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# CHINA INSIDER

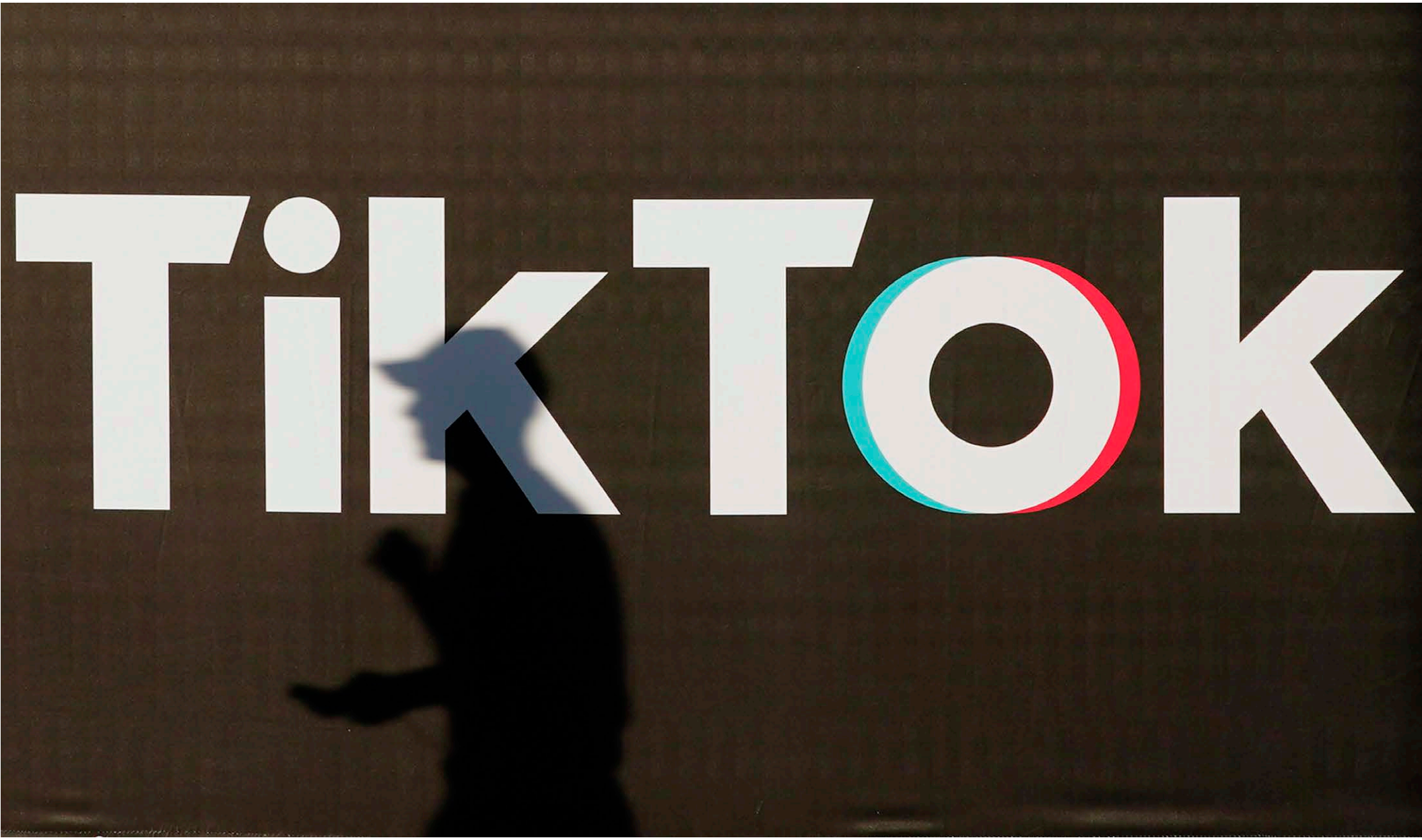
## SANCTIONED

US BARS ENTRY TO CHINESE OFFICIAL  
OVER PERSECUTION OF FALUN GONG

See Page 3



Falun Gong practitioners hold a candlelight vigil for those who have died during the persecution in China, in Washington, D.C., on July 16, 2105.



An advertisement for social media company TikTok in Berlin on Sept. 21, 2020.

## CHINESE INFLUENCE

## Facebook Fact-Checker Funded by Chinese Money Through TikTok

PETR SVAB

While Facebook portrays its army of fact-checkers as independent, the money behind at least one carries a distinct taint.

One such fact-checker, Lead Stories, is partly paid through a partnership with TikTok, a social media platform run by a Chinese company that owes its allegiance to the Chinese Communist Party (CCP). TikTok currently is being probed by U.S. officials as a national security threat.

Moreover, the organization that's supposed to oversee the quality of fact-checkers is run by Poynter Institute, another TikTok partner.

Lead Stories says it's been contracted by ByteDance "for fact-checking-related work," referring to TikTok's announcement earlier this year that it has partnered with several organizations "to further aid our efforts to reduce the spread of misinformation," particularly regarding the CCP virus pandemic, which originated in China and was exacerbated by the CCP regime's coverup.

Lead Stories was started in 2015 by Belgian website developer Maarten Schenk, CNN veteran Alan Duke, and two lawyers from Florida and Colorado. It listed operating expenses of less than \$50,000 in 2017, but had expanded sevenfold by 2019, largely because of the more than \$460,000 Facebook paid it for fact-checking services in 2018 and 2019. The company took on more than a dozen staffers, about half of them CNN alumni, and became one of Facebook's most prolific fact-checkers of U.S. content.

This year, the funding sources included Google, Facebook, ByteDance, and several online advertising services. Advertising brought it less than \$25,000 last year, the group said.

"The bulk" of the funding still comes from Facebook, it says.

Part of its revenue comes from subscriptions to "Trendolizer," its viral content tracking tool. "For privacy reasons, we cannot reveal the list of Trendolizer users ... but none of them individually accounted for more than 5% of our revenue," it says.

The Trendolizer website only shows three pages "powered" by it: Trendolizer.com, LeadStories.com, and StoryTide.com, a news aggregator started by Lead Stories in 2016.

Lead Stories didn't immediately respond to emailed questions from The Epoch Times.

## Censorship

Facebook's fact-checking partnerships have drawn criticism as they facilitate censorship. A post that's flagged as false by the partners not only gets furnished with a warning label and a link to the fact check, but Facebook "significantly reduces the number of people who see it," the company says on its website.

The fact-checkers themselves can choose what content to review and decide what is labeled as false and why. Any complaints about the verdict must be raised with the fact-checkers, who aren't known to readily reverse themselves, even when their fact checks themselves require fact-checking.

Lead Stories has recently focused on disputing claims about voter fraud, contributing to censorship of the topic on Facebook.

## ByteDance

TikTok's owner, Beijing-based ByteDance, has had its own censorship controversies.

In September 2019, The Guardian reported that TikTok instructed its moderators to censor certain videos that mention topics considered "sensitive" by the Chinese regime, such as the Tiananmen Square Massacre and Falun Gong, a spiritual practice that has been severely persecuted in China since 1999. The report was based on leaked documents detailing the app's moderation guidelines.

TikTok said at the time that such policies were replaced in May 2019 and are no longer in use.

But in December, the platform came under fire again, for suspending the account of a U.S. teen who posted a video criticizing Beijing's suppression of Uyghur Muslims in China's far-western Xinjiang region.

And in June, the app closed the account of a Chinese international student in New Jersey after he posted a video spoofing the Chinese national anthem.

ByteDance didn't immediately respond to emailed questions from The Epoch Times about its fact-checker partnerships.

## Pledging Party Allegiance

Chinese businesses are required to toe the Party line; ByteDance founder Yiming Zhang found out the hard way that even a perceived lack of enthusiasm for CCP censorship isn't tolerated.

In 2018, CCP officials shut down his humor and meme app Neihan Duanzi (translated as "Insider Jokes"). In re-

sponse, Zhang issued a self-criticism letter, pledging allegiance to the Party agenda.

"Our product took the wrong path, and content appeared that was incommensurate with socialist core values, that did not properly implement public opinion guidance," the letter said, according to a translation by China Media Project.

Zhang promised his company would focus on "strengthening the work of Party construction, carrying out education among our entire staff on the 'Four Consciousnesses,' socialist core values, [correct] guidance of public opinion, and laws and regulations, truly acting on the company's social responsibility."

"Four Consciousnesses" refers to ideological directives issued by CCP leader Xi Jinping several years ago that require Party members to closely adhere to CCP ideology, support Xi, align with the Party leadership, and think about the "big picture."

### Lead Stories, is partly paid through a partnership with TikTok, a social media platform run by a Chinese company that owes its allegiance to the Chinese Communist Party

Zhang also committed to "further deepening cooperation with authoritative [official Party] media, elevating distribution of authoritative media content, ensuring that authoritative [official Party] media voices are broadcast to strength."

The U.S. Department of Justice cited Zhang's letter in a recent court filing, calling him a "mouthpiece" of the CCP regime.

## National Security Threat

The Trump administration is reviewing ByteDance's 2017 acquisition of Musical.ly, a Chinese video-sharing platform that was popular among U.S. teenagers for lip-syncing videos. ByteDance shut down the platform, and its millions of users were forced to switch to TikTok after the merger, jump-starting the app's massive growth in popularity among American youth.

The administration and some members of Congress say TikTok is a national security threat because ByteDance is governed by Chinese law, which includes a

stipulation that the company must make all its data controllable by the regime. ByteDance says its TikTok services are hosted in the United States with back-ups in Singapore. The CCP maintains a close relationship with the Singaporean government.

U.S. Commerce Department issued an effective ban on TikTok that was supposed to take effect on Nov. 12, but the move has been blocked by courts.

The administration is negotiating with ByteDance to sell its U.S. assets to Walmart and Oracle.

## Who Checks the Fact Checkers?

Facebook fortifies its justification for the use of fact-checkers by saying they need to be certified by the International Fact-Checking Network (IFCN). The organization, founded in 2015, is run by the nonprofit journalism school Poynter Institute.

TikTok lists Poynter and another fact-checking project, MediaWise, as partners.

Poynter marketing director Tina Dyakon declined to say how much the organization is paid by ByteDance.

"We do not disclose details of business contracts," she told The Epoch Times via email. "Poynter partnered with TikTok this year for fact-checking and media-literacy work."

She said Poynter maintains editorial independence and follows its ethics policy.

In 2019, IFCN was almost entirely funded by eBay founder Pierre Omidyar—a major Democratic donor—as well as Google and progressive billionaire George Soros. Facebook also is listed as one of the previous donors.

Who gets certified is decided by the IFCN's seven-member advisory board made up of representatives of fact-checking organizations. Only two seem to have any experience covering U.S. political news. One is Glenn Kessler, former foreign policy reporter and now the head of the fact-checking feature at The Washington Post. Kessler and his team earlier this year published a book called "Donald Trump and His Assault on Truth."

The other is Angie Drobnic Holan, editor-in-chief at PolitiFact, which is owned by Poynter.

IFCN Director Baybars Orsek previously told The Epoch Times that board members recuse themselves from voting and deliberations on certifications for organizations they hold major positions in.

Reuters contributed to this report.

## HUMAN RIGHTS

## US Sanctions Chinese Official for Persecuting Falun Gong

CATHY HE &amp; EVA FU

The Trump administration on Dec. 10 sanctioned a Chinese official for his involvement in "gross human rights violations" against practitioners of Falun Gong—a spiritual practice persecuted by the Chinese Communist Party (CCP) since 1999.

U.S. Secretary of State Mike Pompeo said the United States would bar entry to Huang Yuanxiong, a police chief at the Wucun police station in Xiamen city, southern Fujian Province. The restriction also applies to Huang's wife.

"Huang is associated with particularly severe violations of religious freedom of Falun Gong practitioners, namely his involvement in the detention and interrogation of Falun Gong practitioners for practicing their beliefs," Pompeo said in a statement.

The sanction, made on International Human Rights Day, marks the first time the United States has punished a CCP official over his or her role in persecuting adherents of Falun Gong.

Huang was among 17 foreign officials sanctioned by the State Department on Dec. 10 under section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act 2020 for significant violations of human rights. Such designations are made when the state secretary has "credible information that officials of foreign governments have been involved in a gross violation of human rights or significant corruption," according to the statement.

Falun Gong (also known as Falun Dafa) is a spiritual practice that has been brutally persecuted by the Chinese regime for more than two decades.

The practice, composed of meditative exercises and a set of teachings centered on the principles of truthfulness, compassion, and tolerance, grew in popularity in the 1990s, with 70 million to 100 million adherents in China by the end of the decade, according to official estimates at the time. Threatened by its popularity, the CCP launched a systematic elimination campaign against the practice, utilizing the entire state apparatus.

Since then, millions have been detained inside prisons, labor camps, and other facilities, with hundreds of thousands tortured while incarcerated, according to the Falun Dafa Information Center. There are more than 4,000 documented deaths resulting from the persecution, though experts say the true figure is likely much



Secretary of State Mike Pompeo speaks to the press prior to meeting with the Kuwaiti foreign minister, at the State Department in Washington on Nov. 24, 2020.

higher due to the extreme difficulty in verifying information from communist China. In addition, independent experts have found that Beijing has killed imprisoned practitioners to sell their organs on the transplant market.

"The world cannot stand idly by as the PRC [People's Republic of China] government perpetrates horrific and systematic abuses against people in China, including violating the internationally recognized right to freedom of thought, conscience, and religion or belief," Pompeo said.

Levi Browde, executive director of the Falun Dafa Information Center, applauded the administration's move, which he said "holds individuals accountable for the systematic detention, torture, and killing of people who practice Falun Gong in China."

"Tens of millions of people throughout China practice Falun Gong, and many are suffering ongoing abuses at the hands of Chinese officials," Browde said in a statement to The Epoch Times. "We will continue our work to document these abuses, so that more officials can be held to account."

## Ongoing Persecution

Records from Minghui.org, a clearing-house for firsthand information about the persecution of Falun Gong in China, show that more than 5,300 Falun Gong practitioners were detained or harassed during the first half of 2020 alone.

Authorities in the province of Fujian have

heavily suppressed practitioners. For example, Ye Guohua, a local middle-school teacher, was jailed three times for more than five years over the period of 2002 to 2013, according to Minghui.org. In January 2018, while doing Falun Gong exercises with five fellow practitioners at a friend's home, the police rushed in and arrested all of them, torturing and interrogating them until 1 a.m. that night. Officers later raided Ye's home and detained him. Then, in September that year, police suddenly told Ye's family to bail him out, claiming he had an acute illness and was under emergency rescue.

According to Minghui.org, when the family saw Ye, he was unconscious with swelling all over his body. The doctor, refusing to clarify the illness Ye had, told them that his heart, liver, and kidney had "all gone bad." Ye died three days later.

The Trump administration has taken an increasingly harder line in response to the CCP's rampant rights abuses. It has previously sanctioned Chinese officials and blacklisted Chinese companies for their role in suppressing Uyghur Muslims in the region of Xinjiang. A growing list of Chinese and Hong Kong officials have also been sanctioned for overseeing the erosion of freedoms in Hong Kong.

Pompeo said these designations "underscore ... the promotion of accountability for gross violators of human rights" and express "the time-honored American aspiration for all people to be free."



Falun Gong practitioners take part in a parade commemorating the anniversary of the persecution of Falun Gong in China, in Washington on July 18, 2019.



Christine Fang with then-Dublin, Calif., City Council member Eric Swalwell at an October 2012 student event.

## ESPIONAGE

# Chinese Spies Have Been Exploiting US Politicians for Decades, Expert Says

CATHY HE

A report that a suspected Chinese spy spent years cozying up to local and national-level politicians reveals that Beijing is investing significantly in long-term espionage operations to infiltrate U.S. politics, an expert said.

From 2011 to 2015, Christina Fang, a Chinese student at California State University-East Bay, cultivated extensive ties with local politicians in the San Francisco Bay Area by volunteering in fundraising campaigns and attending political events. U.S. intelligence officials believe she was working under the direction of China's top spy agency, the Ministry of State Security (MSS), according to a recent investigation by Axios.

Fang developed close ties to Rep. Eric Swalwell (D-Calif.), who in early 2015 became a member of the House Permanent Select Committee on Intelligence. She first knew Swalwell when he was a local city council member. Fang later fundraised for the congressman's 2014 reelection campaign, and facilitated the placement of an intern in his office, the outlet reported.

She also had romantic or sexual relationships with two unnamed mayors of Midwestern cities, Axios said.

The operation was "beautifully handled" in the way it combined both intelligence gathering and political influence, said Nicholas Eftimiades, a former senior U.S. intelligence official and author of the book "Chinese Intelligence Operations," in an interview with The Epoch Times.

Importantly, he said, it showed how the Chinese regime is willing to invest in the long game—targeting local officials who might become state or national representatives years down the line. It's a strategy, he said, that "can really be devastating to another country."

## Soft Targets

By targeting politicians, Fang was gaining access to those who might shape U.S. policies toward China.

"When you have access to that, why do you need classified information?" Eftimiades said.

"You're basically jumping over the secret world, and getting to the infrastructure that controls the nation," he said. "And that infrastructure is, ironically, not protected."

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You're basically jumping over the secret world, and getting to the infrastructure that controls the nation, and that infrastructure is, ironically, not protected.

Nicholas Eftimiades, a former senior U.S. intelligence official and author of the book "Chinese Intelligence Operations"

quired to have security clearances, have been particularly vulnerable to covert influence and spying efforts for decades, Eftimiades said.

In 2018, Politico reported that a staffer for Sen. Dianne Feinstein (D-Calif.) was suspected of feeding political intelligence for years to his handlers at the Chinese consulate in San Francisco. The staffer was Feinstein's driver and also served as a liaison for the Asian American community in the Bay Area, according to the San Francisco Chronicle.

Feinstein, who was chair of the Senate Intelligence Committee from 2009 to 2015 and remains on the committee today, issued a statement at the time, saying the FBI had briefed her about the staffer in 2013. She said the worker didn't have access to classified information, and that he left her office after the briefing.

Director of National Intelligence John Ratcliffe wrote in a recent op-ed that this election year, the Chinese regime engaged in a "massive influence campaign that included targeting several dozen members of Congress and congressional aides."

Ratcliffe said that he has briefed the House and Senate intelligence committees that Beijing is "targeting members of Congress with six times the frequency of Russia and 12 times the frequency of Iran."

Swalwell told Politico that he had severed ties with Fang after the FBI alerted him of her suspicious activities in 2015, and has refused to discuss the extent of his relationship with Fang. He's not accused of any wrongdoing.

House Republicans, meanwhile, have called for Swalwell's removal from the House Intelligence Committee, a position that allows him access to sensitive information not available to other Congress members.

House Speaker Nancy Pelosi (D-Calif.) defended Swalwell, saying that House Democratic and Republican leadership, along with the leaders of the House Intelligence Committee, were briefed about the alleged Chinese spy in 2015. House Minority Leader Kevin McCarthy (R-Calif.), however, said he was never briefed on the matter.

## Honey Traps

Using sexual or romantic relationships to lure American targets—so-called "honey traps"—is a "common tactic" in the Chinese espionage playbook, according to Eftimiades.

For instance, in 2014, a former U.S. military contractor in Hawaii was sen-

tenced to 7 years in prison for passing national defense secrets to his Chinese girlfriend.

Benjamin Pierce Bishop was a retired Army lieutenant who held a top-secret security clearance working as a contractor in the U.S. Pacific Command. In 2014, the then-60-year-old admitted to emailing secrets about joint training and planning sessions between the United States and South Korea. The recipient was an unnamed 27-year-old Chinese woman who was doing graduate studies in the United States.

The pair had met in 2011 at an international defense conference in Hawaii. They became friends, then lovers.

During the 1980s to early 2000s, the FBI was allegedly compromised by a double agent, Katrina Leung, an American citizen and high-value informant for the agency. However, during that time, she became longtime lovers with both of her FBI handlers. One of the affairs was with agent James J. Smith, which continued for 20 years. The FBI alleged that she took documents from Smith's briefcase, photocopied them, and fed them to Chinese intelligence.

Leung was indicted in 2005, charged with five counts of unauthorized possession and copying of classified materials, but a judge later dismissed the case over prosecutorial misconduct.

## Coordinated Effort

Fang's case is ultimately one component of a sprawling intelligence and influence apparatus orchestrated by the Chinese regime.

"It's far more vast than any other country on the planet," Eftimiades said.

Separating Chinese efforts from other nations, the regime has perfected an integrated, holistic approach to subversion of Western democracies. To combat that, Eftimiades said the United States should develop a consistent policy approach to deal with the Chinese regime.

"Congress needs to put this into legislation," he said.

In addition, intelligence agencies need to work more with Congress members and officials at sub-national levels of government, to prepare them for potential interactions with Chinese influence or intelligence agents.

"It's a matter of coordination and sharing information, sharing best practices, making people understand that they have a responsibility in protecting national security," he said.

## ANALYSIS

# Chinese Stock Trading App Is Quietly Amassing US Users

FAN YU

The U.S. stock market gyrations of 2020 need no introduction.

From the market depths in March, the federal stimulus-funded market rebound, to the meteoric rise of Tesla and recent technology IPOs, the year of COVID-19 has seen a large influx of consumers taking up stock investing. And for these new investors, the platform of choice to trade stocks is Robinhood.

While Robinhood initially popularized the commission-free stock trading model and has amassed more than 13 million users, Webull, a little-known competing app, has steadily been taking market share from Robinhood.

And an even lesser-known fact is that the company behind the app, Webull Financial LLC, is Chinese-owned.

Webull's slick website doesn't provide any information about its Chinese origins. In most respects, it seems like any other fintech company. Webull states that it operates at the intersection of finance and technology, with an American CEO, Anthony Denier, at the helm since 2017. It partners with Apex Clearing Corp.—which also services SoFi and Robinhood—to clear trades.

Like any other broker, Webull has the customary disclosures about the risks of investing and is a member of the U.S. Securities Investor Protection Corp. (SIPC) and Financial Industry Regulatory Authority (FINRA). Webull's registration information on the FINRA website states that it's headquartered at 44 Wall St. in New York City.

On Nov. 19, Webull announced that it would support cryptocurrency trading through its subsidiary, Webull Crypto LLC, and on Dec. 9 said that it officially launched its stock trading platform in Hong Kong, through a locally registered broker-dealer named Webull Securities Ltd.

Webull, a stock trading app, is operated by Fumi Technology, a fintech company based in Fujian Province, China.

Webull is operated by Fumi Technology, a fintech company based in Fujian Province, China. Fumi, which has a number of established partners including Danish investment bank Saxo Group, itself aims to democratize the distribution of market information and become a Bloomberg-like solution for the masses.

Based in Changsha City in Hunan Province, Fumi's founding team previously worked at Chinese tech giants Alibaba, Xiaomi, and Huawei, as well as Bloomberg in China. Wang Anquan, Fumi's lead founder, previously worked at Alibaba and Xiaomi, a major smartphone manufacturer.

In terms of financial backing, Fumi has raised approximately 600 million (\$92 million) in funding from a variety of investors through Series B. Seed funding was provided by Xiaomi, with Series A and Series B equity provided by various China-based venture capital funds. In other words, Webull is as Chinese as it gets.

## Stock Trading, With Chinese Characteristics?

It's not surprising that Webull is downplaying its Chinese ownership.

The Trump administration has sought to regulate Chinese companies' ability to operate in the United States. The State Department considered placing restrictions on Chinese payments apps such as Ant Group's Alipay and WeChat's payment platform. The House of Representatives recently passed a measure to ban all U.S.-listed Chinese stocks that don't adhere to U.S. audit and inspection standards.

In theory, Webull should be attracting immense scrutiny. But curiously, it has escaped attention, except for a Dec. 8 expose in Bloomberg Businessweek, which stated that Webull has attracted thousands of former Robinhood traders.

Webull apparently voluntarily

sought a review of its ownership by the Committee on Foreign Investment in the U.S. (CFIUS), which has previously blocked other Chinese investments in the United States. But CFIUS ultimately decided not to review the company, according to the Bloomberg report.

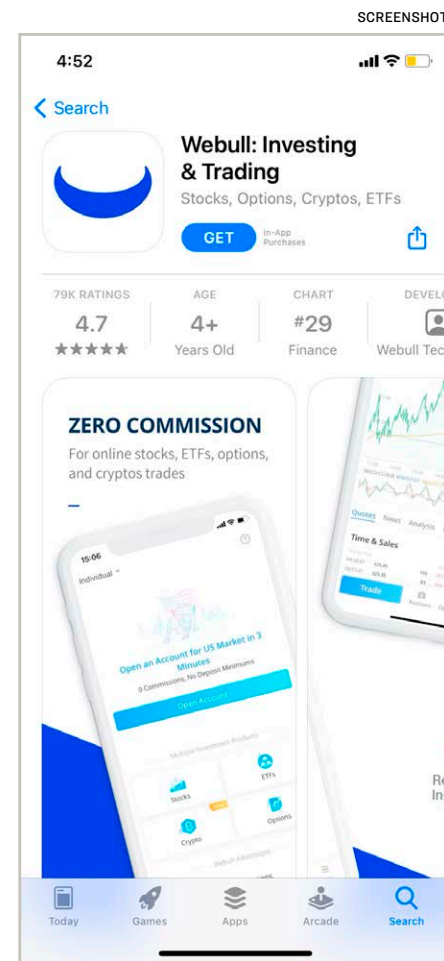
Webull Financial is a "U.S. broker-dealer and we're regulated by the SEC and FINRA, and we're a completely separate entity than our parent company," Denier said on Bloomberg TV on Dec. 9, when asked about U.S.-China tensions and their risks to Webull's business. "Our parent company is a technology company that builds the technology and enhances the app. Here in the U.S., we're simply a broker-dealer taking on U.S. customers."

While all of that may be true, in this political environment, it should concern security experts and the U.S. government that a Chinese-owned company has direct access to U.S. user data. The company says that it stores user data within the United States, but a financial firm is a completely different ballgame than, for instance, a social media platform like TikTok.

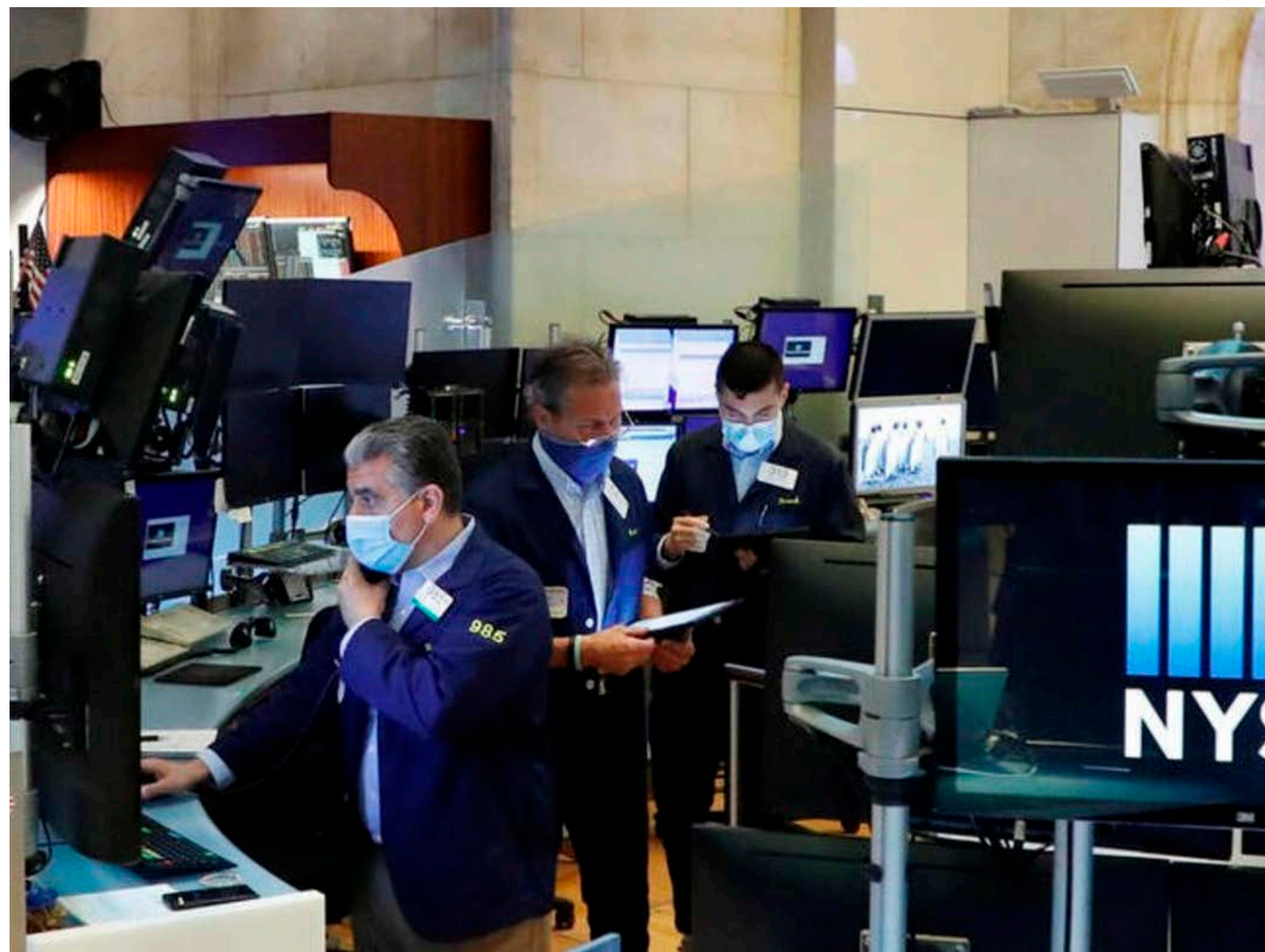
As a broker-dealer, Webull collects confidential personal information such as Social Security numbers, home addresses, and bank account numbers from its customers.

Any Chinese company, private or state-owned, must ultimately answer to the Chinese Communist Party (CCP) if called upon. The CCP unilaterally determines all Chinese laws. No matter how water-tight, company privacy policy can't supersede CCP demands.

Webull today has more than 2 million users, according to the Bloomberg report, although it's unclear if that number includes users outside of the United States. The popularity of stock trading—especially during the pandemic—could quickly scale Webull's user base.



The Webull on the Apple App Store.



Traders wear masks as they work on the floor of the New York Stock Exchange on May 27, 2020.

## OPINION

# China's Fictitious Economy and Real Economy Are Seriously Out of Balance

WANG HE

China's economy has gone beyond a reasonable balance between a real economy and a fictitious economy. As chairman of Sinopec, the largest Asian refiner, Fu Chengyu once said that China's finance is not going towards a fictitious economy but becoming one. Consequently, it has greatly hindered the sustainable long-term development of China's economy.

## Selling 2 Real Estates to Secure a Public Shell Company

To discuss how China's economy has gone from real to fictitious, let us first look at an example. In 2016, Beijing-listed company ST Ningtong B, which manufactures communication equipment, suffered losses for two consecutive years and faced the risk of delisting. The company reversed its losses by selling two properties it had owned in the Beijing school district at massive profits. Suddenly, comments such as "go for real estate, forget about starting a business, forget about getting listed, forget about the industry" went viral in the market.

This is not an isolated case. Let's look at another data point. According to the half-year performance report of listed companies in 2018, as many as 596 companies, accounting for 16 percent of the total, had a net profit of less than 10 million yuan (\$1.5 million). Ten million yuan could not even buy a decent apartment in Beijing, Shanghai, or Shenzhen.

## The Micro Impacts of Corporate Financialization

The financialization of Chinese companies will be inevitable. The Chinese companies flocked into the real estate industry (real estate has strong investment attributes), purchased financial assets or held shares in financial companies, and even turned into financial holding groups.

Among them, the financialization of corporate assets is particularly significant. According to a 2012 report by the Economic Information Daily under Beijing's mouthpiece Xinhua News Agency, of the 117 state-owned enterprises managed by the State-owned Assets Supervision and Administration Commission (SASAC—a commission under the State

Council), more than 90 of them were involved in the financial industry to varying degrees, accounting for 76 percent. The report also disclosed that non-financial central enterprises actually controlled 24 trust companies, 20 securities companies, 14 property insurance companies, and 23 life insurance companies, accounting for 46 percent, 41 percent, 37 percent and 53 percent respectively of the financial institutions surveyed.

## 3 Motivations of Corporate Financialization

First, the substitution theory: due to the declining rate of return on investment in the real economy, the rising rate of return on financial investment, and the increasing preference of companies for short-term benefits, companies have a new preference for financial asset investments over real economy investments.

A 2013 survey found the low profitability of China's real economy: the average profit of the financial industry was 22 percent, while the average industrial profit was only 6 percent, and the average profit of the textile industry was only 5 percent.

By analyzing the data of China's non-financial listed companies from 2002 to 2014, Chinese researchers found that "firms increased their non-cash financial asset investment when the economy is going up ... which supports the substitution motivation hypothesis."

Second, the reservoir theory: the purpose of firms holding financial assets is to reserve liquidity to prevent the risk of supply chain rupture caused by cash flow shocks. In addition, when companies believe that they will face macroeconomic uncertainty or potential investment opportunities in the future, they will also prefer "mobile with money," especially those companies that have their own financing constraints.

The motives of corporate financialization explained by the reservoir theory are not completely consistent with China's economic situation. On the one hand, Chinese corporate financial investment and real economy investment are negatively correlated (and according to this theory, real economy investment and financial assets investment should show a positive correlation).

On the other hand, if the cash held by

In addition to the fact that China's economy is hindered by the detached real economy, Xi's administration lacks sufficient courage and abilities.

companies is counted as corporate financialization, then China's corporate financialization can be partly explained by the reservoir theory. Therefore, the reservoir theory is only a secondary reason for the financialization of Chinese companies.

Third, bank financing discrimination and the theory of surrogate intermediation or borrow to lend. Some companies have an easier time obtaining loans from banks, but their production efficiency is low, so they loan the funds to other companies to make profits. In China, this situation is very common. Compared with state-owned enterprises and large enterprises, it is more difficult for small and medium-sized enterprises and private enterprises to obtain financing from banks. Therefore, the former uses the shadow credit system to provide funds to the latter.

Generally speaking, corporate financialization is a double-edged sword. There is a positive side. In China, however, the negative side is more prominent, such as repressing real economy investment (or crowd out effect on real economy) and increasing financing costs and debt burden.

According to a survey of 15 provinces in China published in 2013, 41 percent of the companies in the sample were financed through a shadow credit system, and the average cost of financing reached 18 percent. This leads to the accumulation of financial risks in shadow banking (shadow banking is a financial business that is outside the visible range of banks, and its risks will eventually be borne by the bank). Lastly, this trend promotes real estate price bubbles, which further intensified the crowding-out effect of real estate investment on real economy investment.

The above illustrates two points. First, the shift from real economy to fictitious economy is deep and growing at the micro-level of the Chinese corporation, as a reflection of the shortcomings of the communist regime. Second, as far as China is concerned, the negative aspects at the micro-level of corporate financialization are huge and far-reaching.

## The Macro Impacts of Corporate Financialization

Let's discuss "breaking from reality to virtual" from a macro level. In 2017, a mainland think tank released the "Mongoose

New buildings in Hefei city in China's Anhui Province in February 2001.



SIPAN/LLER

YIFANQING/GETTY IMAGES



A security guard walks in front of Shanghai Stock Exchange Building in Shanghai on Feb. 3, 2020.

Report IV: A Study on the Golden Ratio of China's Real Economy and Fictitious Economy," which defined the fictitious economy as the financial industry and real estate industry as the main economic aggregate. Since 2009, the ratio of China's fictitious economy to the real economy is no longer in a reasonable relationship. The ratio of the virtual economy to the real economy has reached 23.2, far exceeding the golden ratio of 16.7. The fictitious economy has detached from the real economy and is over-expanded.

The prominent fictitious economy in China suggests three major imbalances: one is the structural imbalance between supply and demand in the real economy (overcapacity on the one hand, and lack of ability to upgrade on the other); two is the imbalance between financial markets and the real economy (a large amount of self-circulation funds in the financial system); the third is the imbalance between real estate and the real economy.

According to academic research, the most prominent causes of fictitious economy are as follows.

First, the currency is over-issued. The scale of China's money supply M2 has long been the world's largest; at present, China's M2 is twice the GDP (while European and American countries M2 is usually only about 70 percent of GDP). "Monetary tigers grow bigger and bigger." Once a Chinese economist said bluntly, "In the past 30 years, our economy has been rapidly driven with an excess money supply."

Take a look at the following data. In 1978, China's GDP was 364.52 billion yuan and M2 was 85.945 billion yuan; at the end of 2009, GDP reached 33.54 trillion yuan, 92 times that of 1978, but M2 increased by 705 times, reaching 60.62 trillion yuan. In March 2013, China's M2 exceeded 100 trillion yuan, accounting for about one-quarter of the total global money supply, 1.5 times that of the United States, 4.9 times that of the United Kingdom, and 1.7 times that of Japan, and 20 trillion plus yuan more than the money supply of the entire Eurozone. In January 2020, it has exceeded \$200 trillion yuan.

Second, the financial system's ability to serve the real economy is low. The report released by Peking University in 2019 ("How Financial Innovation Promotes High-Quality Development-A New Structural Economics Perspective") believes that China's current financial structure does not match the optimal industrial structure of the real economy. There are seven structural contradictions of three levels: the first level is the structural contradiction between direct financing and indirect financing; the second level is the individual internal structural contradiction of indirect financing and direct financing; the third level is the structural contradiction between the upgrading of small and micro enterprises and small and medium-sized banks, the structural con-

tradition between industrial upgrading and financial products, the structural contradiction between industrial upgrading and the bond market, and the structural contradiction between industrial upgrading and stock market.

Third, extremely deformed real estate. To what extent is it deformed? In 2018, the total market value of China's real estate reached 450 trillion yuan. Based on data from the National Bureau of Statistics in 2018, the sales area of commercial housing was 1.7654 billion square meters, the sales of commercial housing were 14.9973 trillion yuan, and the per capita housing area of urban residents was 39 square meters. This market value covers the total market value of real estate in Europe, the United States, and Japan, and also exceeds 50 percent of China's GDP in the previous 20 years (from 1999 to 2018, China's total GDP was 833 trillion yuan). Since the housing reform in 1998, China's real estate industry has expanded rapidly. The CCP regards real estate as a pillar industry for development but regards the real estate market as a "reservoir," which has accumulated a large amount of overly issued currency. As a result, real estate hijacked household consumption, banks, and local finances.

The Xi administration repeatedly emphasized that "the real economy is the foundation of a country's economy and the source of wealth," "the economic development cannot be separated from the real

to the virtual at any time," and promoted a healthy economy with real economy as the core and a coordinated development of real and virtual economy. In reality, I am afraid this can only be a dream.

In addition to the fact that China's economy is hindered by the detached real economy, Xi's administration lacks sufficient courage and abilities. Here are three points.

First, the lack of strategic determination. In the past eight years since Xi Jinping took office, he has been extremely inadequate in understanding the difficulties and disadvantages of the Chinese economy. He was misled by the so-called new norm. Macroeconomic control policies have been frequently switched between the three goals of "stabilizing growth, adjusting structure, and preventing risks" and thus the continuous adjustment of the tightness, intensity, and combination of policies, and consequently the uncertainty in China's economic policies.

Second, "path dependence" is serious. For example, the regime continues to engage in over-issuance of currency. In March 2013, China's M2 exceeded 100 trillion yuan; in just 7 years, in January this year, M2 went over the 200 trillion mark; starting from March, the growth rate of M2 has been 10 percent for eight consecutive months.

Third, the obstacles of vested interest groups. For example, real estate is a piece of fat meat for central enterprises, and they

are extremely reluctant to let go. As early as late March 2010, the SASAC has issued an order to prevent State-owned enterprises (SOEs) from investing in the real estate sector. Sixteen SOEs with real estate as their main business were retained (five SOEs were approved to retain their real estate business in 2011), and 78 SOEs to withdraw from the real estate market. However, this order has not been successful even though Xi emphasized in 2016 that "housing should not be speculated." Under political pressure, the State Grid Corporation of China and the China National Aviation Corporation, two non-real estate central enterprises, finally announced their withdrawal from the real estate business in the third round of the central government's report on the inspection and improvement this April.

If the Chinese economy continues in this way, a major crash is the only ending.

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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.*

JASON LEE/REUTERS



A man walks past the headquarters of the People's Bank of China, the central bank, in Beijing on Sept. 28, 2018.



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