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**US URGES RELEASE
OF THE EPOCH TIMES'
SOURCES IN CHINA**

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CHINESE MILITARY

CCP's Anti-Satellite Weapons Present Complex Challenge for US: Experts

GREG BAKER/AFP/GETTY IMAGES



Military vehicles carrying cruise missiles are displayed in a military parade at Tiananmen Square in Beijing on Sept. 3, 2015.

ANDREW THORNEBROOKE

The Chinese Communist Party (CCP) has continued to develop an array of anti-satellite (ASAT) weapons designed to overwhelm U.S. assets in space, even as advisers to the Biden administration issued calls for cooperation between the two nations.

The CCP's growing arsenal of space weapons now includes missiles, cyberweapons, satellite jamming devices, space robots with grabbing arms, and high-powered lasers designed to blind satellites from the ground as they pass overhead.

Development of these capabilities has been ongoing since at least 2007, when the CCP successfully exploded a satellite with a missile in low-earth orbit. And earlier this year, the chief of operations for the U.S. Space Force testified that both Russia and China were continuing the development of electronic warfare packages, signal jammers, and directed energy weapons.

Underscoring the centrality of space in modern military doctrine, the CCP has continued ASAT launches disguised as rocket tests, increased Sino-Russian cooperation in space, and developed new technologies, including so-called inspector satellites capable of grabbing other objects in space, and "nesting doll" systems consisting of seemingly harmless satellites that then release other, smaller satellites of unknown capabilities.

Experts say that China's emerging ASAT technologies present an immediate threat to the United States and international security, but disagree on the exact nature of that threat and the United States' ability to effectively deter and counter it.

A Persistent Threat

Bill Woolf, president and founder of the Space Force Association, told The Epoch Times that space-based capabilities were vital to contemporary security strategy, but warned that the proliferation of new technologies likely meant that the CCP and other actors had the ability to attack U.S. space infrastructure.

"Space is such a critical capability to all of our military operations in the U.S., and with our allies and partners," Woolf said. "So, talking about the technology, it's safe to presume that there's technology out there that can disrupt, degrade, or deny our space capabilities."

The CCP has repeatedly been observed developing classified ASAT technologies since its explosive demonstration in 2007 and, in 2019, the Pentagon issued a report acknowledging that the CCP's primary goal was to target the United States and allied satellite capabilities.

For Woolf, the primary challenge facing the United States and its allies in space is determining which threats present the most immediate danger, and how to deter



Gen. Jay Raymond (R), Chief of Space Operations, and CMSgt Roger Towberman (L), with Secretary of the Air Force Barbara Barrett present President Donald Trump with the official flag of the United States Space Force in the Oval Office of the White House on May 15, 2020.

and counter them.

"Regardless of the threat, because the threat's out there," Woolf said, "the key becomes, what are the warnings?"

Deterrence Difficult in 'Most Obscure Battlefield'

The problem of determining what constitutes a reliable warning is something that Paul Szymanski has often thought about. Szymanski is an author and researcher specializing in space strategy, and has spent the last 43 years studying space warfare, during which time he helped to develop intelligence indicators to signal possible enemy actions in space.

According to Szymanski, notable risks facing the United States in space are the relative difficulty of determining who is doing what in space and why.

Particularly in the era of cyberwarfare and false flag attacks, that is, those designed

to look like they're perpetrated by someone other than the actual culprit, Szymanski worries that current technologies simply don't have sufficiently accurate sensors and algorithms to effectively determine what is happening to space infrastructure in real time.

"It's the most obscure battlefield," he said. Concerning the CCP's expanding arsenal of ASAT technologies, Szymanski said that "inspector" satellites equipped with arms likely presented a more serious threat than laser technologies, as the use of ASAT lasers would take time to correctly target satellites on orbit, while human-controlled inspectors could easily be used to knock rival satellites out of orbit.

"I was surprised that [the U.S. is] already admitting that China has these inspector satellites with manipulator arms," Szymanski said. "If you've got something like that, you can do just about anything."

Many Threats, Few Ripostes

Szymanski expressed weariness with the idea that the United States should continue to seek a rules-based order with a rival apparently set on violating rules-based norms. He felt that the United States' dedication to deterring the CCP rather than confronting it might only result in buying the CCP more time to prepare a first and perhaps fatal blow.

"I get the impression that we're going to self-deter, and the space war is going to be over before we can do anything about it," Szymanski said.

"The only purpose of the Space Force is to support terrestrial forces. If you lose a war in space, you may as well not even start the war on the ground."

GREG BAKER/AFP VIA GETTY IMAGES



A Long March-2F carrier rocket, carrying the Shenzhou-12 spacecraft and a crew of three astronauts, lifts off from the Jiuquan Satellite Launch Center in the Gobi desert, in northwest China on June 17, 2021, the first crewed mission to China's new space station.

OPIOID CRISIS

China's Alliance With Mexican Cartels Continues to Fuel Deadly Fentanyl Crisis in US: Former DEA Official

J.M. PHELPS

Distributing and trafficking fentanyl to the United States is the "perfect tool" in the Chinese Communist Party's (CCP) campaign of "unrestricted warfare" against the West, according to a former division head of the Drug Enforcement Administration (DEA).

"They are not dropping bombs or putting armies on the ground in America, but they're still killing Americans at record levels," said Derek Maltz, former head of the Special Operations Division of the DEA, referring to the CCP's plan to destabilize the country using unconventional forms of warfare.

"They're taking advantage of a massive, addicted population in America." Maltz's warning comes as a new report found that China remains the primary source for the trafficking of illicit fentanyl and fentanyl-related substances in the United States, despite the Chinese regime banning the drug in 2019. Fentanyl is a synthetic opioid that's 50 times more potent than heroin.

China has the drug production chemicals, and they have the money laundering services—and without the chemicals or the money, they couldn't operate.

Derek Maltz, former head, Special Operations Division of the DEA

The Aug. 24 report by the U.S.-China Economic and Security Review Commission also found that while direct shipments to the United States have declined since the ban, Mexico is play-

ing an expanding role in the explosion of fentanyl addictions and deaths around the country.

Americans are being killed at record levels, the former DEA official said, and "it's all because of the massive chemical flow from China."

In 2020, during the pandemic, deaths from overdoses of synthetic opioids, mostly from fentanyl, surged to a record of more than 56,000—an increase of 20,000 from the year earlier, according to provisional data by the National Center for Health Statistics.

The country is facing the worst drug crisis in its history, Maltz said, adding that "the alliance between China and the cartels could be the top day-to-day threat impacting America's future."

According to the report, the Chinese regime's "weak supervision and regulation" of its chemical industry has aided the efforts of Chinese fentanyl traffickers.

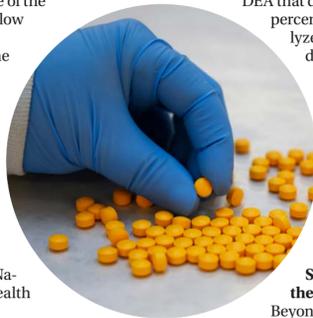
Thus, with limited abatement, Chinese traffickers are continuing to ship precursor chemicals to Mexico to produce deadly fentanyl. Millions of counterfeit pills containing fentanyl are being made, and the deadly drug is often mixed with other drugs such as heroin, cocaine, and methamphetamine.

"Thousands of pounds of fentanyl have been seized this year," the former DEA official said. "Phoenix, for example, went

from zero seizures in 2015 to 6 million fake pills in 2020, and leadership in the DEA says it has already seized over 6 million in 2021."

Maltz referred to a lab analysis by the DEA that determined that 26 percent of the pills analyzed contained lethal doses of fentanyl.

"Taking into account the 6 million pills seized in Phoenix in 2020, that means over 1.5 million people were saved from just one DEA office."



A Drug Enforcement Administration (DEA) chemist checks confiscated pills containing fentanyl at the DEA Northeast Regional Laboratory on Oct. 8, 2019 in New York.

DON EMMERT/AFP VIA GETTY IMAGES

Money Laundering Schemes Exacerbate the Problem

Beyond China's involvement in the rise in fentanyl seizures, the Aug. 24 report also acknowledges money laundering operations between the Asian country and Mexican cartels.

While Maltz praised law enforcement for infiltrating "Chinese transnational criminal networks," he said the CCP continues to esca-

late the trafficking of drugs into Mexico. "And the transnational criminals are indeed taking over money laundering services for the cartels."

According to the report, "The fentanyl challenge has grown in complexity since Chinese suppliers began to evolve their tactics in 2019." Maltz believes there are two key components contributing to the evolution of this massive crisis.

"China has the drug production chemicals, and they have the money laundering services—and without the chemicals

or the money, they couldn't operate."

The international money laundering market has become more appealing to the CCP and Mexican cartels.

Describing the operation, Maltz said: "China has brokers sitting in Mexico with drug kingpins, and they're making deals to pick up money all over America. The money is moved from one Chinese bank to another overseas, and then they're fulfilling legitimate consumer goods orders to be shipped to South America, Central America, and Mexico."

In the next step, he said, consumer goods are sold and the money circles back to the drug traffickers. He calls it a "sophisticated process," adding that law enforcement is acting as quickly as possible to infiltrate the operations.

However, criminal and money laundering investigations are hampered by "limited" cooperation between Chinese and U.S. authorities, the report found.

Maltz said that during the Trump administration, "there was some positive movement to prevent the export of pure fentanyl and fentanyl analogs out of China—[but] the Chinese transnational criminals got very smart and started reducing the exports of fentanyl and increasing the precursor chemical exports."

While the chemicals China may be exporting are legitimate chemicals, he said the regime "is simply allowing the Mexican cartels to do more of the dirty work on the production of fentanyl."

Rather than seeing pure fentanyl sent to the labs in Mexico, mass amounts of chemicals are being shipped.

"The process is changing because that's what criminals do," Maltz said. "China and the Mexican cartels will keep making adjustments to reduce their vulnerability—and they're both very clever at it."

J.M. Phelps is a writer and researcher of both Islamist and Chinese threats.

THE
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Spreading China's Wealth

CLYDE PRESTOWITZ



People in China, especially rich ones, are about to learn a new history and an element of communism the older generations had forgotten and the younger ones never knew.

Over the past 40 years or so, it has been widely reported that former Chinese leader Deng Xiaoping sparked the rapid growth of China's economy by announcing to the nation that "to get rich is glorious." This came as a huge surprise and even shock to a nation whose wealthy people and even so-called "well off peasants" had been driven out, hounded, killed, and impoverished in the name of communist equality. Indeed, it was more than a surprise. It was relief and hope.

Getting Rich

The Chinese Communist Party (CCP) had promised a better life for all, but it had delivered only famine, torture, self-criticism, and the dunce caps and destruction of the Great Cultural Revolution. Even the schools and universities have been closed.

By suggesting that getting rich was not

The logo of Alibaba Group at its office in Beijing on Jan. 5, 2021.

necessarily a bad thing, Deng launched a true "peoples' revolution."

The response was the miracle of Chinese economic, academic, and scientific growth that has astounded the world for the past 35 years or so. In that time,

China has become the world's second largest economy and, by some measures, the largest. It has also been the most dynamic with a vigorous private sector that has pioneered new technologies, new types of business organization, and that

has expanded dramatically into international investment and markets. Its technology companies are sometimes world leaders and are all working at the cutting edges of global technology.

First but Not Glorious

In fact, however, Deng never actually said that "to get rich is glorious." Rather, he said: "let a few get rich first." He explained in further detail exactly what he had said and meant in an interview with CBS reporter Mike Wallace on Sept. 2, 1986. He emphasized that there can be no communism or socialism with pauperism. So "getting rich is no sin, but what we mean by getting rich is different from what you (in the free world) mean. Wealth in a socialist society belongs to the people. To get rich means prosperity for the entire people. We permit some people to become prosperous first in order to speed the achievement of prosperity for the entire society."

Of course, Deng did not live to see more than the enrichment of the first few, and his two immediate successors, Jiang Zemin and Hu Jintao, continued to emphasize the importance of a few getting rich first. Indeed, under their



Chinese leader Deng Xiaoping (L) meeting the then British Prime Minister Margaret Thatcher in Beijing on Dec. 19, 1984.

Inevitably, the role of the state in guiding and controlling the economy will become greater while that of private entrepreneurs and business leaders will diminish.

PRESS FREEDOM

US Urges Beijing to Release The Epoch Times' Sources Detained for Supplying Information on COVID-19

EVA FU

The U.S. State Department has expressed concern for 11 Chinese citizens detained for providing information relating to the pandemic to the Chinese-language edition of The Epoch Times. It also demanded that Beijing cease stifling truthful reporting in China.

"The United States calls on the PRC [People's Republic of China] government to release journalists and their contacts detained for their reporting on COVID-19 restrictions and to cease its efforts to silence those who seek to report the truth," a State Department spokesperson told The Epoch Times in an email.

"We consistently underscore the importance of independent, transparent, and fact-based reporting on COVID-19."

The 11 individuals, all adherents of persecuted faith group Falun Gong, have been held in Dongcheng District Detention Center in Beijing for over a year. In an April indictment, they were accused of "taking photos and uploading them to overseas websites between February and June 2020," according to their lawyers.

The indictment didn't name the spe-



A police officer wearing a face mask tries to stop a photojournalist taking pictures on a street outside of a shopping mall complex in Beijing on Oct. 13, 2020.

cialist website, but the Committee to Protect Journalists, a New York-based press freedom watchdog, said the detainees were indicted for supplying materials to The Epoch Times, citing a person familiar with the case.

The Chinese regime has tightly controlled information relating to the pandemic, such as its harsh lockdown policies and true infection and death toll figures, in its bid to suppress anything that can tarnish the Chinese Communist Party's (CCP) image. Whistleblower doctors, citizen journalists, and academics have been punished by the regime for disseminating unfiltered information on the outbreak or criticizing the CCP's policies.

"China needs to stop trying to prevent its citizens from reporting the news and publishing photographs about its COVID-19 restrictions," said Steven Butler, the journalist group's Asia program coordinator, in an Aug. 24 statement.

"The 11 people arrested for sending photos and information to The Epoch Times should be released from jail immediately, with all charges dropped."

A spokesperson for The Epoch Times ear-

lier expressed concerns for their safety and called on the international community to "condemn this violation of press freedom."

The Epoch Times was founded in 2000 in the United States, originally as a Chinese-language newspaper, in response to the CCP's global propaganda efforts. As a result, the outlet has long been blocked in the country, and its earliest reporters in China were jailed, some for as long as 10 years.

Beijing Dongcheng People's Court canceled the detainees' scheduled court appearance on Aug. 19, according to an Aug. 15 post on Minghui.org, a U.S.-based website dedicated to tracking the persecution of Falun Gong. Repeated calls from The Epoch Times to the court went unanswered.

Xie Yanyi, the lawyer for one of the detainees, Xu Na, has been blocked from defending his client since May. He called the case an "escalated version of the Li Wenliang incident," adding that the Chinese regime is committing a crime.

Li Wenliang was one of the first Chinese doctors to sound the alarm on the CCP virus, which causes COVID-19, in December 2019. He was later reprimanded by police for doing so and was made to sign a state-

ment apologizing for "rumor-mongering." He later died after contracting the virus.

Citizen journalist Zhang Zhan, who posted videos on social media detailing the toll of the outbreak from Wuhan, was found guilty in December of "picking quarrels and provoking trouble" and sentenced to four years in prison. One of her charges, according to the judgment published by human rights advocacy site China Change, said that Zhang was guilty of taking interviews from "overseas media Radio Free Asia and The Epoch Times to maliciously create hype on Wuhan's novel coronavirus pneumonia, causing negative impact among a wide audience."

Zhang currently weighs less than 90 pounds—having lost nearly half her body weight—owing to the partial hunger strike she started since her arrest last May.

"A free and independent media, including citizen journalists, is essential to making government more accountable, keeping all of us safer from future outbreaks and possible pandemics," the State Department spokesperson said.

Sherry Dong contributed to this report.

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

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Chinese military vehicles, carrying DF-21D anti-ballistic missiles, drive past Tiananmen Square during a military parade in Beijing on Sept. 3, 2015.

CCP

CCP's Grand Strategy Is to Displace US: China Expert

FRANK FANG

China has had three grand strategies to counter the United States since 1989, culminating in the latest phase, beginning in 2016, of wanting to displace the United States, China expert Rush Doshi said during an Aug. 26 webinar to talk about his new book.

Doshi wrote the book "The Long Game: China's Grand Strategy to Displace American Order" while working at the Brookings Institution, which hosted the online event. Now he's the Biden administration's newly appointed director for China on the White House National Security Council.

Chinese Communist Party (CCP) officials "seek to restore China to its due place and roll back the historical aberration of the West's overwhelming global influence" with its grand strategy, according to Doshi's book.

The grand strategy is now in its third phase, he said, after he examined years of CCP documents such as memoirs, speeches, and biographies. Today China sees its competition with the United States as global, regional, and functional in many domains, according to Doshi.

"It's in key domains like economics, technology, finance, emerging technologies, obviously in security and political institutions," Doshi said.

He noted that the nature of the Sino-U.S. competition has been much wider in current times, involving more countries.

If there are two paths to hegemony—a regional one and a global one—China is now pursuing both.

Rush Doshi writes in "The Long Game: China's Grand Strategy to Displace American Order"

"If you look at the Chinese discourse on what they see as the future of competition ... they believe that the West, the United States and others, will sort of increasingly work together," Doshi said.

"They think they have to do the same thing with other states. That's a little harder, in their own estimation, because they don't have the same network of alliances and historical partnerships."

His comments were made in his personal capacity as a former Brookings fellow.

The first phase of China's grand strategy lasted from 1989 until 2008, then the second phase was in effect for the next eight years,

according to Doshi. In 2016, China commenced its third phase of the strategy.

According to Doshi, Beijing saw the United States as a quasi-ally before it changed its perception and viewed America as an ideological and military threat following three events—the Tiananmen Square massacre, the first Gulf War, and the collapse of the Soviet Union. Describing the events as a "traumatic trifecta," he said Beijing ushered in the first phase—a blunting strategy.

His book details how China made military, political, and economic decisions in accordance with the blunting strategy. For example, Beijing shifted from controlling distant maritime territory to preventing the U.S. Navy's ability to traverse or intervene in waters near China. The shift was accompanied by focusing its military investment in submarines, naval mine arsenal, and anti-ship ballistic missiles.

The 2008 financial crisis prompted Beijing to see the United States differently, believing it was "weakening" and that its economic and political model wasn't "quite as effective," Doshi said during the webinar. In response to its new view, Beijing began focusing more on "building the foundations for Chinese order within Asia."

He said the shift from blunting to building was evident by a speech by former Chinese leader Hu Jintao at the 2009 ambassadorial conference, during which he said China had to "actively accomplish something."

As a result, Beijing began to focus more on distant military capabilities, turning its attention to investing in aircraft carriers, overseas military bases, and surface vessels, according to Doshi's book.

Beijing reaffirmed its belief that the United States, as well as the West, was in decline, after seeing populist candidates win several elections around the world in 2016, former President Donald Trump's presidential victory, and the United Kingdom's Brexit vote, according to Doshi. In response to its assessment, the Chinese regime adopted the third phase of its grand strategy—what he called an expansion strategy.

The communist regime "takes the blunting and building strategies from early periods and applies them on a global stage," he said.

"If there are two paths to hegemony—a regional one and a global one—China is now pursuing both," his book reads.

"It is clear, then, that China is the most significant competitor that the United States has faced and that the way Washington handles its emergence to superpower status will shape the course of the next century."



The P4 laboratory on the campus of the Wuhan Institute of Virology in Wuhan, China, on May 13, 2020.

CCP VIRUS

Exclusive: Samples From Early Wuhan COVID Patients Had Genetically Modified Henipah, 1 of 2 Types of Viruses Sent From Canadian Lab

OMID GHOREISHI

Samples from early Wuhan COVID-19 patients show the presence of genetically modified Henipah virus, an American scientist has found.

Henipah was one of the two types of viruses sent to China by Chinese-born scientists from a Canadian laboratory at the center of a controversy over the firing of the scientists and collaboration with Chinese military researchers. It's not clear whether the virus found in the Chinese samples is related to the virus samples sent by the Canadian lab, which were shipped in late March 2019.

The finding was confirmed for The Epoch Times by another qualified scientist. The evidence was first found by Dr. Steven Quay, a Seattle-based physician-scientist and former faculty member at the Stanford University School of Medicine, who looked at early COVID-19 samples uploaded by scientists at the Wuhan Institute of Virology (WIV) shortly after China informed the World Health Organization about the SARS-CoV-2 outbreak.

The samples from the patients, who reportedly were found to have an "unidentified pneumonia disease" in December 2019, were uploaded to the genetic sequence database, GenBank, on the website of the U.S. National Institute of Health (NIH).

Quay says that while other scientists around the world were mostly interested in examining the genome of SARS-CoV-2 in the samples uploaded by the WIV scientists, he

We found genetic manipulation of the Nipah virus, which is more lethal than Ebola.

Dr. Steven Quay, Seattle-based physician-scientist and former faculty member, Stanford University School of Medicine

Chinese virologist Shi Zhengli is seen inside the P4 laboratory in Wuhan, China, on Feb. 23, 2017.

wanted to see what else was in the samples collected from the patients. So he collaborated with a few other scientists to analyze sequences from the samples.

"We started fishing inside for weird things," Quay told The Epoch Times.

What they found, he says, are the results of what could likely be contamination from different experiments in the lab making their way into the samples, as well as evidence of Henipah virus.

"We found genetic manipulation of the Nipah virus, which is more lethal than Ebola." Nipah is a type of Henipah virus.

The Epoch Times asked Joe Wang, who formerly spearheaded a vaccine development program for SARS in Canada with one of the world's leading pharmaceutical companies, to verify the finding. Wang is currently the president of NTD Television Canada, sister media outlet of The Epoch Times in Canada.

After examining the evidence, Wang said he was able to replicate Quay's findings on the Henipah virus. He said the genetic manipulation of the virus was likely for the purpose of vaccine development.

Documents released by the Canadian government state that the WIV's intended use of the virus samples sent by Canada was "stock virus culturing," which in simpler terms means storing the viruses while keeping them alive. Genetic manipulation wouldn't be within the scope of this description.

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Winnipeg Lab

The firing of Chinese-born scientist Xiangguo Qiu and her husband, Kedong Cheng, from the National Microbiology Laboratory (NML) in Winnipeg has been the subject of much controversy in Canada, with opposition parties pressing the government for more details on the case, and the government refusing to release information, citing national security and privacy concerns.

Qiu and Cheng along with several Chinese students were escorted out of the NML, Canada's only lab designated at containment level 4—or P4, the highest level of biosafety—amid a police investigation in July 2019. The two scientists were formally fired in January.

The Public Health Agency of Canada (PHAC), which is in charge of the NML, said the termination was the result of an "administrative matter" and "possible breaches of security protocols," but has declined to provide further details, citing security and privacy concerns.

During her time at the NML, Qiu traveled several times to the WIV in an official capacity, helping train personnel on level 4 safety. The Globe and Mail later reported that scientists at the NML have been collaborating with Chinese military researchers on deadly pathogens, and that one of the Chinese military researchers worked at the high-security Winnipeg lab for a period of time.

Documents and emails released by PHAC show that the shipment of Henipah and Ebola samples was done with the permission of NML authorities.

In one of the emails sent in September 2018, David Saffronetz, chief of special pathogens at PHAC, informs then-head of NML Matthew Gilmour and other lab administrators about the request from the WIV for the shipment of the samples, saying, "I trust the lab."

In response, Gilmour asks about the nature of the work that will be done at the Wuhan lab, and why the lab doesn't get the material from "other, more local labs." He also tells Saffronetz that it's "good to know that you trust this group," asking how the NML was connected with the group.

In his reply, Saffronetz doesn't specifically say what the samples will be used for in China, but notes that they will only be sent once all paperwork and certification are completed. He says the WIV is requesting the material from NML "due to collaboration" with Qiu.

He adds: "Historically, it's also been easier to obtain material from us as opposed to US labs. I don't think other, closer labs have the ability to ship these materials."

Gilmour resigned from his position at the NML in May 2020 and joined a UK-based bio-research company.

Canadian members of Parliament have asked NML management why shipment of the samples was allowed and if they knew whether China has performed any gain-of-function (GOF) research at the WIV. GOF research involves increasing either the lethal level (virulence) or the transmissibility of pathogens, or both.

The NML's acting scientific director general Guillaume Poliquin told MPs during a parliamentary committee meeting on March 22 that the lab only sent the samples to the WIV after receiving assurance that no GOF research would take place.

Conservative MP John Williamson pressed for more answers, saying the word of the state-run Chinese lab can't be trusted, as the Chinese regime "has a history of theft and lies."

The issue of GOF research at WIV has been a point of contention in the United States between lawmakers and Dr. Anthony Fauci, the NIH's head of the National Institute of Allergy and Infectious Diseases. Fauci's organization has funded research (through EcoHealth Alliance) on coronaviruses at the Wuhan lab. U.S. Sen. Rand Paul says published work from WIV on coronaviruses shows the lab has been conducting GOF research, a charge Fauci denies.

The Epoch Times sought comment from PHAC, including on how the agency has addressed issues of intellectual property and collaboration of the development of any products such as vaccines with WIV, but didn't hear back by press time.

Despite repeated requests by the opposition parties for more details related to the firing of the two NML scientists, the Liberal government has refused to provide records, saying there are national security and privacy concerns.

After the House of Commons issued an order requiring the government to disclose the information, the government took the speaker of the House to court to obtain confirmation from a judge that it can withhold the documents. The government later dropped its court case once Prime Minister Justin Trudeau called an election and Parliament was dissolved.

OPINION

'Common Prosperity' Sheds Light on Beijing's Regulatory Direction

FAN YU

Finally, there is increasing clarity around how the Chinese Communist Party (CCP) intends to regulate its giant corporations, which is invaluable to U.S. investors assessing Chinese stocks.

Regulatory guidance has come fast and furious over the last several months, sending Chinese stocks—at least those traded in the United States—into a tailspin. And most recently, CCP leader Xi Jinping's directive to increase "common prosperity" has only elevated volatility as investors look to analyze its impact.

Curiously, there's a certain divergence with regard to how investors have reacted to the recent regulatory deluge.

The KraneShares CSI China Internet ETF, which tracks a basket of Chinese technology firms listed in the United States and Hong Kong, has declined more than 45 percent since March 1.

By comparison, the VanEck Vectors China AMC SME-ChiNext ETF, which tracks a basket of top 100 domestic A-share stocks listed on the ChiNext board in Shenzhen—where most of China's technology firms are listed domestically—is essentially flat (only down 0.3 percent) during the same time period.

Why are the offshore companies significantly underperforming onshore stocks? It's especially interesting since offshore technology companies tend to be the more prominent names such as Tencent, Alibaba, and Meituan. There are a few theories.

The first is that offshore listed companies all sold their shares via a unique structure called a variable interest entity (VIE), the legal status of which is questionable and therefore requires a large market discount.

The second factor is that foreign investors—who make up the majority of investors of offshore listings in New York and Hong Kong—hold a far more pessimistic interpretation of recent developments than Chinese domestic investors.

The first issue, the VIE discount, is likely to largely resolve itself soon.

The CCP plans to propose rules banning Chinese technology companies with large amounts of sensitive data from issuing their initial public offering (IPO) in the United States, the Wall Street Journal, citing anonymous sources with knowledge of the discussions, reported on Aug. 27. In addition, technology companies must obtain Chinese regulatory approval prior to listing their shares on U.S. stock exchanges, which was not a required step in the past.

That clarifies several questions. Future Chinese technology IPOs—those allowed to list in the U.S. markets going forward—will be sanctioned by the CCP to do so. Implicit in such approval is an assurance that Chinese securities regulators condone the VIE corporate structure, the legality of

The social change aspect is well telegraphed and investors should keep this top of mind while evaluating news coming out of Beijing.

which was previously suspect.

In addition, Chinese regulators have recently made overtures to the U.S. Securities and Exchange Commission to begin dialogue around sharing of audit work papers with U.S. regulators. Details around the degree of collaboration are still to be discussed, but Beijing's directive to ban certain IPOs could pave the way for the CCP to share audit documents on companies it deems to be less sensitive.

The second factor of foreign investors being more pessimistic than their Chinese counterparts is due to Xi's recent "common prosperity" doctrine, which had raised eyebrows abroad. Some U.S. investors have questioned whether the CCP is ready to persecute its entrepreneurs and neuter successful businesses.

That interpretation may be a slight overreaction.

Caixin, a mainland Chinese business magazine, provides this context:

"Since the launch of reform and opening-up in the late 70s, China's economy has fulfilled the first part of Deng Xiaoping's idea of letting some people get rich first so they could stimulate others, and thus realizing common prosperity in China. However, changes in the internal and external economic and political environment have prompted the inclusion of a 'tertiary distribution mechanism' in the CCP's official documents in recent years."

What's a "tertiary distribution mechanism?" It's CCP jargon describing "voluntary" wealth distribution. In this case, it may be an involuntary voluntary. Tertiary distribution encourages China's successful entrepreneurs and corporations to give back and enact more social programs. It's essentially a supercharged version of ESG (environmental, social, and governance) and charitable programs Western corporations have embraced in recent years.

It is a form of "nanny state," and part of Beijing's recent efforts to control the social and political environment. There is debate over whether this is a feature or bug within a functional capitalist marketplace, and this is where foreign investors and Chinese investors are likely to disagree.

But China is a communist country and the CCP has chosen this path.

To wit, China's Supreme People's Court on Aug. 27 declared the notorious "996 culture" to be illegal. "996" is a code name of employees working from 9 a.m. to 9 p.m., six days a week, a controversial policy common in China's technology companies. One can argue that such work ethic has helped build China's successful technology giants, but the policy is highly unpopular among employees.

In August, state media in China called online games a form of "spiritual opium."

China's wealth inequality is some of the highest in the world, and getting worse.

An article in Economic Information Daily criticized video game addiction and called for restrictions on the video game industry to wean youth off video games. The news sent shares of offshore-listed game publishers such as NetEase and Tencent tumbling.

Earlier this year, Beijing announced rules to restrict the business models of for-profit tutoring and education companies. The regulations—which were meant to curb the proliferation of expensive after-school tutoring and the tremendous stress it places on parents and children—effectively killed the business models of certain U.S.-listed companies such as TAL Education.

China also enacted laws to improve the wages and benefits of gig workers such as those working for Chinese food delivery giant Meituan. And the list goes on.

The regime calls these necessary reforms to improve the quality of life for Chinese people. At the same time, it has made a point of announcing that its goal is not to kill innovation or punish its successful entrepreneurs and their businesses.

One can understand the appeal of such measures from the perspective of a common urban dweller living in China. But how should global investors interpret these developments?

I don't expect Beijing to kill off industries. But profitability will be hurt as China enacts broader taxes and forces more compliance costs upon companies. Beijing needs to grow its domestic industries and financial markets as it prepares to become more insular.

The social change aspect is well telegraphed and investors should keep this top of mind while evaluating news coming out of Beijing. China's wealth inequality is some of the highest in the world, and getting worse. Caixin estimated that China's richest 1 percent hold 31 percent of the country's wealth. For Xi to target a third term next year, and for the CCP to maintain its grip on power, it needs to keep social order and ensure the majority of the populace is content and happy.

Xi was vice president of China in 2011 when the "Arab Spring" protests occurred throughout the Middle East. He studied the events closely and told then-U.S. Vice President Joe Biden that such uprisings came about because the governments had lost touch with their people.

The recent market developments out of China could be part of the CCP's plan to get back "in touch" with the Chinese people.

Fan Yu is an expert in finance and economics and has contributed analyses on China's economy since 2015.

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

GREG BAKER/AFP/GETTY IMAGES



A man cycles past a sign for Tencent, the parent company of Chinese social media giant WeChat, outside the Tencent headquarters in Beijing on Aug. 7, 2020.



JOHANNES EISELE/AFP VIA GETTY IMAGES



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