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# CHINA INSIDER

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## A CONFUSED CHINA POLICY?

ANALYSTS SAY BIDEN'S APPROACH TO  
CHINA LACKS DIRECTION

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## OPINION

# China's Forced Organ Harvesting Demands US Response

NINA SHEA &amp; KATRINA LANTOS SWETT

American doctors go to great lengths to maintain the highest ethical standards as they work to save thousands of desperately ill patients waiting for an organ match, as underscored in recent reporting of innovative transplant experiments using genetically modified pig hearts. China's transplant sector, unconstrained by rigorous ethical rules, found a more expedient solution. China created a thriving transplant industry, the world's second-largest, based on a supply of organs forcibly harvested from executed prisoners—most likely prisoners of conscience.

Although China announced that it banned this hideous practice in 2015, transparency is lacking, and mounting evidence indicates that it continues. Nevertheless, the American transplant sector, while adhering to medical ethics at home, openly supports China's transplant doctors and industry.

In 2006, shocking reports first surfaced of China forcibly harvesting organs from detained Falun Gong adherents. According to these reports, after Falun Gong, a spiritual meditation practice, was targeted for "elimination" by then-leader of the Chinese Communist Party (CCP) Jiang Zemin in 1999, tens of thousands of practitioners were thrown into labor camps and jails and subjected to organ screening, unexplained deaths, and disappearances. Many, the group says, were killed for their organs, which were sold to China's transplant sector, just as it surged and became a billion-dollar industry. Credible testimonies from former detainees, relatives, patients, and surgeons supports this. It was during this period that scores of Chinese transplant surgeons published articles openly describing procedures on prisoners who "were alive and breathing as the surgeons cut their hearts out," as documented in a 2022 article in the respected American Journal of Transplantation, written by Victims of Communism Memorial Foundation research fellow Matthew Robertson and Israeli Dr. Jacob Lavee.

Last year, 12 independent U.N. experts stated that they were "extremely alarmed" by "credible information" that forced organ harvesting was continuing and, moreover, targeting China's various religious minorities. Several sources reported evidence that the atrocity has spread to Xinjiang's massive network of closed detention camps, which, significantly, were built after 2015 and which both Republican and Democratic administrations recognized as the site of ongoing genocide against China's Uyghur Muslims.

Nury Turkel, who chairs the U.S. Commission on International Religious Freedom, documented forced blood sampling and organ screening of Uyghur detainees, including a Christian, Ovalbek Turdakun, whom one of us interviewed. As noted in a May European Parliament resolution, a Beijing hospital brazenly advertised its use of "halal organs" from Uyghurs and Muslim minorities." At the 2022 International Religious Freedom Summit, held in Washington in June, Ethan Gutmann, the leading field researcher on China's forced organ harvesting, estimated that 25,000 to 50,000 Uyghurs have been killed annually for their organs. Gutmann's research implicates a former SARS hospital in Aksu, Xinjiang, which is served by an airport with a designated "fast lane" for expressing organs



Falun Gong practitioners take part in a parade marking the 22nd year of the persecution of Falun Gong in China, in Brooklyn, New York, on July 18, 2021.

to hospitals throughout China. No satisfactory explanation exists for how—despite only 1 million registered volunteer donors in China, compared with America's 145 million in 2019—China's patients can schedule appointments for transplant surgeries within days or weeks, as patients and investigators reported, instead of waiting months or years, as in the United States.

In addition, Robertson, Lavee, and Australian statistician Raymond Hinde have determined that the growth curves of China's voluntary donation lists for three organ types formed implausible, nearly perfect quadratic equations. In a 2019 peer-reviewed article in the journal BMC Medical Ethics, they concluded that China's donor database was "falsified" as a result of being "manufactured and manipulated from the central levels of the Chinese medical bureaucracy." Also, China's reported number of annual transplants, 5,000 to 6,000, appears understated. Documenting Chinese transplant hospitals, beds, and surgeons, Gutmann and Canadian human rights experts David Matas and David Kilgour estimated that 60,000 to 100,000 organ transplant operations are performed annually in China, with 8,000 a year at just one hospital.

Although shocking, China's lack of medical ethics is not entirely surprising, considering that it perpetrates ethno-religious genocide. But, given the grave questions about organ sourcing raised in these reports and China's lack of transparency, it's unconscionable that major American universities and hospitals support China's transplant sector. As brandished on their websites, Harvard, Stanford, the University of Pittsburgh, and many others provide China with fellowships, academic exchanges, conferences, and joint research projects. American institutions are documented to have trained 344 of China's transplant doctors.

Some in the American medical community apparently collaborate in the hope of persuading their Chinese partners to ensure organ donation is indeed voluntary. But when blocked from verifying claims of reform, these same U.S. institutions accept China's word at face value and even praise its progress. They aren't alone in buying China's lies. The BMC Medical Ethics article cited above observed that "the World Health Organization [WHO], the Transplantation Society, the Declaration of Istanbul Custodian Group, and the Pontifical Academy of Sciences have all provided endorsements of the reforms based on what appears to be contaminated data."

The WHO's organ transplant task force, for example, was proposed in 2017 by Dr. Huang Jiefu, who directed China's transplant donor registry, long served on the CCP's Central Committee, and, although far from independent, was ap-

pointed to the task force itself. Under the chairmanship of Harvard's Dr. Francis Delmonico, who toured China's hospitals as Huang's guest and praised Huang as a "courageous leader" in congressional testimony, the task force was mandated to flag crises in the transplant field. Yet Gutmann, Robertson, and Matas each say that it dismissed out of hand their devastating research.

To date, no U.S. administration has taken seriously the charges of China's ongoing organ harvesting. In 2018, the U.S. State Department tried to close the book on the issue, declaring point blank that the Chinese regime "officially ended the long-standing practice of involuntarily harvesting the organs of executed prisoners for use in transplants in January 2015." It, too, failed to undertake independent verification. The Biden administration should reexamine all forced organ harvesting evidence and make its own determination. Congress should pass the Stop Forced Organ Harvesting Act to ensure this happens.

Former Chinese military surgeon Dr. Enver Tohti, testifying before the Tom Lantos Human Rights Commission, recently commented on Western indifference to this issue. Forced organ harvesting seemed just "too bad to be true," he said. But the evidence is too compelling to persist in that naive belief. Until compliance with international ethical norms is verified, the American transplant sector should halt all collaboration with China.

From RealClearWire

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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Katrina Lantos Swett, J.D., is the former chair and now committee member of the United States Commission on International Religious Freedom (USCIRF). In 2008, she established the Lantos Foundation for Human Rights and Justice and serves as its President and CEO. She teaches human rights and American foreign policy at Tufts University.



A still from the film "Eternal Spring," which tells the story of a small group of Falun Dafa practitioners who tapped into Changchun City's state-controlled cable television to broadcast information to counter the Chinese communist regime's propaganda against the spiritual practice.

## CENSORSHIP

## China Bans Artist's Comic Books After Film Selected as Contender for Oscar Nomination

MARY HONG

An artist whose work was featured as the basis for a Canadian animated movie has had his books banned in China.

"Eternal Spring," an animated documentary, depicts Chinese Falun Gong practitioners who hacked into state TV in 2002 in an effort to raise awareness of their plight under the Chinese regime.

In the aftermath, police raids swept the city of Changchun, the name of which translates as "eternal spring," and Daxiong, an award-winning comic book artist and Falun Gong practitioner, was forced to flee to North America in 2008.

Daxiong published more than 100 books before he left China, some of which depicted Chinese people quitting the communist party or illustrated the events of 2002 he had personally witnessed. He was arrested and harassed multiple times by Chinese regime authorities.

"Eternal Spring," the documentary based on Daxiong's experiences, has been chosen as a contender for Canada's entry for Best International Feature Film at the 95th Academy Awards.

But the nomination sparked China's education department to ban all comic books by Daxiong.

## Book Ban

On Aug. 25, the education bureau of Wuhan City issued a list of books forbidden to middle elementary schools and kindergartens.

Daxiong's books were on the list.

The reason given was that these books were the "works" of a "key" Falun Gong practitioner who "escaped to the United States," the Chinese authorities stated.

Falun Gong is rooted in Chinese culture, with its adherents following the universal principles of truthfulness, compassion, and tolerance. It has been a target of the Chinese regime's persecution since 1999.

On Aug. 29, both Chinese media NetEase and Radio Free Asia also reported that many schools received notice of the list of banned books before the new semester started.

Besides Daxiong's books, included in the list were also books by historian Yi Zhongtian such as "Chinese Classic Stories" and well-known Taiwanese author Lung Ying-tai.

The notice said that those books are "no longer suitable for students to read," according to the "notification of senior authorities."

Lung Ying-tai responded on her Facebook account, "It is really my honor to be banned by you."

## The Real Target

"The ban does not affect me, but the publishers," Daxiong told the Chinese language edition of The Epoch Times.

Before he left China, Daxiong published more than 100 comic books on traditional Chinese culture and ancient philosophers such as Laozi, Zhuangzi, Confucius, and Mencius. In addition, major universities in China used his books for teaching

drawing techniques to students.

"What the Chinese Communist Party [CCP] bans is not the book, but me as a person," he said.

"Falun Gong has been the most sensitive topic for the CCP. The CCP never dares to openly admit its persecution against Falun Gong," even those who oppose the CCP do not dare to talk about Falun Gong in public, Daxiong said.

As for being labeled a "key" member of Falun Gong, Daxiong said: "I am a nobody. I am just a person who has free will and cultivates Falun Gong."

## The Courage of Choice

Film director Jason Loftus previously told The Epoch Times that "Eternal Spring" is "a testament to the courage of those involved to speak up in the face of injustice, regardless of the cost."

The Canadian-made documentary, which combines live footage and 3D animation inspired by Daxiong's art, has been winning awards around the world.

Currently, the film and Loftus have won the Fischer Audience Award (Best International Feature) at the Thessaloniki Documentary Festival, Hellenic Parliament's Human Values Award, the Hotdocs award for best Canadian documentary, the top jury and audience prizes for best documentary feature at the Lighthouse International Film Festival on Long Beach Island, and the Supreme Award at the Melbourne Documentary Film Festival.

Loftus admitted that spotlighting wrongdoing in China can be risky for a filmmaker. The Chinese regime is a powerful player in business, and Loftus said some festivals have opted not to screen "Eternal Spring" because of it, the Canadian Press reported.

Daxiong said that the persecution of Falun Gong has forced many talented Chinese people to give up their careers, and live in displaced situations. For him, coming to North America was not easy.

However, he said, as a spiritual practitioner, "it's important to do what should be done, and choose what's right."

"These awards do not represent the judgment of the film, or myself as a person," Daxiong said, "but rather a test to the juries."

He explained, after 23 years of persecution campaigns in China, "it's how they judge the issues related to Falun Gong, what they think about what's happening inside China; these are the tests to them."

Mu Qing contributed to this report.



Chinese doctors carry fresh organs for transplant at a hospital in Henan Province on Aug. 16, 2012.



Artist Daxiong in a still of the "Eternal Spring" documentary, which tells the story of a group of Chinese expatriates who brought uncensored news to China and its aftermath.



Jason Loftus, director of award-winning documentary "Eternal Spring" poses for photographs at the Southern California premiere of the film at Chinese Theatre in Hollywood, Los Angeles, on June 15, 2022.



## NEWS ANALYSIS

# Biden's China Policy Is Confused, Lacks Effectiveness on the Ground, Analysts Say

VENUS UPADHAYAYA

I took the Biden administration an entire year to articulate its China policy, and in the meantime, the White House has continued with former President Donald Trump's policy and claims that it has bipartisan support. The policy has been in the news recently following House Speaker Nancy Pelosi's (D-Calif.) visit to Taiwan, which prompted escalated military responses from the Chinese Communist Party.

The recent enacting of the \$280 billion CHIPS and Science Act, a measure meant to help the United States compete with China in semiconductor manufacturing and scientific research and development, has drawn criticism from some Republicans for not achieving that purpose and has further opened the administration's China approach to scrutiny.

Foreign policy analysts affiliated with institutions in different parts of the world, including those from U.S.-allied countries, expressed a range of opinions on the administration's China policy in comments to The Epoch Times.

They agree only on one point: President Joe Biden's approach is a continuation of Trump's policy.

The more concerned analysts say the policy needs to be expressed in action to gain relevance, pointing to case studies of the Chinese regime's malign influence in its areas of expertise.

Biden's China policy is defined in three words: "invest, align, compete," as expressed in a long-awaited speech by Secretary of State Antony Blinken at George Washington University in the nation's capital on May 26.

Investment, Blinken said, refers to investing in foundations of strength here at home—"our competitiveness, our innovation, our democracy," while aligning refers to the administration's efforts coinciding with the United States' global network of allies and partners to oppose China's increasing aggression.

"And harnessing these two key assets, we'll compete with China to defend our interests and build our vision for the future," Blinken said, in a speech that was billed as the administration's grand strategy toward the Chinese regime.

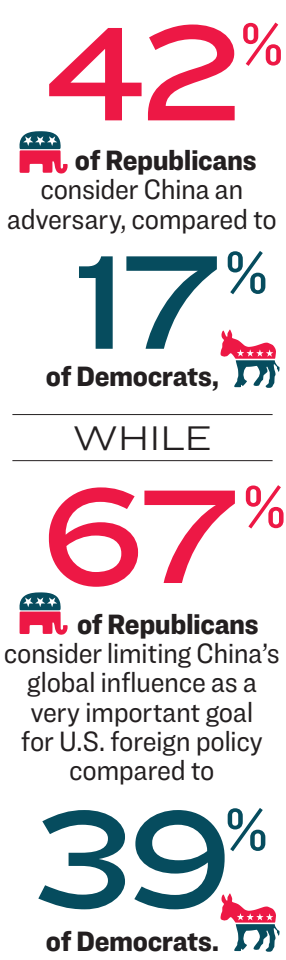
The speech was eagerly awaited because it came after a year of silence from the U.S. government, which had simply carried forward the Trump administration's China policy, including the tariffs that Trump introduced to punish China for unfair trade practices, Ian Johnson, the Council of Foreign Relations' senior fellow for China studies, wrote in an analysis published shortly after the speech.

"The Biden administration's China policy is a continuation, at most levels of the Trump administration's policy—the view within the U.S. strategic establishment that China is a peer competitor and rival and that the U.S. needs a strategy to prevent that from happening," Aparna Pande, a research fellow at the Washington-based think tank Hudson Institute,



It doesn't seem so well thought out, and sometimes, it's unclear if the administration intends to stand up to China and assert U.S. interests or to try to accommodate PRC complaints.

Grant Newsham, senior research fellow, Japan Forum for Strategic Studies



(Left) Speaker of the House of Representatives Nancy Pelosi (D-Calif.), left, speaks next to Taiwan's President Tsai Ing-wen, right, at the president's office in Taipei, Taiwan, on Aug. 3, 2022.

(Right) US Secretary of State Antony Blinken delivers a speech in Pretoria, South Africa, on Aug. 8, 2022.



U.S. President Joe Biden meets with Chinese leader Xi Jinping during a virtual summit at the White House in Washington on Nov. 15, 2021.

told The Epoch Times in an email.

Kurt Campbell, coordinator for the Indo-Pacific Affairs on the National Security Council, said early this year that Biden's China policy has bipartisan support.

"Democrats and Republicans have worked more effectively on China and the Indo-Pacific than on any other foreign policy or national security issue," he said in an interview.

Republicans generally take a stronger view of the threat posed by the Chinese regime, according to a December 2021 public opinion survey by the Chicago Council of Global Affairs. Forty-two percent of Republicans consider China an adversary, compared to 17 percent of Democrats, while 67 percent of Republicans consider limiting China's global influence as a very important goal for U.S. foreign policy compared to 39 percent of Democrats.

In the past four to five years, there's been more awareness of the "China threat" to the United States among Republicans and Democrats, according to Grant Newsham, a senior research fellow at the Japan Forum for Strategic Studies and an Epoch Times contributor.

"Before that, you couldn't even say China was an adversary," he told The Epoch Times in an email.

He said that elites who donate money to politicians have always called the "shots in Washington and they still do." Campbell's statement is an attempt to create the impression that the U.S. administration and the ruling class in the country are now "serious" about confronting the Chinese regime, Newsham said.

"That's an illusion, unfortunately," he said.

"Consider the former congressmen and

senators and other [U.S. government] officials (both Republicans and Democrats) who have gone to work for Chinese companies and/or to lobby [the U.S. government]," he added.

### Competition and Collaboration

While the Biden administration has touted a policy of both competition and collaboration, such as in climate change, with the Chinese regime, analysts questioned whether that approach is achievable.

Major powers do compete where their interests conflict and cooperate where the interests converge, said Ian Hall, the acting director of the Brisbane-based Griffith Asia Institute and co-editor of the Australian Journal of International Affairs. He told The Epoch Times that he isn't sure where the United States and China have cooperated.

"I can't think of many areas where the U.S. has successfully cooperated with China since Biden came to power, largely because Beijing hasn't shown much willingness to compromise," Hall said in an email.

Rajiv Dogra, a former senior Indian diplomat and author of the recent book "War Time," thinks that Biden's China policy, in the context of the Chinese regime's increasing aggression, is only a "temporary fix."

"It does not take care of China's ambition and its concept of a 'New World Order' tailored by it," Dogra told The Epoch Times in an email. "It also does not take care of China's desire to replace America as the ultimate arbiter of global affairs.

In his speech at George Washington University, Blinken also made assurances to Beijing that the administration doesn't seek changes to the Chinese regime's sys-

tem of governance, and that the United States doesn't want to block China from its role as a "major power."

The net result, according to Newsham, has been a confused China policy.

"It doesn't seem so well thought out, and sometimes, it's unclear if the administration intends to stand up to China and assert U.S. interests or to try to accommodate PRC complaints—or even anticipate Chinese objections and preemptively accommodate," said Newsham, referring to the acronym for the nation: the People's Republic of China.

The United States and the Chinese Communist Party (CCP) can't cooperate and compete at the same time because the CCP wants to dominate "if not destroy" the United States, and the Chinese leaders have been clear on that point, according to Newsham.

"You really can't do both equally. Try it and you'll look confused—and confusion equals weakness," he said. "At some point, one hopes Team Biden wakes up and recognizes that the United States is in a fight for its life."

### Policy Dragging in the Pacific

Washington's efforts to build regional partnerships to counter the CCP have also come under scrutiny.

Experts on the Indo-Pacific region said

the policy is still far from effective in the Pacific Island nations where Chinese influence is increasing rapidly.

Cleo Pascal, a non-resident senior fellow for the Indo-Pacific at the Washington-based Foundation for Defense of Democracies, expressed concern that the administration's efforts lack follow-through in the Pacific islands.

"The White House has announced the intention to open new embassies in the region. But, what embassies there are now are often not fully staffed," Pascal told The Epoch Times.

The Biden administration announced in February that it will open a new embassy in the Solomon Islands, whose current administration is a strong ally of the Chinese regime.

The Solomon Islands switched diplomatic recognition from Taiwan to the Chinese regime in September 2019 and in April signed a security agreement with the CCP. The pact sparked alarm in Washington and among its allies in the region, who say it could pave the way for Chinese troops and weapons to be stationed at the Pacific Island nation, expanding the regime's military reach in the South Pacific.

The United States closed its embassy in the Solomon Islands in 1993, and the country is currently covered by the U.S. Embassy in neighboring Papua New

Guinea (PNG).

"But there is currently not even an ambassador in post in PNG. So, at a time when a U.S. Coast Guard ship is refused entry into Solomon Islands, there isn't even an ambassador in the country that is supposed to cover Solomons," she said.

"You can say whatever you like about policy, but people in the region are looking at what's actually happening on the ground and judging based on that," added Pascal, who led the London-based think tank Chatham House's project "Geostrategic Outlook for the Indo-Pacific 2019-2024."

Biden in May launched the Indo-Pacific Economic Framework (IPEF), a trade group of 14 nations that includes Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

The framework has been touted as a counter to China's rising military and economic power in the regime, but some analysts question whether it can meet these goals.

"It is often unclear how initiatives such as the IPEF and the recently announced Indo-Pacific infrastructure development scheme will actually be carried out," Newsham said. "And along these lines, who is actually responsible for setting the administration's China policy and for its success or failure. I don't really know."

The IPEF made an "impressive start," but doesn't seem to be living up to expectations, according to Dogra.

"Critics point out that it was a mistake to exclude Taiwan from this combination. After all, China itself has a vibrant trade relationship with Taiwan," Dogra wrote. "Moreover, if the declared intent of President Biden is, 'writing the new rules for the 21st century economy', how can it be done if IPEF is shackled to the hesitations of the past," he added. "The fact is that China's economic shadow looms large over the Indo-Pacific, and IPEF is a new arrival. If the intent is to clip China's overwhelming economic presence in the region, then time and speed is of essence. That, sadly, is not in evidence yet."

### Pelosi's Taiwan Trip

Pelosi's visit to Taiwan in early August prompted a flurry of escalated military threats from the CCP, including an unprecedented round of military drills in the region that included 11 ballistic missiles fired into waters near Taiwan, with five of them landing in Japan's exclusive economic zone.

While Pelosi's trip was symbolic in nature, it was at odds with the administration's approach to dealing with the regime, according to Zack Cooper, a senior fellow specializing in U.S. strategy in Asia at the Washington-based American Enterprise Institute.

"Many in Congress appear less concerned about triggering a forceful Chinese response, which is why Nancy Pelosi and others have been willing to take some highly symbolic actions," he told The Epoch Times in an email.

"Meanwhile, the administration is trying to focus on substantive support to Taiwan, but trying to avoid symbolic or rhetorical changes that they think are unnecessary."

Pande said that Pelosi's visit has created more open support for Taiwan because it not only has led to subsequent visits by other members of Congress but by state governors as well.

For Newsham, the speaker's visit further highlights the confusion existing in the Biden administration about its approach to the Chinese regime.

Ahead of Pelosi's trip, Biden had said it was a "bad idea" and noted that the military was against it. A White House spokesperson subsequently said that Pelosi had "a right" to visit Taiwan, and that the administration wouldn't be intimidated by Chinese threats over her trip.

"One hopes Beijing is just as confused as we are—as to whether the Biden administration will challenge or placate the PRC," Newsham said.

"But the CCP leaders are just as likely to believe that the administration's confusion (and indeed, fear) over something as straightforward as a high-level visit to Taiwan (of which there have been many)—indicates the administration will be paralyzed if China makes a serious military move against Taiwan."

Every administration faces a range of opinions and pressures when it tries to carry out a China policy, according to Newsham.

"Some officials and constituencies want a 'tough' approach, while others (think Wall Street, the US-China Business Council, and even parts of the State Department) want to appease and accommodate the PRC. So, [Washington's] China policy often seems contradictory—and working at cross-purposes," he said.

State Department officials didn't respond by press time to a request by The Epoch Times for comment.



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An aerial view of high-speed trains at a maintenance factory in Zhengzhou, Henan Province, China, on June 20, 2016.

OPINION

# Can China Transition to a Consumption Economy?

CHRISTOPHER BALDING

The great economist Michael Pettis at Tsinghua University has noted for years the importance for the Chinese economy to shift its growth dependency away from investment and toward greater consumption. As China faces its weakest sustained economic period in modern history, it bears worth asking, can China shift toward a more consumer-focused economy?

The Chinese economy is unique among major economies due to its low share of the household sector within the macro-economy. Most economies typically have a household sector that accounts for 60-75 percent of activity. The United States, for example, hovers around 70 percent. In China, however, households account for only about 45 percent. This difference creates a wide variety of problems, from misunderstanding basic economic data to how to solve policy problems

The unfortunate reality is that China needs to write down massive amounts of assets and raise enormous amounts of capital for its banks.

like shifting activity.

The first problem this creates is when analysts compare cross-country data on debt to GDP in various formats, such as household debt to GDP. Due to the starkly different shares of income between households in China and other countries, Chinese households have significantly less income to repay debts than households in other countries. In fact, if we adjust household debt levels for household income rather than GDP, Chinese households are some of the most indebted in the world, even more than the United States and most OECD countries paying a significantly higher share of their income toward debt servicing due to interest rate differentials.

This simple, often overlooked adjustment has significant implications for how we conceptualize a move away from the investment infrastructure-driven growth model toward a consumption-driven growth model. While the 45 percent household share gives the superficial ap-

pearance that Chinese consumption can increase significantly, the reality is very different.

The Chinese consumer simply does not have the financial capability to increase consumption share. Real estate sales are down with nominal sales of retail goods and services flat, meaning that after accounting for surging inflation, Chinese consumers are purchasing less than they did a year ago. Highly indebted—with a large percentage of their income being used to service debt—Chinese households simply do not have the financial flexibility to ramp up spending.

While some may argue that high Chinese household savings rates will cushion the downturn creating a path for a gradual transition to a consumption-led economy, this is also built upon a misconception.

Savings are typically thought of as liquid financial assets that can be used in times of distress, such as bank deposits or stock market holdings. However, we have simultaneously witnessed the Chinese household save at high rates and become highly indebted. How do we reconcile these seemingly confounding variables?

Chinese are saving and borrowing at high rates to facilitate real estate purchases still seen as backed by the state. So why is this important? It means that both variables are true, but the Chinese household depletes its liquid cash savings to purchase real estate. The savings still count as savings for the household but leave the household with minimal fallback in case of emergency. It is misguided to believe a high savings rate will save the depleted, over-leveraged consumer seeking merely to service a high debt load.

So if households' low income as a share of national income is the problem, is it possible to reallocate income away from investment toward households so they can increase total consumption? Shifting income in an economy, leaving aside the intractable politics of such a move even in China, is not simply a matter of snap-

ping fingers to move money between accounts. Moving away from investment industries requires reducing employment and activity in highly indebted sectors, accounting for material amounts of bank assets, and employing millions of people.

It is a major question whether companies from steel to real estate development could survive without bringing down the banking sector even with the current trend levels of state support, direct or indirect, assuming the state even wanted to prioritize a shift away from an investment-reliant economy. Steel mills do not just become high-tech industries, and those debts from real estate developers do not just vanish when they demolish a building. Beijing finds itself in the unenviable position of not necessarily wanting to support these failing industries but, conversely, risking cratering the entire economy if they do not. This sucks up resources that may be used to nourish other industries even if we assume that Beijing really wants to move away from investment-led growth.

Years ago, before it reached the critical nature of its economy, it was possible for Beijing to reduce its reliance on investment-led growth without destroying the financial sector. In 2022, it is a highly dubious proposition that if Beijing did not support these failing industries, they could collapse without taking the rest of the economy into a crisis.

The fundamental problem is that all this debt absorbed by China—from corporations to households, has been used to purchase assets that simply do not justify the prices based on the cash flow. Whether it is real estate valued at 30-50 times income or high-speed rail lines that borrowed heavily to build a nationwide network with low ridership on most lines, the debt was not used wisely to generate productive assets with a cash flow to repay those debts.

In reality, large amounts of debt used for investment were used for consumption. For example, with local governments selling land to developers, the revenue realized from purchases by consumers was spent on public goods and services. The savings consumed and debt incurred by consumers to purchase asset was effectively used to front load public service provision. The purchase of real estate assets at inflated prices only makes sense on the expectation that asset prices continue to rise near double digits for years into the future—an unlikely scenario at best.

With vast amounts of debt either allocated to unproductive uses or consumed, and industries needing public assistance teetering on edge, Beijing lacks the financial flexibility to cushion the blow of shifting resources away from unproductive industries toward more consumption. Large amounts of what we think of as savings and investments should actually be considered consumption. That high-speed rail line that does not generate nearly enough revenue to meet its debt service obligation may bring social spillovers that make it a net positive—but that means the debt needs to be socialized and written down. Given the teetering financial system, Beijing cannot do this at a country level without vast amounts of new bank capital.

The unfortunate reality is that China needs to write down massive amounts of assets and raise enormous amounts of capital for its banks. It is simply impossible to change the Chinese growth model to prioritize consumption absent a reality check on the finances. Lowering growth risks tipping these unproductive sectors into bankruptcy, triggering a large macro-crisis.

It is a very accurate assessment to say that China needs to shift its growth and fundamental economic model. The cold hard reality is it cannot without triggering larger crises.

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

Christopher Balding was a professor at the Fulbright University Vietnam and the HSBC Business School of Peking University Graduate School. He specializes in the Chinese economy, financial markets, and technology. A senior fellow at the Henry Jackson Society, he lived in China and Vietnam for more than a decade before relocating to the United States.

OPINION

# China's Economic Disaster and Markets

FAN YU

China's economy is in shambles.

While it is unlikely to affect Chinese Communist Party leader Xi Jinping's bid for another term as the regime boss, the world's No. 2 economy will have an impact on the rest of the world if it crashes and burns.

China's real estate sector—whose importance cannot be understated in driving the country's economic ascension over the last two decades—is broken. Many property developers have defaulted. And consumers are pushing back, refusing to pay their mortgages on unfinished housing units and even holding protests in dozens of cities across the country.

Meanwhile, domestic growth is sputtering as the nation continues to enact on-again and off-again CCP virus-related lockdowns. As of the end of August, lockdowns continue to impact Hebei Province, which is just outside of Beijing, and mass testing is continuing in Tianjin. While China has been able to manage its economic output amid lockdowns—using closed-loop systems—its domestic economy and consumer spending levels have been hurt.

Unemployment rates are worrisome as well. The unemployment rate among Chinese urban youths reached an astounding 20 percent while more new graduates are expected to enter the workforce this fall. Chinese technology companies have traditionally been a source of jobs, but last year's state-led clampdown on tech has left many firms without the capital to expand headcount.

Retail Weakness

China's economic woes will impact U.S. and Western multinational companies, especially companies with large retail presence in China. One example is Starbucks, which has thousands of outlets in China and maintains more than one-third market share in the world's most populous country. Starbucks reported a 40 percent drop in the second quarter in China sales.

Another company negatively impacted is Nike. The shoe and apparel maker has major retail presence in China, and its second-quarter earnings fell by 55 percent. Both firms blamed COVID-related lockdowns for their sales and earnings declines.

Other retail giants including Adidas and luxury companies such as Richemont and Burberry also reported sales declines in China.

Commodities Pressured

Global commodities are facing dual pressures of a strong U.S. dollar and weakening China demand. China over the last decade has been one of the key

importers of global commodities such as iron ore, copper, oil, and liquid natural gas (LNG).

Chinese imports of iron ore in July were up 3.1 percent, although during the first seven months of 2022 total imports were down 3.4 percent compared to last year. China's imports of LNG declined 15.4 percent in July, and down 20.3 percent in the year-to-date period through July. China's lower LNG demand has not impacted the LNG market as demand from Europe—cut off from Russian gas—has kept LNG price sky high.

While China continues to import crude oil from Russia while most other Western nations have sanctioned Russia, China's overall level of oil imports has decreased due to domestic economic slowdown. West Texas Intermediate crude closed out August down for the third month in a row, the longest such decline in two years

Domestic growth is sputtering as the nation continues to enact on-again and off-again CCP virus-related lockdowns.

Dollar Gains

The U.S. Federal Reserve announced a "higher for longer" interest rate policy at its annual retreat in August in order to tackle inflation. Fed Chairman Jerome Powell vowed to do whatever it takes to rein in inflation, warning that it may cause "some pain" for investors.

China and the United States have been diverging in their respective monetary policy. In August, the People's Bank of China cut one-year benchmark rates by 5 basis points and the five-year benchmark lending rate by 15 basis points to stimulate credit demand and support its ailing real estate market. Those cuts came as a surprise, on the backs of worse-than-expected July consumer spending and borrowing figures.

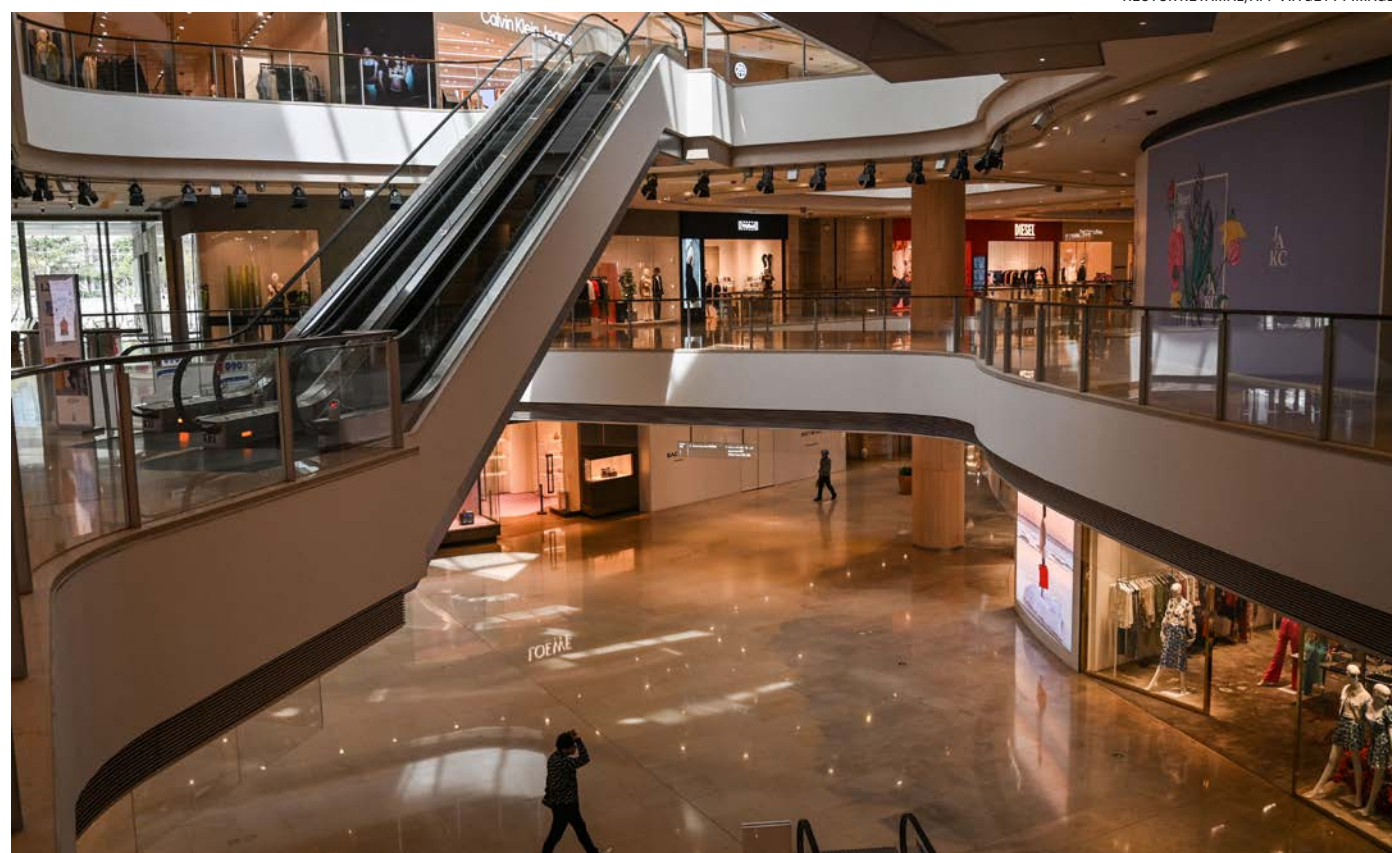
The Fed's continued hawkish tone should strengthen the U.S. dollar relative to other currencies. As for China's central bank, it now has less room to lower domestic interest rates.

In late August, Chinese state banks were selling the dollar in an effort to prop up its yuan currency, according to several currency traders who spoke with Bloomberg on an anonymous basis.

In the interim, expect the dollar to continue to climb against the yuan.

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

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



People walk in a shopping mall in Jingan district in Shanghai on March 16, 2022.



People walk past the Beijing Stock Exchange on its first day of trading in Beijing on Nov. 15, 2021.





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