The "internet commentators" are the 50cent trolls hired from society.

Some trolls recently revealed that they are now typically paid 70 cents (\$0.10) per post.

One of the documents explained the different armies' objectives, which was to ensure internet speech aligned with the Chinese Communist Party.

"[All armies] must make sure to cooperate with each other well ... have meetings regularly to discuss the hot internet topics and direct public opinion. Each member must have his or her goal ... and complete their missions," it states.

Another document listed local members of troll armies and their leaders. For example, the Fangzheng county

public security bureau, akin to the police department, has 31 people working in

is a county in the city of Harbin, located the department in charge of trolls. They comprise staff at the county public security bureau as well as the smaller police stations within the county.

The local prosecutor's office, court, and justice ministry also have their own troll teams, according to the documents. Their teams are relatively small, with four or

Another document listed the trolls in names, cellphone numbers, and the staterun company or government agency for which they work.

The documents didn't provide details about the people hired from society. On April 5, Chinese independent economist and dissident Charles posted on Twitter a copy of an internal document that detailed the latest recruitment plans for the 50-cent army. The Epoch Times couldn't independently verify the authenticity of the document.

According to the post, the Chinese regime's goal is to hire 4 million trolls from universities and colleges, and another 6.23 million from society at large. There is a quota for each region of the country. For example, Beijing would hire 140,000 trolls from colleges, and 110,000 from society. Shandong province would hire



The Fangzheng County Political and Legal Affairs Commission holds a meeting for its team of trolls, in northeastern China's Heilongjiang Province in 2020

280,000 students and 500,000 others.

Trolls' Operations

Another document summarized how trolls within government agencies should operate

The trolls receive training and have regular performance evaluations. The trolls undergo an online training and testing system, each team monitored by a manager.

Every month, the county PLAC asks the managers to award or fine members according to their performances. The incentives include cash rewards and verbal praise.

The document asked all trolls to "use typical netizen lingo to express the official Party opinion" and guide public opinion on news websites, blogs, BBS (online forums), Weibo, WeChat, and other social media platforms, and so on.

In their posts, trolls should "use words that are realistic, easy to accept by people, and fitting to everyday life," the document states.

Because different news topics appear every day, the document stated that trolls should update their knowledge in a timely manner and lead online discussions with normal netizens.

PLAC

The first time the Chinese regime tried to sway opinion on the internet was in 1996, when Qiu He, then-deputy mayor of Suqian city in eastern China's Jiangsu Province, organized government staff to post propaganda articles online.

Qiu was later dismissed from the Party for corruption crimes in 2015 and sentenced to 14 years in prison in December 2016.

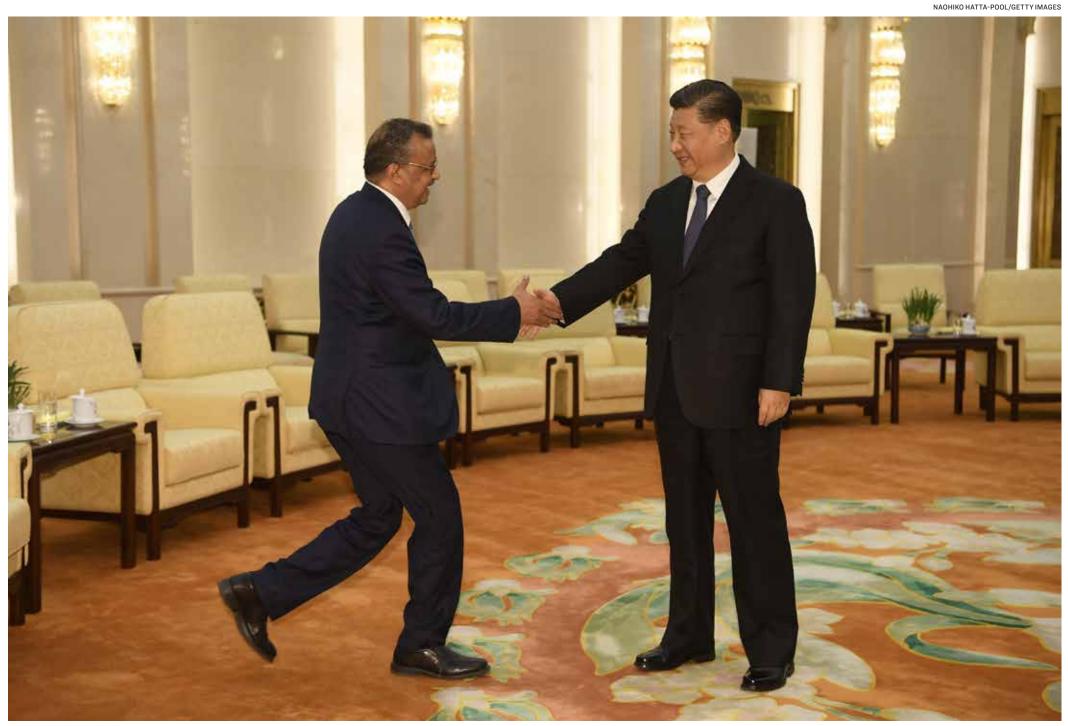
Since 2004, more information has been revealed about the Chinese regime's troll operations.

China's chief censorship agency, the Cyberspace Administration, also hires trolls to monitor internet posts, delete sensitive information, and post content favorable to the Chinese regime.

Liu, a "post deletion officer" working for a popular internet platform in China, told online magazine Bitter Winter on April 10 that his job was deleting "posts mostly containing remarks criticizing and opposing the government."

At the internet platform, more than 200 people were hired to do the same job, Liu said. The platform also hires individuals to delete articles, audio content, and pictures.

With the help of an automated filter, Liu said he can delete about 100,000 posts per day, which is his daily quota.



WHO Director General Tedros Adhanom Ghebreyesus and Chinese Communist Party leader Xi Jinping in Beijing on Jan. 28, 2020.

WORLD HEALTH ORGANIZATION

Chinese Communist Subversion of WHO Undermined Global Pandemic Response

The World Health Organization withheld crucial information that might have prevented the outbreak from becoming a pandemic

PETR SVAB

News Analysis he World Health Organization (WHO) is facing a flurry of criticism for its response to the CCP virus pandemic, and much of the problem can be attributed to the growing influence the communist regime in China

has on the organization. Critics mainly point out that the WHO was too slow to recommend travel restrictions and some other preventive measures, and also that the agency accepted information from China at face value, despite numerous red flags. While China experts were sounding alarms about a coverup, the WHO continued to praise China's response and never warned the world that data coming from the regime was suspect.

WHO, an agency of the United Nations, has long been swayed by Beijing's political preferences. Its current head, Dr. Tedros Adhanom Ghebreyesus, is a former member of a Maoist group in Ethiopia. As The Epoch Times previ[The WHO has] clearly been simply a mouthpiece, in my view, of the PRC government.

William Stanton, vice president, National Yang-Ming University of Taiwan timely and accurate information about the world's health situation. Case in point: the CCP virus. **Timeline** The CCP virus, commonly known as the novel coronavi-

ously documented, China has

been increasing its power over

Beijing's clout has now gone so

far, it undermines WHO's basic

functions, such as providing

U.N. institutions for years.

known as the novel coronavirus, broke out in the central Chinese city of Wuhan around November 2019, before spreading across China and the world. As of April 14, there are some

2 million confirmed cases of the virus, which causes the disease COVID-19. Almost 130,000 deaths have since been attributed to the disease worldwide.

The WHO has said that Chinese authorities first informed it about the outbreak on Dec. 31, 2019. While that would have been a golden opportunity to mitigate the spread of the virus worldwide, the WHO conveyed none of its information to the world that day.

It appears that only one country had its ear close enough to the ground at that point to respond meaningfully–Taiwan.

By Dec. 31, the island nation off the coast of mainland China had already started monitoring travelers coming on flights from Wuhan. Taiwan authorities also told the WHO that day that Taiwanese doctors had learned from their mainland counterparts that health care workers had been falling ill

with the mysterious new virus. That was crucial information,



since it indicated the virus was spreading from person to person. The WHO, however, ignored it, Taiwan officials later said.

It was to be expected of the WHO to ignore that warning. The CCP considers Taiwan a breakaway province and has pressed the U.N. to ignore Taiwan's existence as an independent country.

Taiwan has been denied membership in the WHO, whose personnel are prohibited from using documents or even information from official Taiwan sources without prior special permission, according to a leaked 2010 WHO memo.

Such permission would involve "coordination with the Permanent [UN] Mission of China in Geneva," the memo stated.

While Taiwan was getting its response to the virus underway, the situation in Wuhan was quickly deteriorating.

On Jan. 2, The Epoch Times reported on the efforts of the CCP to block information about the outbreak and the high levels of anxiety spreading throughout the city.

A Wuhan Health Commission directive prohibited all medical facilities in the city "from publicizing medical information without permission," and online discussions about the outbreak were quickly censored. On Jan. 1, Wuhan police said that they had detained eight locals who had spread

"rumors" about the outbreak. As it turned out, at least some of the suppressed whistleblowers were doctors who had tried to warn colleagues about the new virus.

Panicked locals cleared Wuhan pharmacies of surgical masks and over-the-counter preventive Chinese medicines. China expert and physician Tang Jingyuan warned a government coverup might exacerbate the spread of the virus. Meanwhile, the WHO remained silent.

By Jan. 3, the WHO was informed by Chinese authorities of 44 cases, 11 of them severe. That was likely the tip of the iceberg.

On Jan. 5, The Epoch Times reported, citing multiple experts, that the CCP had likely been covering up information about the virus, which was detrimental to controlling the outbreak.

That day, the WHO commented for the first time about the outbreak, disclosing that it had known about an outbreak of a "pneumonia of unknown cause" in Wuhan for five days and recommending that it should be "handled prudently." But the agency didn't recommend "any specific measures for travelers."

Instead, it did the opposite. "WHO advises against the application of any travel or trade restrictions on China based on the information currently available on this event," it said. Five days later, the WHO addressed the outbreak again.

"From the currently available information, preliminary investigation suggests that there is no significant humanto-human transmission, and no infections among health care workers have occurred," the agency stated, contradicting information that had been provided by Taiwan.

"WHO does not recommend any specific health measures for travelers," WHO said. It instead released general information on how to deal with virus infections.

On Jan. 12, WHO said there was "no clear evidence of human-to-human transmission," slightly adjusting its language.

"Preliminary investigations conducted by the Chinese authorities have found no clear evidence of human-to-human transmission," WHO announced two days later, never expressing a shadow of a doubt about the Chinese communist regime's official statements.

At this time, Taiwan had already arranged for its own fact-finding team to travel to Wuhan.

Preliminary investigations conducted by the Chinese authorities

evidence of human-tohuman transmission. WHO, in a statement on Jan. 14, after the outbreak in Wuhan

have found no clear

"They didn't let us see what they didn't want us to see, but our experts sensed the situation was not optimistic," Taiwanese government spokesperson Kolas Yotaka told NBC News.

Soon after the team returned, Taiwan initiated testing and reporting requirements for its hospitals.

"Looking after itself, not listening to the WHO in this particular case, I think actually helped," said Dr. William Stanton, vice president of the National Yang-Ming University of Taiwan and a former U.S. ambassador to China, in a recent interview with The Epoch Times' Jan Jekielek.

The WHO only managed to get its team to Wuhan for "a brief field visit" on Jan. 20. On Jan. 17, the U.S. Centers for Disease Control and Prevention (CDC) sent personnel to screen travelers coming from Wuhan to three major U.S. airports–JFK, Los Angeles

International, and San Francisco International, which were getting the highest traffic from the outbreak's epicenter. More airports were added to the list in subsequent weeks. On Jan. 20, China confirmed

human-to-human transmission. On Jan. 23, the day the CCP put Wuhan on lockdown, the WHO announced that, despite some internal disagreements, it wouldn't declare the outbreak a "public health emergency of international concern."

By then, cases had already started to crop up around the world, including in the United States.

Three days later, Taiwan banned flights from Wuhan and arranged special flights to return its people from the city. On Jan. 28, while visiting China, the WHO's Tedros urged the countries of the world "to remain calm and not to overreact," expressing confidence in the CCP's epidemic control, Chinese state-run media reported.

On Feb. 3, three days after President Donald Trump prohibited foreigners who had recently been in China from traveling to the United States, Tedros voiced opposition to travel bans, saying measures that would "unnecessarily interfere with travel and trade" weren't needed.

In a March 20 tweet, Tedros repeated CCP propaganda, saying that "for the first time, #China has reported no domestic #COVID19 cases yesterday." While for China experts, the news all but confirmed that the CCP numbers were fake, Tedros touted it as "an amazing achievement, that gives us all reassurance that the #coronavirus can be beaten."

Statistical modeling, eyewitness accounts, and documents provided to The Epoch Times have shown that Chinese authorities concealed the true scale of the outbreak in Wuhan

and other parts of China. Tedros, however, repeatedly praised China for "transparency" in its response to the outbreak–something experts and government officials around the world have emphasized as being the most lacking. The Victims of Commu-

nism Memorial Foundation, a nonprofit established in the 1990s by the U.S. government, published on April 10 a detailed timeline of the CCP's coverup of the epidemic and of the WHO's culpability in it. The organization also announced it would be adding the global CCP virus deaths to the historical death toll of communism.

"The WHO has abdicated its responsibility to the entire world population in order to carry water for the Chinese Communist regime," the foundation's executive director, Marion Smith, said in a release.

A Personal Connection While part of the CCP's influence over the WHO was coming from the U.N., another part of it was played by Tedros himself.

Tedros is a former Politburo member of the Tigray People's Liberation Front, a Maoist group that had waged a guerrilla war in the 1980s against the Soviet-backed Mengistu regime in Ethiopia.

"The nearest you would put [Tigray's ideology] to would be North Korea today," according to Trevor Loudon, an expert on communist movements and front groups.

In the early 1990s, as the regime at the time lost financial support from the collapsing Soviet Union, a coalition of Tigray and other groups overthrew it and ruled the country until 2019.

While on the surface, the government embraced market reforms and democratic elections, ideologically it remained socialist, Loudon said, especially in terms of foreign policy.

"They still keep up their foreign communist connections," he said in a telephone inter-

view with The Epoch Times. Tedros, a former health and later foreign minister of the African nation, naturally maintained strong ties with the CCP, embracing projects such as the "Belt and Road" initiative, which serves the CCP to expand its geostrategic influence.

Tedros scored the WHO's top post in 2017 with strong backing by the CCP's lobby, despite allegations that he had covered up three cholera outbreaks during his tenure as health minister.

"Chinese diplomats had campaigned hard for the Ethiopian, using Beijing's financial clout and opaque aid budget to build support for him among developing countries," Sunday Times columnist Rebecca Myers wrote at the time.

Tedros denied covering up the cholera outbreaks, saying it was just "acute watery diarrhea."

He has proven adept at playing into Western sensitivity to accusations of oppression.

When an adviser to his British opponent for the WHO leadership brought up the cholera coverups, he accused him of having a "colonial mindset."

When Taiwan called him out for ignoring its information about the CCP virus, Tedros accused Taiwan of racist attacks.

That accusation seems to have done little to deflect the criticism; a petition calling for Tedros's resignation has garnered nearly a million signatures.

"I think we have to take a much harder line in terms of how the WHO has handled this virus," Stanton said. "Because it's clearly been simply a mouthpiece, in my view, of the PRC [People's Republic of China] government."

SAMIRA BOUAOU/THE EPOCH TIMES





Traders wait for Chinese online retail giant Alibaba's stock to go live on the floor at the New York Stock Exchange on Sept. 19, 2014.

OPINION US Should Restrict Investments in Chinese Companies

FAN YU

ross-country capital markets participation between China and the United States has been decidedly one-sided. Over the past two decades, major Chinese companies have listed their shares in the U.S. markets, and U.S. investment capital has flowed into China by the billions. But Chinese markets haven't become more trans-

parent, more open, or more stable. Recent announcements of fraudu lent accounting at U.S.-listed firms such as iQiyi and Luckin Coffee have underscored the dangers of investing in Chinese companies. Their participation in U.S. capital markets-an implicit seal of approval for most retail investors-conceals the fact that Chinese companies represent highly speculative, volatile investments.

Firstly, banks are profit-seeking companies. Absent legislation or sanctions, companies will generally act in a way that's most economically beneficial to its board and shareholders within the guardrails of an established regulatory framework. That includes seeking out and taking on Chinese clients.

However, through China's political and economic model, the Chinese Communist Party (CCP) directly or indirectly maintains de facto influence over all Chinese companies-public or private, state-owned or not.

In addition, the opaque nature of these listings and complicated structure and ownership of Chinese companies render existing regulatory guardrails less effective. Further, the roles of Wall Street investment banks, law firms, and accounting firms as advisers to the issuers mean that most investors are at a severe disadvantage when owning stocks and bonds of Chinese companies.

In short, Chinese-listed firms are not on a level playing field with their U.S. counterparts.

Caveat Emptor Applies

Initial public offerings (IPO) underwritten by multinational investment banks and advised by law firms that are focused in banking and finance shouldn't be taken as sure things. And that's especially the case with companies originating from China, where suspect representations occur on a more frequent basis.

In an equity or debt sale, investment banks work with the issuer to create an offering and find investors from their client base to buy the securities.

sufficient information–usually using representations from the company and the company's audited financialsin a fancy format that allows investors to make their own investment decisions. Caveat emptor applies.

The underwriting bank commits fraud when it misleads investors by withholding information from investors or if the bank knows the financial data presented is inaccurate or false. That's extremely hard to prove. De- States. spite investor lawsuits during the last ancial crisis with sales of mortgage backed securities, and after the IPOs Wall Street Branding of prominent technology firms such as The VIE (variable interest entity) Facebook and Lyft, banks have largely avoided major controversy.

And banks get a fee, which is typically 2 to 3 percent of the amount raised in the IPO, for its services.

Financial Exposure, but Not Transparency

Almost all major Chinese firms list their stock in the United States by utilizing two innovative tactics: VIE structure and ADR (American depositary receipt) shares.

ADRs aren't a recent innovation or unique to Chinese companies. They were devised by Wall Street bank J.P. Morgan in 1927 as a way for U.S. investors to invest in Selfridges, the UK department store chain.

An ADR is a construct that allows non-U.S. companies to trade on U.S. exchanges. And an ADR isn't a share of the company, but a negotiable security issued by a U.S. custodian bank that represents ownership in the company it references. An ADR share is theoretically redeemable for a share in the company and mirrors its value, allowing a U.S. investor to gain exposure to a foreign company otherwise unavailable to be traded by U.S. investors.

Theoretically, companies issuing ADRs in the United States are subject to the same Securities and Exchange Commission (SEC) reporting requirements as other U.S. companies. But therein lies an issue.

the ADR stock still resides in China and is subject to Chinese laws, not U.S.

ones. Beijing doesn't allow the SEC or U.S. regulators to examine audit work papers of Chinese companies. The Chinese Communist Party (CCP) claims that the books present "national secrets" that cannot be shared with outside parties.

In 2015, the SEC sanctioned four China-based accounting and audit firms-local affiliates of the "Big Four" accounting firms of KPMG, Pricewa-

To be clear, the bank's job is to provide terhouseCoopers, Ernst & Young, and Deloitte-for failing to turn over documents to support an SEC investigation, thus violating Section 106 of the Sarbanes-Oxley Act.

> Chinese companies also implicitly answer to local CCP bosses and Party cells. This is a certainty for every Chinese company, no matter where its stock is traded and is a key reason why Huawei–a private company–poses a national security risk to the United

Risky Structure, With

structure is a more recent innovation specifically devised for Chinese com-

panies that list in the United States. It dates to 2000, when Sina.com became the first Chinese company to list in the United States. The VIE structure, reportedly created by Chinese lawyer Liu Gong, was adopted by Sina to avoid Chinese regulations barring foreign ownership in industries such as telecom, media, technology, financial services, entertainment, and others.

A domestic Chinese entity is created as an operating company, and houses all the employees, databases, and equipment that enables the company to run its operations. That's the VIE, and, for all intents and purposes, is the real company.

Another company is created in China, typically referred to legally as the wholly foreign-owned enterprise (WFOE). This WFOE typically holds technology patents and certain intangible assets of the company.

Then an offshore entity is created, with its base in the British Virgin Islands, Cayman Islands, or some other jurisdiction with high legal confidentiality. Through a series of intermediaries, the offshore entity owns the WFOE. The offshore WFOE issues ADR shares and is owned by U.S. investors.

How do U.S. investors gain "ownership" of the company? A series of financial contracts are executed be-The ultimate operating company of tween the VIE and the WFOE, where the WFOE (ultimately owned by foreign investors) effectively receives economic benefits of the operating company (the VIE) through legal contracts.

While novel, it's certainly not an ideal way to own a company.

An inherent risk of this structure is that investors don't hold ownership in the operating company. Local Chinese executives or the CCP could one day decide to abandon the offshore entity, leaving U.S. investors high and dry.

Wall Street's Growing Ties With Chinese Companies

Who was the lead underwriter on Sina.com? New York-based Morgan Stanley, which also happens to be the first investment bank to enter China.

In 1995, Morgan Stanley entered China and built up about a 34 percent stake in China International Capital Corp. (CICC), the largest domestic investment bank, in China's first financial services joint venture with a foreign company. Morgan Stanley helped to build CICC's investment banking know-how, and by 2010, Morgan Stanley received regulatory approval to sell the stake to a consortium of other foreign investors.

It made a profit of \$700 million on the sale.

Its 15-year relationship with CICC yielded results as Morgan Stanley won the offshore listings of several major Chinese companies, including Sina.com in 2000, China Petroleum & Chemical Corp. in 2000, TAL Education Group in 2010, and 51job in 2004. Morgan Stanley isn't the only invest-

ment bank to operate in China-most of its peers have a presence.

It has been 25 years since U.S. investment banks landed in China. Despite the banks' initial intentions of transforming China's markets, the CCP has barely opened its investments industry to outside ownership and its financial markets haven't gained the free market mechanisms and stable regulatory oversight inherent in Western markets.

Investment banks are defined by mercantilism. Their influence has brought to U.S. markets Chinese companies that often can't be held to the same standards as their Americanlisted peers. In addition, Wall Street index firms have helped bring pension fund capital to Chinese onshore securities, which have even less transparency and stability.

Investing bears risk and nothing is guaranteed. But such risk must be assessed within the framework of the U.S. regulatory structure. And Chinese companies often operate outside of that framework.

The U.S. government should work to bar ADR listings from China that don't adhere to the same regulatory standards, and prevent public pension funds from funneling their capital to fund opaque and risky Chinese companies.

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

The opaque nature of these listings and complicated structure and ownership

of Chinese companies render existing regulatory guardrails less effective.

CCP VIRUS

Pork Plant at Center of South Dakota's Virus Outbreak Had Visit From CCP-Tied Owners

IVAN PENTCHOUKOV

Smithfield Foods pork processing plant in Sioux Falls, South Dakota, was visited by representatives from its Chinese Communist Party-tied parlent company one month before the first COVID-19 case was confirmed at the facility, according to three employees.

After the first illness was confirmed at the plant on March 26, the facility quickly became the epicenter of the state's outbreak of the CCP (Chinese Communist Party) virus, commonly known as the novel coronavirus. South Dakota Gov. Kristi Noem wrote in an April 11 letter that 238 plant employees had contracted the virus, accounting for 38 percent of the state's confirmed cases at the time.

The outbreak has intensified since. More than 518 employees have tested positive for the virus as of April 15, in addition to 126 non-employees who have become infected after coming into contact with a Smithfield employee, according to the South Dakota Department of Health.

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Executives from WH Group, Smithfield's parent company in China, regularly visit the plant, according to two employees. The visit preceding the first confirmed case didn't include a plant tour and was limited to meetings in a separate building, another employee said. The visit took place roughly a month after President Donald Trump had banned travel from China, where the pandemic originated. All of the employees spoke on condition of anonymity.

Three employees told The Epoch Times that the company offered workers a \$500 bonus to keep working after the plant had its first confirmed case. One employee said he or she had informed management multiple times about feeling ill, but was told to keep working. The worker eventually tested positive for COVID-19.

"Whenever anyone felt sick or didn't feel the best after we started becoming shortstaffed, they would try [to] keep [you] there no matter what," the employee said.

When asked about management ignoring reports of sickness, another worker said the allegation "is completely false."

"All employees who felt a minimal

萬洲國際

WH GROUP

Hong Kong on April 14, 2014.

symptom were sent home with a medical recommendation," the worker said, adding that the plant had sanitary and social distancing measures in place.

Smithfield Foods declined to comment to The Epoch Times; WH Group didn't respond to a request for comment.

The Sioux Falls plant already was under a three-day shutdown related to the outbreak when Gov. Noem asked Smithfield to close the plant–which processes 4 to 5 percent of all pork in the United States-for at least two weeks. Smithfield responded by shuttering the plant indefinitely.

Smithfield said it would pay its 3,700 employees for two weeks after the shutdown. Kenneth Sullivan, Smithfield's CEO, described the closure of the plant in dire terms. The company didn't say whether its Chinese parent company played a role in drafting the press release.

"The closure of this facility, combined with a growing list of other protein plants that have shuttered across our industry, is pushing our country perilously close to the edge in terms of our meat supply," Sullivan said. "It is impossible to keep our grocery stores stocked if our plants are not running."

The 2013 purchase of Smithfield Foods by WH Group was at the time the largest acquisition of a U.S. company by a Chinese firm. The purchase made WH Group–known as Shuanghui International at the time-the world's largest pork producer. The takeover was approved by the Obama administration.

The owner of WH Group, Wan Long, holds a seat on the National People's Congress, the legislature of the CCP. Wan's path to dominance in China's pork market was cleared by Li Keqiang, according to an account by the state-run news agency Xinhua, cited by The Wall Street Journal. Li is now the second-ranking member of the Politburo Standing Committee of the CCP.

The connection between the CCP and the Smithfield plant fits a pattern of locales and entities with strong ties to the communist regime being hardest-hit by the pandemic. Lured by trade benefits or caving to Beijing's pressure, governments and officials in many regions have taken accommodating stances toward the Chinese regime.

China, Smithfield shifted production in at Reuters contributed to this report

least one U.S. plant to accommodate the Chinese market. The company did so with the knowledge that the move could create a shortage in the United States in 2020. Smithfield's director of raw materials procurement, Arnold Silver, told an industry conference in late 2019 that sales to China could eventually create bacon and ham shortages for U.S. consumers.

"Down the road, if this continues and we ship a lot of product to China, certainly I think we could see shortages, particularly on hams and bellies," Silver said.

Wan, also the CEO of WH Group, began his career at a state-run meat processing plant in Luohe, China. After climbing up the ranks and leading an expansion, he bought the firm from the government in 2006 for \$326 million. A firm co-founded by Winston Wen, the son of former CCP head Wen Jiabao, invested in the company after the buyout and, at one time, held a 4 percent stake, according to WSJ.

While Smithfield's Sioux Falls plant isn't the only U.S. meat-processing facility with confirmed COVID-19 cases among employees, the scale of its outbreak is by far the worst.

Sanderson Farms, the third-largest poultry producer in the U.S., reported in early April that 15 of its employees tested positive for the CCP virus. Tyson Foods, the world's second-largest processor and marketer of chicken, beef, and pork, on April 14 reported 30 confirmed cases at one of its Washington plants.

Maple Leaf Foods, Cargill, West Liberty Foods, and JBS have also closed some plants after employees or local residents were confirmed to have COVID-19.

Meat producers and processors have temporarily shuttered plants and reduced production as they carried out measures to prevent outbreaks. The industry is also rapidly adjusting to a massive shift in demand toward supermarkets and away from restaurants, schools, and other commercial clients that have been shut down amid the pandemic.

Meat department retail sales were 41 percent higher at the beginning of April compared to the same time last year, according to 210 Analytics.

Last year, amid a hog fever outbreak in Epoch Times reporter Jack Phillips and



(L-R) Chairman of WH Group Wan Long, then-president and CEO of Smithfield Foods Larry Pope, and then-chief financial officer of Smithfield Foods Kenneth Sullivan attend a press conference in

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