

WEEK 49, 2020

THE EPOCH TIMES

# CHINA INSIDER

## INSIDE CHINESE HACKING OPERATIONS

WHISTLEBLOWER REVEALS HE  
HELPED BEIJING STEAL SECRETS  
FROM FOREIGN GOVERNMENTS, FIRMS

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## OPINION

# China Prepares for 'Informationized' War

AUSTIN BAY



In March 2012, Chinese Premier Wen Jiabao, speaking to the National People's Congress, declared that the Chinese military's most important mission was "to win local wars under Information Age conditions."

Wen's use of "local wars" drew immediate reaction. Given China's territorial claims in Asia, locals such as Taiwan, Vietnam, the Philippines, and Japan heard a threat.

As for the phrase "under Information Age conditions," media took that to mean the internet, interconnected global communications, and pervasive information resources—information's soft power side, to include propaganda to cover a Chinese "gray zone" war.

That was a legitimate but limited interpretation. Chinese military leaders have long pursued what are now called "information-centric" strategies. Sun Tzu (circa 500 B.C.) said the acumen of leadership was to win without combat. Convince an adversary that your army outclasses his—an information operation—and you gain a psychological and diplomatic advantage.

However, military analysts pointed out that Wen specified a violent (kinetic) action somewhere near China that must be won. Information Age warfare required integrated electronics and weapons hardware as well as highly trained personnel. National People's Congress delegates knew the People's Liberation Army was no longer an infantry army. China's defense ministry was spending billions to digitize communications, surveillance, and command and control systems. It was also

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integrating advanced smart weapons into the mix. For at least two decades, Chinese military leaders have debated the idea that electronic information equipment has become the primary warfighting platform—not tanks, missiles or ships but the information equipment that connects and directs them.

The need for speedy integration and for the information equipment's ability to integrate data make it the primary platform. Electronic platforms gather and integrate information and intelligence. In real time, they connect smart weapons systems and sensors. Tanks and ships may deliver the rounds and missiles, but integration and information enhance their effectiveness. An individual tank or ship's electronic equipment links to other electronic platforms. The network could include satellites.

The idea has evolved into a warfighting concept, usually translated into English as "Informationized War." As the Cold War ended, the Pentagon was toying with network-centric warfare that enhanced targeting effectiveness. China's Informationized War certainly relies on a vast network. The concept also has broad strokes of the Pentagon's "multi-domain" warfare doctrine. Official press releases extol the concept. China's 2019 Defense White Paper argued, "War is evolving in form towards informationized warfare, and intelligent warfare is on the horizon."

Intelligent warfare seems to include autonomous decision-making systems and autonomous weapons. That suggests Chinese strategists think Informationized War is a concept and system that trains military planners to integrate autonomous, unmanned systems into full-spectrum warfighting

operations—say, a battle for control of the western Pacific that includes hidden, pre-positioned swarms of robot boats, robot submarines (capable of knocking out a U.S. Navy nuclear attack sub), autonomous missile systems, and autonomous electronic warfare assets.

At the moment, that war scenario is science fiction warfare. China, however, is trying to move from concept to capability. Breaking Defense recently published an article looking at the PLA's modernization program, noting that for two decades, "the PLA has been described as 'half-mechanized, half-informationized.'" Some PLA units "employ data links, network-centric sensor-to-shooter system-of-systems, and field a variety of ... electronic warfare platforms, and advanced combat capabilities." However, "other units are still in the midst of simply shifting from towed artillery to self-propelled guns ..."

China's latest Five Year Plan's military goal is to prepare the PLA to achieve full mechanization and informationization by 2027. Breaking Defense argued the 2020-2025 plan "reflects broad bureaucratic consensus." This means China's senior leaders take Informationized War quite seriously. We should pay attention. After all, Sun Tzu said you must know your enemy.

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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.*



The Zuhai, the last of China's Type 051 guided-missile destroyers, passing through Fengjie County, Chongqing Province in the Three Gorges on the Yangtze River on Oct. 18, 2020.

## OPINION

## I Grew Up in Communist China, Here's My Warning to America

DIANA ZHANG

This year's election had a historically high turnout.

Until recently, many Americans hadn't cared so much about the elections, thinking there ultimately wasn't much difference between Republicans and Democrats or between specific candidates.

However, with the approach of the 2020 election, many people became alarmed. They realized how far our country had strayed from its foundations. If we don't take ownership of it now, they thought, it will be beyond repair.

The whole world is watching this election closely. Some

Chinese have commented: "We thought China was going to become America. Instead, America is becoming China!"

This is so true. At this point, there are a lot of things we cannot say in America. Political correctness is not a matter of choice; it is a survival skill. If you say one word wrong, you could lose your job. If you don't follow the mainstream narrative, you will get attacked by the mainstream media. It has reached such an extent that we should ask, do we still have freedom of speech?

This reminds me of China. Fifty years ago in communist China, if you made casual comments about the communists, you would end

up in jail or a labor camp.

A person who made one comment not in line with the CCP, even in the comfort of his or her own home, would be punished. A son would report on his father, a daughter on her mother, and a husband and wife on each other. Fear of the Communist Party, and indoctrination by it, had become second nature, pushing out one's natural feelings.

I immigrated to America more than 30 years ago. I always tell people, "America is the least discriminatory country in the world." Yet we hear "discrimination" and "racism" daily in news reports. "Discrimination" and "racism" have become political

weapons. They are no longer a matter of moral principle.

With so many protests and riots being organized in the name of fighting racism, the issue of race is now purposefully used to divide our society. In communist countries such as China and the former Soviet Union, the communists created division based on social class.

Communists always talk about class struggle. They claim that any inequality of wealth arises because the wealthy exploit the working class. Communists use the working class to take down the middle and upper classes, destroying a country's entire economy.

By turning one group against another, they cause chaos in society and open the door for seizing power. Ruling with communism is always the real goal.

Just as the communists have never been for the working classes, here in America, their real concern is not racism or discrimination. By fostering division among the races, they create an opportunity to seize power. Again, communism is the goal.

America has been a beacon of freedom for the world. My friends in China used to hide under their bed covers to listen to Voice of America. Listening to VOA was a crime that could land you in jail. People living under communist regimes used to take great risks to listen to a voice from America.

And America has been the envy of the world. I have traveled to around 20 countries, and everywhere I hear people talking about immigrating to America.

To people in Europe, America means more opportunity. To people in other regions, America is a place to seek a better life. Even

those who look down on America are jealous of America, and those who fight with America want to come to America. They know America respects individual rights. America has always been the home of freedom lovers.

But America has changed. Today, VOA is no longer a radio station the Chinese think is worth risking their safety for. America has become more and more like the socialist country they are trying to flee.

**Communists always talk about class struggle. They claim that any inequality of wealth is because the wealthy exploit the working class. Communists use the working class to take down the middle and upper classes, until the country's whole economy is destroyed.**

America still is wealthy, still has some freedom in lifestyle and the economy, and still is an open society compared to many other countries. However, we have long been on a slow, steady track heading for the same kind of communist society that I once knew.

This is why so many came out to vote. This is why they are fighting voter fraud. It's now or never. This train is heading for a cliff. If we don't stop it now, it will be too late.

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Communist Party cadres hang a placard on the neck of a Chinese man during the Cultural Revolution in 1966. The words on the placard states the man's name and accuse him of being a member of the "black class."

## CHINESE REGIME

## Political Experts Develop 1st Global Strategy Against CCP Threats to Democracies: International Security Forum

ANDREW CHEN

Hundreds of political leaders and experts recently produced the first comprehensive global strategy for democracies around the world to confront the growing aggressions of the Chinese Communist Party.

The 2020 Halifax International Security Forum (HFX), titled "China vs. Democracy: The Greatest Game," convened from Nov. 20-22. The forum, held virtually this year amid the CCP (Chinese Communist Party) virus, came as the world wakes up to the reality that Beijing has never been a friend to democracies.

"The 2020 paradigm shift in people's attitudes toward China was a concrete change from the old conventional wisdom that an economically vibrant China would progress toward more freedom for its people, to the new conventional wisdom that the Chinese Communist Party is, in fact, the virus that endangers the world," wrote Peter Van Praagh, the president of HFX.

Van Praagh said the real challenge is no longer about finding ways to work with a China governed by autocrats, but for the world's democratic governments to cooperate effectively with each other to face the China threat.

Exclusive polling conducted by Ipsos Public Affairs for HFX, in which citizens from 28 countries rated China's expected impact on world affairs in the next de-

**All leading human rights organizations testify that oppression is intensifying in China, but it is clear that the CCP's ambitions do not stop at China's borders.**

2020 Halifax International Security Forum

cade, showed a stark deterioration in China's global reputation. As of September, 42 percent of the participants rated China positively, an 11 percent drop from the same month in 2019, and a 16 percent fall from 2017.

The HFX consulted 250 experts to produce a handbook to establish a common understanding for democracies against the CCP. Experts from roughly 30 countries generally agreed that communist China is and will remain authoritarian in the foreseeable future, and that it poses multi-faceted threats for the world.

"All leading human rights organizations testify that oppression is intensifying in China, but it is clear that the CCP's ambitions do not stop at China's borders," the HFX handbook reads.

The CCP's global ambitions, powered by its rapidly expanding economy, aim to make the world a safe haven for authoritarianism.

And the CCP possesses a large inventory of tools to help it achieve its goals. Domestically, China uses internet cen-

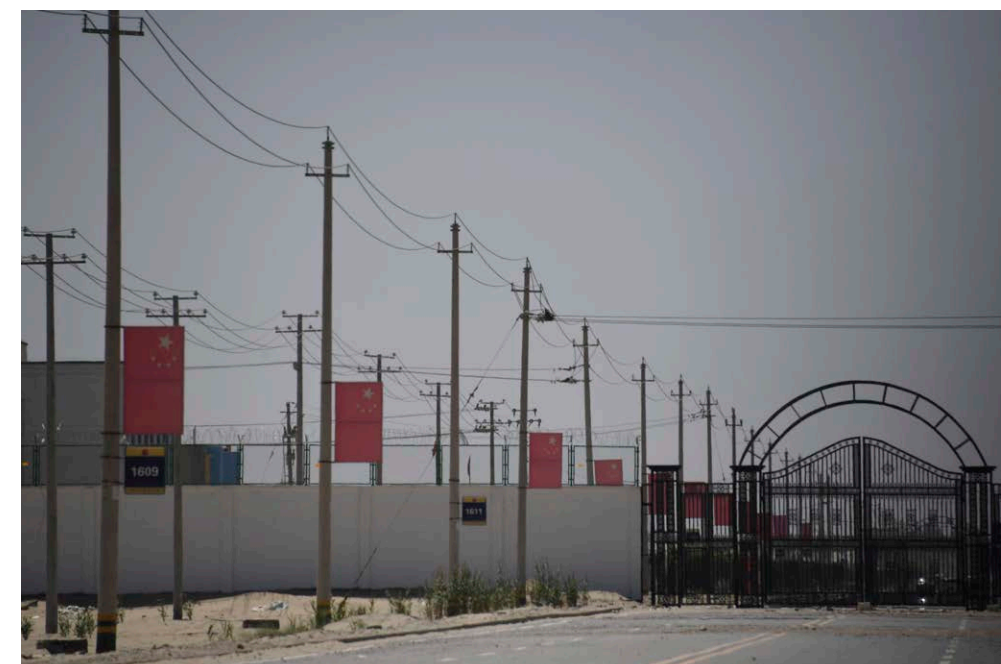
sorship, propaganda, and surveillance to control the general public and eradicate Party dissidents. It runs reeducation camps to monitor minority groups such as the Uyghur Muslims.

Internationally, China's multitrillion-dollar global infrastructure projects under the Belt and Road Initiative are used to gain a foothold in foreign territories. Major companies such as Huawei were employed to boost its technological shortcomings and sponsor cyber-espionage and influence operations.

The HFX handbook concluded with a set of "China principles," practices that undermine democratic values and life:

- Ignoring China's attempts to interfere in democratic societies;
- Submitting to, collaborating with, or participating in any censorship or self-censorship of ideas, writings, artistic endeavors, or statements related to the People's Republic of China;
- Participating in any business or technology-related practices or exchanges that aid and abet the CCP's oppression of its own people;
- Neglecting to oppose attempts by the People's Republic of China to bring global governance of the internet and technological standards into alignment with its own authoritarian values and ambitions;
- Supporting or engaging in any kind of punishment or sanction of anyone for engaging in criticism of China;
- Failing to support democratically minded people and governments across the world who face pressure or intimidation by the People's Republic of China;
- Knowingly buying or trading in Chinese products or services made with forced labor, or that are the result of criminal activities such as counterfeiting or intellectual property theft.

The only stakeholder that Beijing is interested in accommodating is the CCP, the experts said.



Chinese flags on a road leading to a facility believed to be a re-education camp where mostly Muslim ethnic minorities are detained, on the outskirts of Hotan in China's northwestern Xinjiang region on May 31, 2019.



Deputy Attorney General Jeffrey A. Rosen talks about charges and arrests related to computer intrusion campaign tied to Chinese government the group called "APT 41" at the Department of Justice in Washington, on Sept. 16, 2020.

EXCLUSIVE

## Chinese Hacker Reveals How He Helped Beijing Steal Secrets From Foreign Governments, Companies

FRANK YUE

A Chinese hacker has revealed how he conducted cyberattacks on foreign governments, companies, and overseas dissident groups on behalf of the communist regime in Beijing, blowing the lid off the secretive world of Chinese state-sponsored cyber espionage operations.

The whistleblower, who spoke to The Epoch Times on condition of anonymity, is a senior cybersecurity officer at a tech firm named Nanjing Anzhiyida Technology Ltd. in China's Jiangsu Province.

According to U.S. officials, the regime has launched an aggressive cyber espionage campaign, harnessing both state and non-state hackers to steal sensitive commercial and personal information from a range of overseas targets: governments, companies, and activists critical of the CCP.

The firm, he said, is controlled behind the scenes by senior Chinese officials who use it as a cover to carry out complex cyber intrusions known as "advanced persistent threats" (APT) to steal trade secrets from foreign targets. APT attacks are designed to gain access to a system, pilfer a steady stream of data, and stay undetected for a long period of time.

The Chinese Communist Party (CCP) has a "huge demand" for APT operations, creating a "long-standing industrial chain," the whistleblower says.

"For example, there are many foreign shipbuilders that have advanced technologies, or the Chinese Academy of Sciences needs some high tech from overseas," he said. "They will then work to access their email accounts to take [the information]."

"The technology" then instantly becomes that of the CCP's," he said.

### Lucrative Business

On paper, Anzhiyida specializes in facial recognition and artificial intelligence for the regime's legal and security agencies. But the company also had a secret business: conducting APT intrusions on a range of targets, operations in which the whistleblower was deeply involved.

This work was undertaken under

They leave all hard-to-intrude websites to us, where China's police, national security, or the General Staff Department of the People's Liberation Army have failed.

Chinese whistleblower

the ultimate direction of Wang Like, the recently fired chief of Jiangsu's Political and Legal Affairs Commission, he said. The PLAC is a powerful Party agency that oversees the country's security apparatus, including police, courts, and prisons.

In late October, the regime's anti-graft body announced it had begun a corruption investigation into Wang, who was also a core member of the Jiangsu Provincial Party Committee. Wang submitted himself to authorities for questioning on Oct. 24, it said.

While Anzhiyida lists its sole shareholder as a person named Jiang Peng, according to company registration records, the company was actually controlled by a 34-year-old woman named Qiu Peipei, who was Wang's proxy, according to the whistleblower. Qiu's husband is Liu Bin, the director of the data command center of Jiangsu's public security bureau, who also commissioned work through the firm, he said.

Qiu directed the whistleblower to conduct APT attacks against foreign governments and businesses, in particular, jobs that were too difficult for hackers working in state agencies, he said. These jobs netted the company's powerful backers huge financial benefits.

"They leave all hard-to-intrude websites to us, where China's police, national security, or the General Staff Department of the People's Liberation Army have failed," he said.

The firm controlled a network of cybersecurity companies to carry out attacks, according to the whistleblower.

### Targeting Falun Gong Practitioners

Officials also directed the firm to target Falun Gong, a spiritual practice severely persecuted by the regime.

In China, adherents of Falun Gong are routinely surveilled, harassed, detained, and imprisoned by authorities in an effort to force them to renounce their faith.

The hackers carried out APT attacks to find the IP addresses of Falun Gong practitioners, which then could be used to track them down and arrest them.

"Because in China, every broadband connection requires real-name authentication. With someone's IP

address used for surfing, you can find the internet user's home address, personal information, and mobile phone number," he said.

The company was also rewarded with a bonus for every Falun Gong practitioner arrested, the whistleblower said.

In addition, the firm was tasked to infiltrate Falun Gong websites, other websites, and email accounts of those critical of the regime, he said. The work was carried out in concert with the Jiangsu Provincial arm of the MSS (known as JSSD) and other cyber firms controlled by JSSD.

The whistleblower said Wang and Liu organized the cyber companies they controlled to create a facial recognition database of Falun Gong practitioners.

"If the camera on the road has facial recognition, suppose the Falun Gong practitioner they want to capture is walking on the street. [With the database,] the face can instantaneously be recognized, and they can be arrested immediately," he said.

### Jiangsu: An Espionage Hotbed

The U.S. Department of Justice initiated several recent prosecutions centered around alleged cyber and economic espionage orchestrated by the JSSD.

In September 2018, Ji Chaoqun, a 27-year-old Chinese national, was arrested in Chicago on charges that he covertly worked for a high-ranking JSSD official to help try to recruit engineers and scientists. His alleged handler was Xu Yanjun, a deputy division director at JSSD.

Weeks later, Xu was extradited to the United States from Belgium on charges of conspiring and attempting to commit economic espionage and steal trade secrets from multiple U.S. aviation and aerospace companies.

Later in October, the DOJ indicted 10 Chinese nationals, including two JSSD officials and six hackers working under the direction of JSSD. The JSSD officials were accused of leading a scheme to steal turbofan engine designs being developed through a partnership between a French aerospace manufacturer and a U.S.-based aerospace company.

*Gu Xiaohua and He Jian contributed to this report.*

OPINION

## Upgrading China's Manufacturing Industry Is Nearly Impossible

WANG HE

The Chinese Communist Party's (CCP) biggest ambitions in 2020 are its 14th Five-Year Plan and 2035 vision for national economic and social development. The focus is on the so-called accelerating the construction of a modern economic system based on high-quality development.

However, Chinese leader Xi Jinping is setting himself up for a tough job.

### Chinese Economy Is a Mess

China's economy was a mess when Xi came to power at the end of 2012. The country was suffering from long-term structural and institutional problems that could no longer stay hidden. Over the next eight years, the economic growth rate has continued to fall (it hasn't yet bottomed out), and Xi's countermeasure of "supply-side structural reform" for "new economic normal" is still far from being achievable.

Xi presided over the formulation of the 13th Five-Year Plan, and now has the 14th Five-Year Plan (2021-2025) and 2035 vision (2021-2035). Xi isn't letting go of his "Chinese dream" which is built upon his "economic thoughts"—a socialist ideology of a Marxist political economy.

However, Xi's ideology makes it difficult to upgrade China's manufacturing industry.

### Limitations of China's Manufacturing Dream

In the eyes of the CCP, modern industry is the core of the economy. The idea is to build an industrial group driven by advanced manufacturing and modern service industries, while advanced manufacturing serves as the cornerstone.

The CCP's idea isn't entirely based on economic concern, but rather political and military ambitions. While China is known as the world's second-largest economy, what lies behind this false image is plenty of shortcomings.

According to data published by the United Nation's statistics division, China accounted for 28 percent of global manufacturing output in 2018. That puts the country more than 10 percentage points ahead of the United States, which had the world's largest manufacturing sector until China overtook it in 2010.

With total value added by the Chinese manufacturing sector amounting to almost \$4 trillion in 2018, manufacturing

accounted for nearly 30 percent of the country's total economic output.

However, the "world's factory" manufactures generally low-end products, mainly due to advantages in cheap labor and scale of production. Compared with the United States, Germany, and Japan, there is a big gap.

According to the State Council's website, the CCP officially recognized that "China's manufacturing industry is currently large without being strong due to its lack of innovation and internationally-competitive companies, as well as its dependence on foreign companies for many core technologies and capital equipment. The CCP also acknowledges that the days of double-digit growth in manufacturing output have come to an end due to inefficient traditional methods and a lack of high-end manufacturing.

"Therefore, the country needs to upgrade the quality of its industrial base."

According to a report published by the Chinese Academy of Engineering, titled "A Study on the Issues of Conducting China's Manufacturing Power Strategy," China's manufacturing industry still relies on the scale expansion model: "China is far behind developed countries such as the United States, Germany, and Japan ... the sales profit rate of China's manufacturing ... is still lower than that of the United States, Germany, and South Korea."

Accordingly, the CCP rolled out its Made in China 2025 strategy in 2015, seeking "to achieve its strategic target of becoming a manufacturing power in three steps," according to a report by Hitachi. The first step of the strategy is for China to join the ranks of manufacturing powers by 2025. The second step is to become a mid-ranked manufacturing power by 2035. Then, China will join the group of leading manufacturing powers by 2049.

### Obstacles in Upgrading China's Manufacturing

As ambitious as the Made in China 2025 strategy is, two major factors have collapsed the technological foundation for upgrading China's manufacturing industry.

First, the deteriorating relationship between China and the United States is advancing toward a new cold war. Decoupling between both countries looks like an inevitable consequence, particularly in technology and education. In the context of globalization, other countries are moving their factories out of China.

The CCP's large-scale acquisition of advanced technology from the United States and other Western countries has basically been cut off. Without the advanced technology sources, the technological foundation to upgrade China's manufacturing industry has collapsed.

Second, it's well known that China seriously lacks technological innovation. This has created a long-term challenge for the Chinese economy. The foundations of China's economy, such as entrepreneurship and craftsmanship, rarely exist after 70 years of communist rule. In other words, an economic environment for independent R&D has never truly existed in the country.

Take two Chinese companies as examples. Huawei claims to have invested heavily in research and development, but the telecommunications giant "has not had one original invention in 18 years," according to Chinese news portal Sina.

Chinese computer company Lenovo took the route of technology, industry, and trade in the 1990s. But its first founder, Ni Guangnan, was removed from his post after he advocated for R&D intellectual property rights. The decision to fire Ni was known as "the eternal pain in the history of Chinese business," Sina reported.

In short, not many people under the current regime are willing to start things from scratch, and the technological foundation for manufacturing upgrades has collapsed.

### Conclusion

The CCP's propaganda media stated that the 14th Five-Year Plan and the 2035 vision set its eyes on pursuing "innovation-driven development and shaping new development advantages" and "developing a quality workforce," according to the proposals. However, due to the lack of concrete and effective measures, the CCP is simply wasting tax dollars.

With a socialist mentality and communist atmosphere, the lofty goal of advancing manufacturing in China is just another political slogan and empty talk.

*Wang He has master's degrees in law and history, with a focus on the international communist movement. He was a university lecturer and an executive of a large private company in China. He was imprisoned in China twice for his beliefs. Wang lives in North America now and has published commentaries on China's current affairs and politics since 2017.*

STR/AFP/GETTY IMAGES



Chinese workers build parts for an electric bus at a factory in Liaocheng, in China's Shandong Province, on Dec. 12, 2018.

# Charity Worker Disputes Beijing's Claim That It Has Eliminated Poverty

FRANK YUE

The Chinese regime recently claimed that extreme poverty has been eliminated countrywide, after removing the last remaining counties from a list of poor regions.

On Nov. 3, officials in one of China's poorest provinces, Guizhou, announced that the last nine remaining counties had been removed from the nation's list of poor regions. The list, drawn up in 2014, initially identified 832 counties as extremely poor.

China sets its own national standard of extreme poverty, based on a per capita income threshold of 4,000 yuan per year, or around \$1.52 per day, and other factors such as access to basic health care and education. That compares with a threshold of \$1.90 per day set by the World Bank to measure extreme poverty globally.

Poverty elimination by the end of this year was a key goal set by the regime in 2016. But while Chinese state media celebrated the "milestone," some netizens aren't buying the claims.

One netizen posted: "Some places say they have eliminated poverty, but in fact, there is still poverty!"

Liang Xin (a pseudonym), a longtime charity worker in Liangshan Yi Prefecture in Sichuan Province, told The Epoch Times that ethnic Yi people in the area have been left in even greater poverty than before, as a result of the regime's "targeted poverty alleviation" policies.

The Yi people are an ethnic minority in China who mainly live in the mountainous southwestern regions of the country.

## Housing Assistance Program Puts Yi People in Debt

According to Liang, the Yi people locally rely on farming corn and potatoes, although each household doesn't own much arable land since the Liangshan region



A senior citizen in the poverty-stricken Liangshan Yi Prefecture, Sichuan Province, receives charity money.

Some children have not taken a bath from birth to 7 or 8 years old, nor have they seen toilet paper.

Liang Xin, charity worker

is mainly mountainous. Their crop yields give them just enough to eat, but don't provide any additional income.

A housing assistance program introduced by the regime under its poverty elimination agency has instead left locals saddled with debt, he said.

Under the program, a person is eligible for 40,000 yuan (\$6,000) if they build a house or renovate their current house, he said.

"But there's a pre-condition: you must purchase building material from a government-designated company," Liang said, while noting that increases the expense of construction to double the amount of the grant to 80,000 yuan (\$12,000).

"That means you'll be trapped in debt," Liang said.

"If you just look out at the newly built Yi houses from the window of a driving vehicle, you'll find the region more beautiful than before. However, you don't know what their life is really like."

Liang says the Chinese Communist Party (CCP) has been destroying the Yi people's culture and traditions through indoctrination and education, as it has done to other ethnic groups around China.

"The purpose of [the CCP] opening schools is to get the Yi people to accept the faith of atheism, and be willing subjects under communist rule," he said.

Liang's work has brought him in contact with Yi people living in abject poverty.

"Some children have not taken a bath from birth to 7 or 8 years old, nor have they seen toilet paper. Some people won't have more than a few meals containing rice each year," he said.

"Many elderly people cry when they see me giving money, thinking that I'm sent by the government. I reply that I was sent by God, not the government."

Reuters and Hu Yuanzhen contributed to this article.

COURTESY OF LIANG XIN

NICOLAS ASFOURI/AFP/GETTY IMAGES



People eat dinner outside their rooms on a street in a migrant village on the outskirts of Beijing on Aug. 17, 2017.

## ANALYSIS

## More Pain Ahead for Chinese Bond Market

FAN YU

This isn't as much hyperbole as it sounds: the main reason investors bought bonds issued by Chinese state-backed companies is an implicit guarantee from default by the local or provincial government.

That belief has been shattered by a recent spate of defaults by major Chinese state-owned companies.

Yongcheng Coal and Electricity Holding Group, a state-owned coal company, defaulted on a \$152m bond in November. At the time of the default, Yongcheng was a AAA-rated company by Chinese domestic credit rating agencies. This became, unintended, the proverbial canary in the coal mine.

Shortly thereafter, Tsinghua Uni-group, a state-backed technology company affiliated with Tsinghua University in Beijing, also defaulted on its debt.

Yongcheng and Tsinghua's defaults are seismic. Both are major state-backed companies.

An analysis by Yicai, a Shanghai-based business media, found that a total of 149 bonds issued by 58 Chinese companies defaulted during the first ten months of 2020. The principal value of the defaults totaled 81.7 billion yuan (\$11.6 billion).

More than half, or 49 billion yuan, were bonds from six companies within the coal industry. The real estate sector also saw significant defaults,

with four developers failing to repay their bonds.

The recent string of defaults has rattled issuers, with several companies pulling their planned bond issuances in recent weeks.

### Policy Pivot

In a departure from the previous decade, there appears to be a policy shift in how Beijing treats financial risks going forward. The People's Bank of China Governor Yi Gang penned a series of editorials beginning on Nov. 17, addressing the financial structure and policy risks facing China going forward.

Yi's commentary is surprisingly frank. He points out that China's financial leverage has increased over the ten years ending in 2018, both in terms of bank loans to GDP and debt-to-equity ratios at companies.

The central bank governor also pointed out that certain "risk-bearing" investments don't actually bear risks due to the existence of implicit guarantees. With regards to this, Yi only mentions the so-called "wealth-management products" peddled by insurance companies and trusts, but the parallels to China's bond market are difficult to ignore.

He also blamed some of the risks to "non-bank" entities engaging in banking activities, perhaps alluding to the recent high profile legislation over the online lending industry which scuttled Ant Group's IPO last month. Banks, on the other hand, are more

closely regulated and monitored by the government.

### 'Zero Tolerance'

In addition, Beijing has suggested that certain improprieties may have occurred with some bond issuers.

Vice-premier Liu He, one of China's top economic authorities, warned borrowers in November that the Chinese Communist Party (CCP) has "zero tolerance" for financial misconduct. Liu said companies engaging in misleading representations or making attempts to evade repaying debts would be punished.

This is the first time that regulators have brought up financial duplicity as a major risk for bondholders broadly, but recent events have backed up those assertions.

A Singapore-based creditor of Brilliance Auto Group Holdings Co., filed arbitration to freeze its assets in November just as its parent company—Liaoning Province state-owned company Huachen Group—entered bankruptcy restructuring, claiming that the parent company was attempting to withhold assets from creditors after a bond default in October. Brilliance is the parent company of BMW AG's China joint venture.

Yongcheng, the coal company backed by Henan Province, also faces asset-stripping allegations from creditors.

Some investors alleged that Yongcheng transferred shares of Zhongyuan Bank Co. Ltd. it had owned to other Henan state-owned companies prior to defaulting on its debt, shielding the assets from being claimed by creditors in a restructuring proceeding, according to a report by Caixin Magazine.

Higher borrowing costs are already manifesting themselves. The average interest rate for primary bond issuances for Chinese state-owned enterprises is 5.7 percent since October, according to a Financial Times report. The 5.7 percent figure is around 1 percent higher than what new bonds paid during the first three quarters of the year.

While that may not sound like much, a 1 percent expansion in bond spreads is massive in such a short period of time. Investors are quickly repricing Chinese bonds, and more pain could come.

The recent string of defaults has rattled issuers, with several companies pulling their planned bond issuances in recent weeks.



People wearing face masks walk across a bridge in the financial district of Lujiazui in Shanghai on March 4, 2020.

## PRESS FREEDOM

## Hong Kong Epoch Times Printing Press Surveilled for Days From Unknown Van

FRANK FANG &amp; NICOLE HAO

The printing press used by the Hong Kong edition of The Epoch Times was monitored by a black van, which has also followed the facility's staff in recent days, in the latest act believed to be organized by the Chinese regime to silence free press in the city.

As one of the few independent outlets in Hong Kong, The Epoch Times is known for covering internal factional politics within the Chinese Communist Party (CCP), as well as the regime's suppression of freedoms at home and abroad.

Since its establishment in 2002, The Hong Kong edition of The Epoch Times has faced tremendous pressure from the CCP and its affiliated organizations. In November 2019, four masked intruders set a fire in the paper's printing warehouse, marking the fourth attack on the facility since its opening more than a decade ago.

Hong Kong has seen the curtailing of its freedoms since the regime imposed a national security law in July. Several arrests of media figures and reporters since then have also stoked fears of a crackdown on the free press in the city.

### Unknown Van

According to the deputy director of Hong Kong Epoch Times, Lu Jie, the van is a sev-

en-seater black Toyota with a Hong Kong license plate, on which the first letter is V. At around 4 a.m. local time on Nov. 18, the newspaper's delivery staff went to the facility located in the Tsuen Wan area, and first saw the van.

"The people sitting inside the van were monitoring us," Lu said.

The next day, the delivery staff saw the same van parked at the same spot with people inside observing the facility.

On the afternoon of the following day, the printing press staff saw that the same vehicle appeared to be following them in the area of Kowloon. The staff saw that there were three men in their 30s inside the van.

Lu said that the media was unable to check the registration records of the Toyota van after the Hong Kong government changed regulations in 2019.

He said the monitoring and stalking were also done by other vehicles and people in recent months.

On the afternoon of Nov. 13, two suspected men were seen outside the printing press. Lu said that staff had seen these two men before when they participated in the activities organized by the Hong Kong Youth Care Association Limited, an organization backed by the CCP.

"Several months ago, our printing press staff reported that they were followed by unknown cars," Lu said.

### Targeted by Beijing

Ching Cheong, a Hong Kong-based political commentator, said the CCP is targeting the outlet because it's one of the only media in the city that reports critically on the communist regime.

Cheong said the CCP was surveilling the printing press and its staff to try to gather information about the newspaper's operations, such as how many copies of the paper are printed and distributed daily, and where the paper is distributed.

The regime can then use this information to "ruin" the newspaper, Cheong said.

Chan King-ming, a Hong Kong academic and commentator, said that recently, pro-de-

mocracy politicians have also reported being followed by suspected agents of the regime.

He said the surveilling of the paper's printing press indicates that the regime's security agency has "opened a file" for the purpose of eliminating the Hong Kong Epoch Times.

Chan urged Hongkongers to take action to defend the city's freedoms.

"Facing this difficult period in Hong Kong, I hope everyone will do their part to expose the truth."

Sarah Liang, a reporter with the Hong Kong edition of The Epoch Times, contributed to this report.



Staff members at the print shop used by the Hong Kong edition of The Epoch Times react to a fire started by four masked men on Nov. 19, 2019.



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