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# CHINA INSIDER

## CHINA EYES THE SOUTH PACIFIC

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Solomon Islands Prime Minister Manasseh Sogavare and Chinese Premier Li Keqiang inspect honor guards during a welcome ceremony at the Great Hall of the People in Beijing on Oct. 9, 2019.



A health worker takes a swab sample from a child to be tested for COVID-19, in Tianjin, China, on Sept. 2, 2022.

## CCP LOCKDOWNS

# Tens of Millions in China Under New COVID-19 Lockdown Ahead of CCP Meeting

DOROTHY LI

Schools have postponed reopening. Businesses are shut down. Residents line up for a new throat swab.

Once again, dozens of Chinese cities are tightening COVID-19 curbs in the run-up to a major Chinese Communist Party (CCP) meeting next month.

A weeklong lockdown in the metropolis of Chengdu was extended on Sept. 8 after more than a hundred COVID-19 cases were reported. Officials ordered its 21 million residents on Sept. 1 to stay at home while conducting three-day citywide COVID-19 testing. The order has since been extended.

At the Sept. 8 briefing, authorities extended the curbs in most areas as “the risk of community transmission still exists in some regions.” Chengdu, the biggest city to be locked down since Shanghai’s two-month closure, has yet to announce an exit plan.

At least 34 Chinese cities have been placed under partial or full lockdown as of Sept. 5, including seven provincial capitals, according to the health news platform of People Daily, the CCP’s flagship newspaper. These cities range across the country, from northern oil production center Daqing to southern tech hub Shenzhen.

The COVID-19 curbs have disrupted the lives of 291.7 million residents, accounting for 20.7 percent of China’s population, Japanese bank Nomura wrote in a Sept. 6 note. Nomura estimates that 49 Chinese cities had various levels of lockdowns or control measures, which contribute to 24.5 percent of the country’s gross domestic product (GDP).

The widespread shutdown comes as the CCP prepares for its important 20th Party Congress, which is set to open on Oct. 16 in Beijing. At the twice-a-decade party conclave, Chinese leader Xi Jinping will be seeking a record third five-year term in office, and the new top Party leadership will be announced.

While Xi is expected to secure his position, “the rising infections have become the biggest variable of the Party Congress,” according to Chinese commentator Wang He. “If the outbreak hit Beijing suddenly, could the Party Congress continue?” Wang asked.

## Regular Tests and Travel Restrictions

Since the start of September, 29 of the country’s 31 provinces have reported new infections, Mi Feng, spokesperson of the national health commission, told reporters at a Sept. 7 press conference.

Facing the challenges posed by the highly-contagious Omicron coronavirus variant, Mi said officials must stick to the regime’s zero-COVID approach “unswervingly.” The stringent policy aims to eliminate any infection among communities through regular testing, mandatory quarantines, and repeated lockdowns.

The official said cities reporting no new infections must implement a “normalized” testing system, implying that residents be

They abused ... epidemic prevention and control data, turning my health code red and [enforcing] home quarantine. Their methods to maintain social stability are extremely evil.

Yang Jiahao, local resident

tested every few days.

The move, which drew rebukes from Chinese social media users, marks a U-turn in policy. China’s National Health Commission stated in a June press conference that checking COVID-19 test results “shouldn’t become a new norm” in cities without outbreaks.

However, health authorities said on Sept. 8 that residents who take trains, planes, long-distance buses, and ferries are required to show proof of a negative COVID-19 test result from the previous 48 hours.

The new curbs will take effect through Oct. 31, covering the major Party gatherings and upcoming holidays.

Authorities urged residents to stay put during the Sept. 10 through Sept. 12 Mid-Autumn Festival and the week-long holiday at the beginning of October.

In Beijing, travel restrictions were already tightened earlier this week. People who have visited county-level administrative divisions with a single confirmed case in the given seven-day period are banned from entering the capital city, a spokesperson for city authorities told a press briefing on Sept. 3.

## Costs

The costs of sticking to the CCP’s zero-COVID strategy are mounting.

The lockdown of tens of millions of people earlier this year has slashed China’s economy, sending youth unemployment to a record high and prompting foreign companies to shift their investment out of the country. Seeing the latest lockdown, economists further slashed China’s economic growth forecast. Nomura cut the full-year GDP forecast to 2.7 percent on Sept. 6 from August’s 2.8 percent, far lower than Beijing’s target of “around 5.5 percent.”

Still, the seemingly endless lockdown has inflicted pain on residents. In Chengdu, viral videos on Chinese social media show people being barred from fleeing their homes in the aftermath of a 6.8 magnitude earthquake earlier this week.

A woman from Guiyang, where more

than half of the city has been locked down since Sept. 5, said many are enduring food shortages in her community. She lives in the community of Huaguoyuan, home to roughly 400,000 residents.

“[The lockdown] was very abrupt, and many didn’t prepare supplies,” she told The Epoch Times on Sept. 8. “We’re in quite a tough situation.”

## Control

Petitioners and dissidents claim that officials are using the COVID-19 control measures to keep them out of the public eye so as to not disrupt the upcoming CCP congress.

Yang Jiahao, a man who was detained for more than 400 days after writing and publishing a letter to the Chinese leader in protest of local authorities’ decision on his lawsuit, planned to travel to Beijing on Sept. 5 in the hope of seeking justice.

But the petition was forced to be canceled. He found that his code on the mandatory health surveillance app suddenly turned red in the morning. Yang said he tested negative on Sept. 4 before being summoned by local officials later that day. The red code means that he lost access to everything from public toilets to shops to train stations and faced a mandatory quarantine.

Yang told The Epoch Times on Sept. 8 that he’s currently under home quarantine, although his second test on Sept. 8 still returned with a negative result. He said officials sealed the door with paper and installed electronic alarms to enforce the home quarantine, despite him having little to no food left at home.

“They abused ... epidemic prevention and control data, turning my health code red and [enforcing] home quarantine,” Yang said. “Their methods to maintain social stability are extremely evil.”

Luo Ya, Gu Xiaohua, Xiao Lvsheng, Li Xi, and Reuters contributed to the report.



People line up to be tested for COVID-19 next to a propaganda poster showing Chinese leader Xi Jinping on a bulletin board in Beijing on Aug. 31, 2022.

## NATIONAL SECURITY

# Twitter Was Notified at Least 1 Chinese Spy Was on Company’s Payroll, Whistleblower Testifies

CATHY HE

The former head of security at Twitter was told earlier this year by the U.S. government that there was at least one agent of China’s top intelligence agency, the Ministry of State Security (MSS), working as an employee at the company.

This was one of the revelations made by Peiter “Mudge” Zatko, a whistleblower who served as Twitter’s head of security for about 14 months before being fired earlier this year, during testimony before a Senate Judiciary Committee hearing on Sept. 13.

Ranking Member Sen. Chuck Grassley (R-Iowa) asked Zatko: “In your disclosure, you mentioned that the FBI notified Twitter that one of their employees was suspected of being a Chinese foreign asset. Were you and others at Twitter at all surprised by that?”

Zatko replied that he was notified of this information about a week before he was dismissed.

“The corporate security physical security team had been contacted and told that there was at least one agent of the MSS, which is one of China’s intelligence services, on the payroll inside Twitter,” he said.

Zatko’s testimony expanded upon a raft of allegations of widespread security failings that could harm users of the platform, shareholders, and U.S. national security set out in a complaint to federal regulators in July. Twitter has labeled Zatko’s claims as a “false narrative.”

The whistleblower testified that when he raised his concerns about foreign agents at Twitter to an executive, they were dismissed.

“When I said, ‘I am confident that we have a foreign agent,’ [the executive’s] response was, ‘Well since we already have one, what does it matter if we have more; let’s keep growing the office,’” he recalled during the hearing.

Zatko said that Twitter would be a “goldmine” for any foreign intelligence agency that was able to place an operative inside.

If you place somebody on Twitter ... as we know has happened, it would be very difficult for Twitter to find them. They will prob-



Peiter “Mudge” Zatko, former head of security at Twitter, testifies before the Senate Judiciary Committee on data security at Twitter, on Capitol Hill, on Sept. 13, 2022 in Washington.

ably be able to stay there for a long period of time, and gain significant information to provide back on either targeting people or on information as to Twitter’s decisions and discussions and ... the direction of the company.”

Zatko is a respected former “white hat” hacker who’s previously worked for Google, payments firm Stripe, and the U.S. Department of Defense. He was hired in 2020 by then-Twitter CEO Jack Dorsey in the aftermath of a major hack that hijacked dozens of high-profile accounts to promote a bitcoin scam.

## Chinese Sales

Zatko’s complaint also alleges that Twitter was becoming dependent on sales to Chinese entities, even though the platform is blocked in China, raising the risk that such entities could then access the data of Chinese users who had circumvented the communist regime’s censorship firewall.

“Twitter executives knew that accepting Chinese money risked endangering users in

China,” the 84-page complaint said.

Over the years, the Chinese regime has arrested, harassed, and jailed citizens for circumventing its firewall to use and post messages on Twitter.

“They didn’t know what people they were putting at risk. Or what information they were even giving to the government, which made me concerned that they hadn’t thought through the problem in the first place—that they were putting their users at risk,” Zato said at the hearing.

He summarized the executives’ response to his concerns as: “We’re already in bed. It would be problematic if we lost that revenue stream. So figure out a way to make people comfortable with it.”

## Leadership Failings

Senior leadership’s dismissals of Zato’s warnings and concerns became a common theme, according to the whistleblower.

Twitter’s leadership chose to ignore repeated warnings from Zato of “fundamen-

tal” cybersecurity problems, and misled its board, shareholders, and the public about them because it was incentivized to “prioritize profits over security,” Zato said.

“What I discovered when I joined Twitter [in November 2020] was that this enormously influential company was over a decade behind industry security standards.”

The data security problems at Twitter, according to Zato, stem from two basic issues: “They don’t know what data they have, where it lives, or where it came from. And so unsurprisingly, they can’t protect it. And this leads to the second problem, which is the employees then have to have too much access to too much data and too many systems.”

To illustrate the second point, Zato said that about half of Twitter employees have access to the Twitter account of Sen. Chuck Grassley (R-Iowa), the committee’s ranking member.

“The company’s cybersecurity failures make it vulnerable to exploitation, causing real harm to real people,” Zato said.

“When an influential media platform can be compromised by teenagers, thieves, and spies, and the company repeatedly creates security problems on their own, this is a big deal for all of us.”

Among his claims, Zato said Twitter misled regulators about compliance with a 2011 Federal Trade Commission order over the improper handling of user data.

Since then, Twitter has made “little meaningful progress on basic security, integrity and privacy systems,” Zato’s complaint said.

The testimony came as the San Francisco-based company is locked in a legal battle with tech billionaire Elon Musk after the Tesla CEO pulled out of a \$44 billion deal to buy the social media platform over its lack of transparency regarding the number of bot and spam accounts on the platform.

Twitter sued Musk for terminating the deal, while Musk countersued, accusing Twitter of fraud. The trial is set for next month in a Delaware court.

The Epoch Times has reached out to Twitter for comment.



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Solomon Islands Prime Minister Manasseh Sogavare and Chinese Premier Li Keqiang inspect honor guards during a welcome ceremony at the Great Hall of the People in Beijing on Oct. 9, 2019.

## ANALYSIS

# China's South Pacific Gambit: The Strategic Challenge

JOSEPH V. MICALLEF

On Aug. 23, the Solomon Islands advised the United States that it had issued a moratorium on port visits by foreign military vessels, pending a formal review of current protocols regarding such visits. The announcement affected the U.S. Coast Guard Cutter Oliver Henry and the Royal Navy's HMS Spey, both tasked with policing international fishing in South Pacific waters. U.S. hospital ship USNS Mercy, however, was exempted from the ban. The announcement came just a few months after the Solomon Islands and China signed a secret agreement that significantly expanded military and security cooperation between the two countries.

The pact also allows the Solomon Islands government to call on China to provide security and military forces if they were needed to quell domestic unrest.

These two events, combined with several other notable developments, underscored Beijing's growing diplomatic and economic clout in the South Pacific and triggered alarm bells from Canberra to Washington.

What is China up to in the South Pacific, and what are the security implications for the United States and its Pacific allies?

### The Geostrategic Significance of Oceania

The South Pacific region, often termed Oceania, covers approximately 15 percent of the world's surface, a region roughly three times the area of the continental United States. It consists of 14 sovereign nations and seven territories. It includes some 30,000 different islands and atolls and stretches from South America to Western Australia and north to Hawaii and Guam. Some 13 million people inhabit the region. Although Australia and New Zealand are South Pacific nations, they are typically excluded from the geographic scope of Oceania.

Oceania sits astride the main maritime shipping routes between Australia and the United States and between Australia and Japan and South Korea. More importantly, the transpacific fiber optic cables that connect the United States with Australia and New Zealand, and those that connect those countries with East Asia to the north, all transit to Oceania.

The region is mineral rich both on land and on and beneath the seabed. Notwithstanding some two decades of unrelenting Chinese fishing, it also represents the world's largest untapped source of marine protein.

Chinese military strategists have often characterized Beijing's main geostrategic

objective in the Western and Central Pacific as gaining control of the three successive island chains that ring the Chinese mainland. These rings present a series of naval choke points that would allow an adversary to interdict China's maritime trade and cripple its economy.

The first island chain runs from the Kuril Islands through Japan, Taiwan, to the Philippines, and on to Indonesia and Vietnam. It borders the eastern perimeter of the East and South China seas.

The second island chain runs from Japan to the Marianas, including the key U.S. base on Guam, the Western Caroline Islands, extends to Western New Guinea, and forms the eastern maritime boundary of the Philippine Sea.

The third island chain extends from the eastern Aleutians to Hawaii, across the center of the Pacific Ocean to American Samoa, Fiji, and New Zealand.

While Chinese military strategists have often referenced the island chains—arguing that Beijing must control the first two island chains to secure its maritime approaches and, ideally, the third island chain to thwart the projection of American naval power into the Western Pacific—the concept of the three island chain was originally American in origin. It was first coined by U.S. Secretary John Foster Dulles in 1952 as part of the strategy of “containing” the Soviet Union and China.

Oceania sits astride the second and third island chains.

Beijing has played an increasingly prominent role in Oceania over the last two decades.

Between 2006 and 2021, Beijing provided between \$1.5 billion and \$2.0 billion in foreign aid through a mixture of

grants and “soft” loans. Those loans were used to fund various projects—from a new sports stadium in the Solomon Islands to various infrastructure projects, including bridges in Fiji and highways in New Guinea. Notwithstanding Beijing's largesse, however, it is only the third largest donor to Oceania.

Australia remains the largest contributor to foreign aid. Over the last decade, it has provided over \$7 billion across 8,738 projects. The statistics, however, are subject to a fair degree of interpretation since Australian and American assistance is sometimes in the form of in-kind goods and services, and their value is not always clear.

Two-way trade between China and Oceania reached \$5.3 billion in 2021. China has become the principal trading partner for most of the countries in Oceania, surpassing Australia. In the case of the Solomon Islands, currently, China's closest ally in the region, 46 percent of its trade turnover is with China. A further \$2.72 billion in direct foreign investment has been made by Chinese companies, many of them state-owned.

While Beijing's involvement in Oceania is relatively new, expatriate Chinese communities in the region have deep historical roots and date back several centuries. Those communities play an outsized role in the local economies and often dominate key areas of retailing and wholesale trade.

Anti-Chinese sentiment has at times sparked violent domestic riots, often in the guise of anti-government protests, for example, in the 2021 riots in Honiara, the capital of the Solomon Islands.

Those riots resulted in the torching and looting of Chinese businesses in Honiara and the death of four Chinese Solomon

Islanders. Resentment against the financial success of expatriate Chinese communities has been an infrequent but persistent phenomenon not just in Oceania but throughout East Asia.

The region is particularly vulnerable to outside pressure. Most of these countries consist of low-lying islands that are at significant risk from natural calamities. These are small, generally remote nations situated at the end of maritime routes that are thousands of miles long.

Although their populations are quite small, so is the available land area. Overcrowding is a significant problem, especially given their rapid population growth.

Tourism is a critical industry in Oceania, although its impact varies significantly, ranging from relatively insignificant in Tuvalu to 10 percent of GDP in the Solomon Islands (among the least developed for tourism) to almost 40 percent in Fiji (the most developed for tourism).

Cruise-related tourism has also become an important factor, with around 1.5 million cruise tourists visiting the region in 2019. The bulk of Oceania's tourists is from Australia and New Zealand and, to a lesser extent, from the United States.

Oceania's tourism industry has been hard hit by the impact of COVID-19 lockdowns, including the extensive lockdowns in Australia, and has still not returned to pre-pandemic levels.

The result is that Tonga has been on the verge of default for the last decade, while Kiribati, the Marshall Islands, Micronesia, Papua New Guinea, Samoa, Tonga, and Tuvalu are considered to be severely financially distressed.

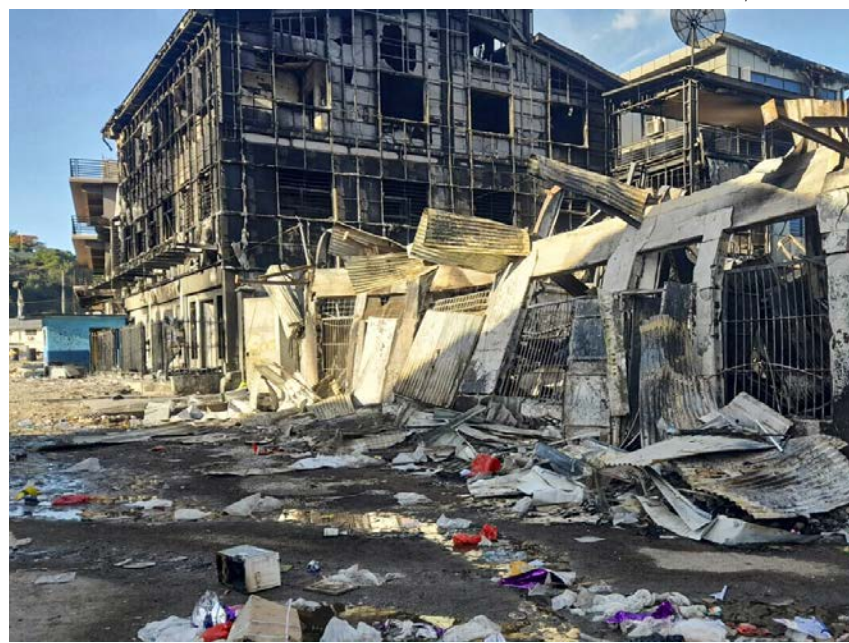
The Solomon Islands, Vanuatu, and East Timor are financially more stable but still stressed.

### China's South Pacific Ambitions

Beijing, in the guise of the Belt and Road Initiative (BRI, also known as “One Belt, One Road”) infrastructure program, has been looking for opportunities to develop air and marine infrastructure in Oceania. Western military analysts see such projects as presenting dual use—both commercial and military—capabilities.

In 2018, a Chinese proposal to finance a major port development on Vanuatu's Santo island precipitated a strongly-worded protest from Australia and was subsequently turned down by Vanuatu.

Several years later, a Chinese offer to rehabilitate World War II-era port facilities on New Guinea's Manus Island was preempted by a joint U.S.-Australian proposal to modernize the port. Another Chinese initiative was a proposal to lease the entire island of Tulagi in the Solomon Islands, the



This photo shows the aftermath of a looted street in Honiara's Chinatown, Solomon Islands, on Nov. 27, 2021.

scene of intense fighting in World War II. In 2021, Beijing offered to finance a study to rehabilitate an airstrip on Kiribati's island of Kanton. The now rarely used strategic airstrip is located about halfway between the Americas and Asia and was, until the advent of long-range commercial jets, a major refueling stop in transpacific airline flights. The status of this proposal is unclear.

Diplomatically, one of Beijing's ongoing objectives has been to isolate Taiwan from Oceania's countries. Until 2019, 6 of 14 Oceania countries recognized Taiwan. That year, the Solomon Islands and Kiribati dropped their diplomatic recognition of Taipei. The Marshall Islands, Nauru, Palau, and Tuvalu still maintain diplomatic relations with both Taiwan and China.

In April 2022, the Solomon Islands signed a far-reaching five-year pact with China, despite significant domestic opposition and protests from the United States, Australia, and New Zealand.

The final agreement was not released, but a previously leaked draft disclosed that the People's Liberation Army Navy (PLAN), with the approval of the Solomon Islands government, could make port calls and carry out replenishment activities. It would also be able to transit and conduct stopovers throughout the Solomon Islands.

Other provisions include permission for Beijing to use its police and military forces “to protect the safety of Chinese personnel and major projects in the Solomon Islands,” as well as the equipping and training of local police in anti-riot and security procedures. It's unclear whether the agreement also applies to the protection of ethnic Chinese Solomon Islanders.

Both Beijing and Honiara have denied that the agreement paves the way for a permanent Chinese base in the region. However, China does not need a permanent base to expand its military role in the region.

Access agreements and ongoing rotational deployments—as both the United States and Japan have done in the Philippines and China has done in Cambodia—provide a permanent military presence while still allowing all sides to deny that it represents a permanent military base.

Over the last decade, the PLAN's fleet has grown to 355 platforms, surpassing the size of the U.S. Navy and becoming the largest fleet in the world. Beijing has announced plans to grow that fleet to 420 ships by 2025 and 460 ships by 2030. However, at least one estimate of future Chinese naval strength has forecast that PLAN platforms could reach 560 by 2030. Retired Navy Capt. Jim Fanell provides an analysis of the development and capabilities of the PLAN on the U.S. Naval Institute podcast here.

Including Coast Guard ships, which are not included in the PLAN number, current China naval forces amount to roughly 571 ships.

The number of ships notwithstanding, however, 309 of the 571 ships in China's naval forces are coast guard cutters and

Although the avalanche of diplomatic activity has underscored the region's importance to the United States and its regional allies after decades of benign neglect, little substantive action has come from it to date.

Chinese financial assistance, trade, investment, and Beijing's success at co-opting local elites give China considerable tools to achieve its objectives.



U.S. Secretary of State Antony Blinken (L) attends a meeting with Fijian acting Prime Minister Aiyaz Sayed-Khaiyum (R) in Nadi, Fiji, on Feb. 12, 2022.

coastal patrol craft. These ships, in general, have an operating range of fewer than 500 miles. However, the PLAN has invested heavily in Type 901 and Type 903 resupply ships. Combined with overseas bases, this resupply capability gives the PLAN significant and rapidly growing blue water capabilities.

Over the last decade, PLAN ships have operated globally, including in major maritime theaters like the Baltic, Mediterranean, Caribbean, Arabian, Japanese, and Philippine seas. Moreover, China's blue water capability is continuing to grow rapidly. While the U.S. Navy still retains a significant edge, its advantage is being steadily eroded both by the continued growth in the number of PLAN ships and their resupply capabilities and by U.S. Navy budgetary cuts and ship obsolescence.

Effective force projection into the Western Pacific and the ability to secure its maritime passages across the various choke points in the first and second island arcs will require several regional bases, especially in Oceania, and the continued expansion of the PLAN's resupply capability.

That's one reason why Beijing's BRI and its emphasis on maritime infrastructure has raised concerns in Washington that these facilities, ostensible for civilian and commercial purposes, could also double as dual-use facilities and will significantly expand the PLAN's operational range.

The scope of Beijing's ambitions in the South Pacific was outlined in May when Chinese Foreign Minister Wang Yi did a tour of eight Oceania nations, met with three more remotely, and hosted a second round of the China-Pacific Island Countries Foreign Ministers' Meeting in Suva, Fiji.

Wang unexpectedly, presented a sweeping proposal, the “China-Pacific Island Countries Common Development Vision,” calling for China and the nations of Oceania to formulate a “marine spatial plan” to fully develop the region's “blue” economy.

In addition to the expanded investment—both from private Chinese companies and state entities—and Beijing's BRI infrastructure program, China also proposed new security arrangements that envisioned cybersecurity cooperation, an expanded role for Chinese telecommunications company Huawei in building and maintaining local communications and internet infrastructure, and an expanded role for Chinese police and military/security forces to train, provide equipment and support for police and military forces at both a national and regional level.

The proposal also called for establishing a network of Beijing-funded Confucius Institutes throughout Oceania, the provisioning of thousands of scholarships for advanced study in China, as well as the appointment of a Chinese special envoy to the region, and the establishment of several high-level diplomatic forums.

A leaked version of Beijing's proposed agreement and reports in Chinese media suggested that the initiative's long-term goal was to establish a common market between China and the nations of Oceania.

The proposed region-wide economic and security framework failed to generate support among Oceania's nations. After the meeting, Beijing published a “Position Paper on Mutual Respect and Common Development with Pacific Island Countries,” which presented 15 proposals for expanding China's role in the region.

Wang's effort was not entirely fruitless, however. Samoa, Kiribati, and Niue agreed to enhance their cooperation with China's BRI. Additionally, Wang signed 52 separate bilateral agreements during his tour, including a rumored proposal to have Kiribati open the Phoenix Islands Protected Area (PIPA)—the world's largest marine reserve—to China's fishing fleet. The PIPA World Heritage Site is roughly the size of the state of California.

### The Responses to China's South Pacific Gambit

Predictably, China's diplomatic and economic initiatives in the South Pacific have triggered concern in Washington, Canberra, and Auckland and unleashed a flurry of diplomatic activity.

The Biden administration has announced plans to open embassies in Kiribati and Tonga, increase financial aid to the region, and plans to name a special envoy to the Pacific Islands Forum. It also unveiled the Indo-Pacific Economic Framework for Prosperity. The United States also announced plans to reopen its embassy in the Solomon Islands after being closed for almost three decades.

Washington has also dispatched several high-level diplomatic delegations to meet with Oceania's leaders. Secretary of State Antony Blinken visited the region, becoming the first American secretary of state in 36 years to visit Fiji. Vice President Kamala Harris appeared virtually at the Pacific Islands Forum to unveil the Biden administration's Pacific Strategy.

In June, the Biden administration announced the “Partners in the Blue Pacific,” an intergovernmental group that includes Australia, New Zealand, Japan, and the United Kingdom, to foster diplomatic and economic ties with Oceania.

Newly-appointed Australian Foreign Minister Penny Wong made three trips to the region following her appointment on May 22. Australian Prime Minister Anthony Albanese also visited Oceania, attending a regional meeting in Fiji on July 14, and talked up Australia's “Neighborhood First” policy. He also promised more financial assistance and plans to establish a school to train Pacific island security forces.

New Zealand Prime Minister Jacinda Ardern expressed concern over China's ambitions in Oceania. She attended the Fiji summit and promised expanded financial aid and a new climate initiative.

Although the avalanche of diplomatic activity has underscored the region's importance to the United States and its regional allies after decades of benign neglect, little substantive action has come from it to date.

The United States, Australia, and New Zealand remain Oceania's preferred development and security partners. Many countries in Oceania are hesitant about expanding their relationship with China if that comes at the price of weakening traditional ties to the United States and its local allies.

On the other hand, Beijing has made it clear that securing its maritime approaches is a key objective of its strategic policy. Achieving that object will require both the expansion of Chinese naval power in the Western and Central Pacific and the diminution of American strength and diplomatic influence in Oceania.

Chinese financial assistance, trade, investment, and Beijing's success at co-opting local elites give China considerable tools to achieve its objectives. Given Oceania's importance to China's long-term security goals, the region will continue to be a focus of Beijing's diplomacy.

Oceania is well on its way to becoming another arena of Sino-American competition.

*Joseph V. Micallef is a historian, best-selling author, syndicated columnist, war correspondent, and private equity investor. He holds a master's degree from the Massachusetts Institute of Technology and was a Fulbright fellow at the Italian Institute of International Affairs. He has been a commentator for several broadcast venues and media outlets and has also written several books on military history and world affairs. His latest book, “Leadership in an Opaque Future,” is forthcoming. Micallef is also a noted judge of wines and spirits and authored a bestselling book on Scotch whisky.*



Screenshot from Google Maps showing the first island chain, taken on Sept. 23, 2021.



Kiribati's President Taneti Maamau (C) listens as Chinese leader Xi Jinping speaks during a meeting in Beijing on Jan. 6, 2020.

## OPINION

# The Great China Currency Collapse

The rapidly falling yuan means even more hardship as Beijing struggles to maintain the illusion of mastery over the economy

JAMES GORRIE



China's collapsing currency is the latest in a series of economic decline symptoms that the Chinese Communist Party (CCP) leadership is scrambling to resolve, but so far, with little success.

The reasons for the yuan's fall and Beijing's failure are as predictable as they are destructive.

## An Economic Chain Reaction

A major cause of the falling value of the yuan can be traced to the CCP's zero-tolerance response to continuous outbreaks of the CCP virus across China. Beijing's total lockdown policy for even a small number of cases in city after city over the past two-and-a-half years has severely interrupted export manufacturing activity.

That has not only caused a slowdown in manufacturing exports in China, but also in domestic demand and consumption. China's consumer and manufacturers' productivity for this past July fell well below expectations. Plus, the July growth rates for both are lower than those of June.

With millions of workers laid off during these seemingly endless lockdowns, consumer income and sentiment have both turned negative.

## Multiple Negative Economic Developments at Home

But falling export income, a manufacturing slowdown, and shrinking consumer demand are not the only negative consequences. Another factor is the collapse of the real estate development sector, which makes up about 29 percent of China's GDP. It's also a huge negative for consumer well-being and sentiment. Investments in real estate developments are a major part of individual retirement portfolios throughout China.

A study by Peterson Institute for International Economics (PIIE) states: "Nearly 60 percent of the total assets owned by urban Chinese households is property. That share is even higher for lower-income households. As a result, a sharp property price decline could trigger social unrest, something the Chinese government would want to avoid at all costs."

Domestic investors' response is unprecedented. Millions of owners have stopped or are threatening to stop paying the mortgages on either uncompleted or deeply devalued real estate development investments. This boycott could impact 200 projects in 80 cities and pose deleterious consequences for the financial sector.

But while incomes are falling in China, inflation is rising. In short, China's consumers are getting cut by the double-edged sword of lower incomes and higher prices. Add in millions of angry real estate investors, and a potential consequence is growing domestic unrest.



Unfinished apartment buildings at China Evergrande Group's Health Valley development on the outskirts of Nanjing, China, on Oct. 22, 2021.



A Chinese yuan currency sign with two arrows is pictured outside a bank branch of the People's Bank of China in Shanghai on Aug. 13, 2015.

With both inflation and unemployment on the rise—especially impacting the younger generation, along with a collapsing real estate sector—Beijing's management of the economy is under threat.

## Wide-Ranging Negative Impacts Abroad

But the negative consequences don't stop at China's border. China's ongoing currency devaluation, property development crisis, and falling growth rate are driving foreign investment out of China.

Global investors are selling China's currency and exiting yuan-denominated assets such as stocks and bonds. They're also selling assets in emerging nations heavily dependent upon China.

Their fears are reasonable. Continued shutdowns in China are disrupting supply chains in other emerging nations. Its economic malaise is expected to spread to other nations around the world, leading to other currency devaluations.

Per Hammarlund, the chief emerging markets strategist at Skandinaviska Enskilda Banken AB, said recently: "With the yuan set to weaken further, other emerging markets will face downward pressure on their currencies. The impact will be felt the most by nations which compete directly with China on exports."

It's that chain reaction that could trigger more capital flight into U.S. dollars, not because the U.S. economy is so strong, but because others are relatively much worse off. As Karl Schamotta, chief market strategist at Corpay, in an article from the Financial Times, noted, "We shouldn't see as much outperformance in the dollar, unless there is a big safe-haven move."

## Can Beijing Reverse Devaluation Trend?

China's policymakers at the People's Bank of China (PBOC) are trying to staunch or even reverse the yuan's depreciation with differing tactics. After the yuan's current slide to a two-year low, depreciating against the dollar by 8 percent year to date, the PBOC declared that starting on Sept. 15, it would cut its foreign exchange reserve requirement ratio (RRR) to 6 percent from 8 percent.

The PBOC said the reduction was intended to improve "financial institutions' ability to use foreign exchange capital." But how effective the move will be remains to be seen. Bruce

Pang, chief economist at Jones Lang Lasalle, said the announcement "could alleviate the pressure of a fast yuan depreciation."

Avoiding a rapid devaluation may be the most realistic outcome Beijing can hope for. At some point, however, instead of trying to maintain a fixed rate, the CCP could let the yuan float. But to do so would take control of the yuan out of the Party's hands. Some view that as unlikely to happen, as the Party must be seen as in full control of China's economy, and that includes its currency.

Other analysts, however, view the causes of the yuan's depreciation as not just a function of policy, but rather, as structural in nature, which is probably the case. In that case, Beijing may have to let the yuan float since it cannot control the capital flight of global investors and its necessary overreliance on inefficient but politically loyal state-owned enterprises (SOEs) for growth.

Bloomberg's Simon White agrees. "The forces causing the yuan to decline are structural, and there is a mounting likelihood that China may eventually drop the fixed-exchange rate regime altogether."

The challenge to let the yuan float will be to do so gradually while putting the right political spin on doing so.

## Can the CCP Effectively Manage Bad Economic News?

But by focusing stimulus on SOEs in the wake of continued lockdowns, Beijing has been essentially rewarding Party-owned enterprises at the expense of the consumer sector. As a result, China's trade surplus has been up about \$0.5 trillion since 2020.

It's not an economically smart tradeoff. The gain in export revenue cannot make up for the loss in consumer demand, which is shrinking and remains below pre-COVID levels. Furthermore, consumer lending, which is a major driver of imports, is at a 13-year low.

With both inflation and unemployment on the rise—especially impacting the younger generation, along with a collapsing real estate sector—Beijing's management of the economy is under threat.

Will China's great currency collapse challenge the ability of the CCP to effectively manage the fallout of a failing economy?

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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Retired U.S. Air Force Brig. Gen. Robert Spalding in Washington on May 29, 2019.

## OPINION

# The Chinese Communist Party Is at War With America

LEE SMITH



The Chinese Communist Party (CCP) is at war with the United States, although the bulk of our political and military leadership doesn't see it. According to retired U.S. Brig. Gen. Robert Spalding, that's because they're not trained to understand how the CCP has combined its economic, military, diplomatic, technological, and communications capabilities to wage unrestricted warfare against us, its principal enemy.

I spoke with Spalding for the latest episode of EpochTV's "Over the Target Live" about why it's so difficult to understand the nature and magnitude of the CCP threat. "I had to educate myself to see these patterns, because it's a completely different way of thinking, and our brains are not encoded to understand political warfare to the level that the Chinese Communist Party and the People's Liberation Army are. That's how they're taught. I was taught a different type of warfare," said the retired Air Force officer who flew B-2 stealth bombers.

Studying CCP political warfare, Spalding said, required him to "understand a new context for warfare that really had more to do with emotions and psychology, and control of the narrative."

Spalding served as the military attaché in the U.S. Embassy in Beijing at the beginning of Donald Trump's presidential term and later moved to the White House, where he was senior director for strategic planning. After leaving the administration in 2018, he resolved to educate Americans about the CCP's war against the West and expose the "main blueprint for China's efforts to unseat America as the world's economic, political, and ideological leader."

According to Spalding, the crucial doctrine is outlined in a 1999 booklet written by two People's Liberation Army colonels, Qiao Liang and Wang Xiangsui, called "Unrestricted Warfare." In Spalding's recently published book, "War Without Rules," he deciphers the difficult, dense, and often meandering CCP text that appears to have determined the course of the Beijing regime's relentless campaigns against the United States using every instrument at its disposal.

The colonels formulated their strategy, Spalding explains, in response to the 1996 crisis in the Taiwan Strait.

"The time period was when [President Bill] Clinton sent in two aircraft carriers into the Taiwan Strait because the Chinese Communist Party was lobbying missiles

into the strait, and Clinton wanted them to knock it off," Spalding told "Over the Target Live."

Because the Chinese were faced with "an incredible war machine," the colonels "were tasked with thinking how they come up with a doctrine for dealing with a very powerful United States."

The crucial lesson that they drew was to avoid direct military conflict with the United States. Instead, the CCP drew on instruments made available by the United States and other Western democracies, such as trade and economic relations, and international institutions that they could turn to their advantage. The colonels saw that globalization and the vast information platform provided by the internet would further the CCP's brand of warfare.

As Spalding writes in "War Without Rules," unrestricted warfare uses "all means, including armed force or non-armed force, military and non-military, and lethal and non-lethal means to compel the enemy to accept one's interest." The only rule in unrestricted warfare, writes Spalding, "is that there are no rules."

## They see ... the idea of freedom as an existential threat to the Chinese Communist Party.

Retired Air Force Brig. Gen. Robert Spalding, author of "War Without Rules"

To date, the CCP's most successful campaign is its use of COVID-19. In "War Without Rules," Spalding distinguishes between speculation "that the Chinese had designed COVID-19 in a lab as a bioweapon" and "the less extreme but proven case: that the CCP took advantage of a surprise crisis to advance its own interests and hurt its adversaries."

If you understand the nature of unrestricted warfare, Spalding said in his interview with "Over the Target Live," "you can see what they're doing with the coronavirus. It's not about the virus, it's about the fear that they were able to engender because the virus existed. ... And because of their connection to the West, they were able to use those connections to help pipe the fear [into Western societies]."

To spread fear, the CCP used institutions such as the World Health Organization (WHO), whose director, Tedros Adhanom Ghebreyesus, is reportedly influenced by the CCP. When China first locked down, Spalding said, the WHO "said this is unprecedented. This is not part of our pandemic protocol." And then the organization's messaging changed course, seemingly

directed by its relationship with the CCP. The WHO, Spalding said, later claimed that "lockdowns stopped the virus in its tracks. And so this encouraged the rest of the free world to basically embrace lockdowns."

Another institution Spalding cites is Imperial College London, which developed the predictive models that radically overstated the dangers of COVID-19 and then produced studies praising CCP lockdowns. Through various CCP outfits, Spalding said, Beijing "had been paying tens of millions of dollars to the Imperial College of London. Xi Jinping himself visited Imperial College of London in 2015."

Using Western institutions as instruments of political warfare to spread fear, the CCP shaped decisions that would ultimately destroy economies, communities, families, and lives. Moreover, the tactics employed by Western officials—lockdowns, widespread press and social media censorship of medical opinion that challenged official COVID narratives, and forced vaccine injections—violated freedoms that are the bedrock of Western societies.

And that was precisely the point of the CCP's political warfare campaign—to undermine the West's status as the defender of freedom. Beijing, according to Spalding, "is at war with democratic principles."

"They see ... the idea of freedom as an existential threat to the Chinese Communist Party," he said. "They're constantly concerned that their population may become awakened to these principles of freedom that are out there. And so they do everything in their power to make sure that they're sealed off from the West. But the real way to ensure their long-term survival is to ensure the West doesn't exist as a democracy."

How do the United States and other Western democracies protect their own principles and peoples against a totalitarian regime that uses any instrument at its disposal—including ones we've developed for peaceful purposes—to lay siege to us?

The problem is further complicated by the fact that much of the Western ruling class has been compromised by the CCP's unrestricted warfare against us—or worse yet—are willing collaborators in that campaign.

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

Lee Smith is a veteran journalist whose work appears in *Real Clear Investigations*, *The Federalist*, and *Tablet*. He is the author of "The Permanent Coup" and "The Plot Against the President."



Paramilitary policemen patrol in front of the People's Bank of China, the central bank of China, in Beijing on July 8, 2015.



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