

WEEK 51, 2022

THE EPOCH TIMES

CHINA INSIDER

BORROWED SWORDS

CHINA'S MILITARY IS BUILT
WITH US TECHNOLOGY

See Page 2



Troops disembark from a Chinese military helicopter during joint war games held by Russia and China held in northwestern China on Aug. 13, 2021.

ANALYSIS

'Borrowed Swords': China's Military Is Built With US Technology

ANDREW THORNEBROOKE

In California, a former U.S. Army pilot sells classified aviation research to China's communist regime.

In Kentucky, leaders of a defense contracting company allegedly conspire to sell technical drawings to China and illicitly introduce Chinese parts into the Pentagon's supply chain.

In Illinois, a China-based company allegedly bribes workers to steal proprietary communications technology from their American employers.

In Washington, a government agency is believed to be hacked by China-based cyber criminals who specialize in collecting national defense secrets.

These events highlight just some of the numerous methods that the Chinese Communist Party (CCP) is using to co-opt next-generation American technologies for the benefit of its own military modernization program.

Indeed, American technology is fueling communist China's military development to such an extent that experts believe, and reports attest, the issue presents a clear and present danger to both the United States and the international order which it leads.

Questions linger. How does American technology find its way into the hands of the CCP? Why don't the companies providing that technology do more to stop it? How deep does the threat to America really go?

Insider Threat

Casey Fleming is the CEO of strategic risk and counterintelligence firm BlackOps Partners. His job these days mostly focuses on sounding the alarm and working to counter the CCP's strategy of hybrid warfare, which he considers to pose an existential risk to the United States.

In large part, he says, espionage conducted by actors in or associated with U.S. companies supercharges the development of the CCP's military wing, the People's Liberation Army (PLA).

"The CCP obtains our technologies through cyber espionage, CCP or PLA 'employees', or compromised American employees through monetary compensation or blackmail, including contractors and in the supply chain," Fleming said.

"Mostly, it obtains technology through espionage and IP theft, though roughly one-third is through legitimate means including partnerships and CCP law requirements."

To that end, a Department of Justice statement in November 2021 reported that 80 percent of all economic espionage prosecutions conducted by the department since 2018 involved conduct that directly benefited the CCP.

Likewise, former Air Force and Space Force Chief Software Officer Nicolas Chail-



The U.S. Defence Advanced Research Projects Agency's Falcon Hypersonic Test Vehicle emerges from its rocket nose cone and prepares to re-enter the Earth's atmosphere, in this illustration.

lan said that insider threat was a leading cause of the technology transfer between the United States and China, and that the CCP was sending people to infiltrate American institutions of all varieties.

"Insider threat is probably the most underestimated threat of all these top organizations on the commercial side," Chailan said last year.

"The fact is, the Chinese Communist Party is really sending a lot of people to our universities and to our most innovative companies. There is a very big risk of exfiltration of data from within."

Though the concept of insider threat often seems theatrical or even conspiratorial to the average citizen, the fact is that communist China's most terrifying next-generation weapons are the direct result of such efforts.

Indeed, it was through insiders at America's top nuclear facility that the CCP was able to subvert U.S. research, using it to develop the regime's own hypersonic missiles.

Hypersonic Missiles Built on US Tech

In the summer of 2021, the CCP secretly launched a nuclear-capable hypersonic missile around the world. When news of the event finally broke into the public in October, it did not take long for experts and lawmakers alike to allege that the test could not have been conducted without the aid of stolen U.S. technologies and research.

"From this test, to the Wuhan Institute of Virology, to Xinjiang, U.S. technology has contributed to the Chinese Communist Party's ability to kill Americans, conduct dangerous research, and commit genocide," said Rep. Mike Gallagher (R-Wis.) in an email at the time.

"U.S. companies need to choose: Are you with us, or are you with this genocidal communist regime?" Gallagher's statement, it turned out, was half right.

The CCP did enhance its ability to kill Americans with American research. That research didn't come from a private corporation this time around, however. It came from the Department of Energy.

The regime's nuclear-capable hypersonic weapons were developed, at least in part, by people who were trained at the United States' top nuclear laboratory.

To date, at least 162 top research scientists from the Los Alamos National Laboratory were systematically recruited by the CCP to work on new weapons platforms, according to an investigative report released earlier this year by strategic intelligence firm Strider Technologies.

The report found that the subsequent research those scientists conducted for China advanced the regime's military in profound ways, and helped to develop hypersonic missiles, jet engines, deep-earth

penetrating warheads, stealth submarines, and unmanned autonomous vehicles

Much of that research conducted by the former Los Alamos scientists now directly threatens U.S. national security and could be used against American forces in the event of a conflict.

"Former Los Alamos scientists have made, and continue to make, considerable contributions to [China's] hypersonic, missile, and submarine programs that present an array of security risks for the United States and the entire free world," the report said.

Of the 162 scientists now in the employ of the CCP and its military machine, the report found, at least 59 were part of the regime's flagship talent recruitment program, the Thousand Talents Program, which seeks to attract overseas Chinese educated in elite programs back to the mainland to propel the regime to dominance.

As such, the report said that similar episodes could be likely across the whole of government.

"[S]imilar recruitment efforts may be widespread among U.S. government-funded laboratories, academic research institutions, and major centers of innovation," the report said.

"These programs are leveraging taxpayer-funded research to advance [China's] economic development and military modernization."

China's rapid military modernization is not limited to weapons platforms, however. To understand this, it is vital to look deeper at the systems those weapons themselves rely on. Systems that too often are also illicitly sourced from the United States.

Artificial Intelligence and Quantum Computing

When discussing the technologies sought after by the CCP, Fleming said that the regime placed a premium on next-generation research that could help it to leapfrog the United States' technological development.

"All technology is sought by the CCP but there is an added emphasis on AI, quantum computing, semiconductors, and cyber," Fleming said.

"Nearly all Chinese military technologies are built on stolen IP [intellectual property] from the U.S. and our free-world allies. A limited number are from stolen IP stemming from previous partnerships with Russia."

In short, the regime seeks AI to sort and leverage vast amounts of data, quantum computing to give that AI unprecedented processing power, and semiconductors to do that quantum computing on.

But to what end does the regime plan on using these critical and emergent technologies? In a word: Combat.

According to a 2022 report by The Center



(Left) A People's Liberation Army Air Force WZ-7 high-altitude reconnaissance drone a day before the 13th China International Aviation and Aerospace Exhibition in Zhuhai in southern China's Guangdong Province on Sept. 27, 2021.

(Right) Freshmen practice fighting skills during military training at a university in Gaochun County of Jiangsu Province, China, on Sept. 25, 2008.



for Security and Emerging Technology at Georgetown University (CSET), the PLA is making "significant progress" adapting AI to combat and combat support technologies.

Importantly, the report found that the majority of the regime's access to such technology was almost entirely dependent on American IP.

Out of 66,000 public contracts issued by the PLA, the report found, there were only 24 that dealt with the purchase of the types of high-end semiconductor chips used for AI applications. Nearly all of them were from U.S. manufacturers.

Similarly, military-affiliated organizations within China are actively working with U.S. tech corporations to further develop their AI capabilities with the explicit purpose of improving the regime's combat efficacy.

A previous CSET report, for example, found that U.S.-based Intel conducted research with China-based company 4Paradigm.

That research was ostensibly on optimizing memory in Very Large Databases. Intel said in an email to the Epoch Times that the research was academic in nature. Such research was marred, however, by the fact that 4Paradigm at the time maintained a contract with the PLA to develop AI decision-making and human-machine teaming software for use at the battalion and company levels of China's military.

The manner in which research originating from Los Alamos and Intel was delivered to the CCP regime raises important questions as to the relationship between U.S. research institutions, whether they be public or private, and communist China.

Namely, what can be done to prevent the flow of technology to the CCP, and at what point are American companies complicit in aiding the nation's greatest strategic competitor and potential military adversary?

CCP Laws Created to Steal Technology

The flow of research and technology from the United States to China does not always indicate corporate malfeasance. More often than not, CCP law is to blame.

One reason for this is that the CCP considers data itself to be a "national resource" and therefore subject to communist collectivization. Any data stored by businesses in mainland China is subject to the regime's national security, intelligence, cybersecurity, and data export laws, which were

designed to facilitate technology transfer.

The regime's 2021 data protection law requires that CCP officials vet certain data collected within China before it's sent abroad. Likewise, the regime's 2016 cybersecurity law requires network operators to provide technical support to public and national security organizations. The regime's 2017 national intelligence law meanwhile requires that all organizations "support, assist, and cooperate with national intelligence efforts," by handing over any and all data upon request, including proprietary information.

This cluster of laws serves to effectively politicize U.S. companies operating in China by funneling their IP and most prized technologies to CCP authorities.

"All foreign companies operating in China and Hong Kong must provide all the intellectual property, trade secrets, and data of their companies and clients to the CCP," Fleming said.

"This includes all consulting firms and banks operating in China. Every company." To that end, the CCP's authoritarian approach to data collection for the purpose of supercharging its own development is a leading method of how U.S. technologies end up in the Chinese communist military.

But given that this has been the case for many years, and given that the widespread problem of insider threat is well known, does there come a time when U.S. companies continue along with the status quo for so long and with so little thought as to be considered complicit in aiding the military development of the CCP?

Killing With a Borrowed Sword

A 2022 report by the nonprofit Victims of Communism Memorial Foundation (VoC) and consultant group Horizon Advisory found that several U.S. companies were, in fact, complicit.

Numerous U.S. companies provided both direct and indirect support to the CCP, the report said.

Amazon, Apple, Dell, Facebook, GE, Google, Intel, and Microsoft all engaged in deals and maintained business links "that may directly or indirectly support China's state surveillance, military modernization, and human rights violations," the report said.

The trend has been in full swing for many years and most of the companies involved continue to work with the CCP in a manner that allows the regime to clone their technologies and which directly undermines U.S. national security.

Back in 2014, for example, Intel agreed to invest \$1.5 billion in a holding company owned by Chinese semiconductor manufacturer Tsinghua Unigroup, a company that was later blocked from purchasing U.S. companies because of its connections to the Chinese military.

Later, in 2015, Intel was banned from selling certain microprocessors intended to help update a Chinese supercomputer that the U.S. government believed was being used for nuclear weapons research.

Also in 2015, computer giant Dell entered into a partnership to develop advanced cloud computing, big data, and smart cities with Tsinghua Tongfang, a Chinese state-owned software company and subsidiary of Tsinghua Holdings, a company that sells communications equipment to the Chinese military.

The same year, the U.S. Navy was forced to seek new servers for a system used to track and defend against enemy missile attacks because it was discovered that IBM had sold the same technology to the China-based Lenovo, effectively ensuring the Chinese military would have access to the same technology.

In 2016, telecommunications giant Cisco formed a \$100 million joint venture to develop IT infrastructure, data centers, and networking equipment with Inspur, a company known to service clients that provide China's military with missile research.

Also in 2016, U.S.-based Hewlett Packard

entered a joint venture with a subsidiary of Unisplendour, called H3C. H3C was later blacklisted by the United States for its support of communist China's military modernization.

In 2017, Microsoft partnered with the state-owned China Electronics Technology Group (CETC) to develop servers for CCP institutions including a customized "secure" version of Windows 10 for the regime.

In 2019, a lead scientist from Google's AI team contributed to research used to improve the accuracy of China's stealth fighters. Google said that wasn't the purpose of its contributions.

In 2021, Goldman Sachs and Sequoia Capital invested a substantial portion of more than \$700 million raised by 4Paradigm, the China-based company with an open contract to develop AI decision-making software for the PLA.

Later in 2021, Apple CEO Tim Cook signed a secretive \$275 billion agreement with CCP leadership to ensure access to supply chains and other services in China. The agreement established ventures to handle data and security law compliance in China. An effort in which a New York Times investigation found "Apple has largely ceded control to the Chinese government."

Each of these examples and the many more like them, the VoC report said, provided insights into how U.S.-based companies had become tools for the ascent of China's military at the ever-increasing risk of the United States.

The CCP, the report found, effectively co-opted U.S. tech companies as third parties in its struggle against the democratic West, in a new play on the sixth-century adage of "killing with a borrowed sword."

Communist China 'At War With US'

Given the risk posed by the continued intermingling of the United States top research firms and agencies with the many tendrils of the CCP, some security experts have called for an outright ban on what they call forced technology transfer.

Fleming is among them.

"The CCP is at war with the U.S. and the free world and it wants to gain complete control over the world at any cost," Fleming said.

"This war is unlike any war we have faced in the past and is termed 'unrestricted hybrid war'. It achieves military objectives by using all non-military means to weaken the adversary and kill its will to fight."

The only way to win that war, proponents of such tech bans believe, is through decoupling completely from communist China economically and barring the transfer of vital technologies. Only by preventing the free flow of IP to the regime, and forcing companies to invest instead in the United States, can the ascent of the regime be overcome.

To that end, the Biden administration has made strides to sever the parasitic relationship between American IP and Chinese military companies.

It has banned nearly two-dozen Chinese manufacturers of advanced semiconductor chips from using American research and tech, reinvested billions of dollars into developing new chip plants to entice tech corporations back to the United States from vulnerable overseas positions, restructured its Indo-Pacific strategy to pull supply chains for vital technologies away from China, and made the unprecedented effort to ban the CCP from purchasing advanced semiconductor chips made with American research, even if those chips were made elsewhere in the world.

Whether or not such moves will prove enough to curb the CCP regime's military development and avert a catastrophic conflict remains an open question.

For Fleming, much more remains to be done.

"The only path forward is an immediate and complete decoupling of all key current and future technologies from the CCP's China," Fleming said.

The CCP is at war with the U.S. and the free world and it wants to gain complete control over the world at any cost.

Casey Fleming, CEO, BlackOps Partners



(Below) An AI cancer detection microscope by Google at the World Artificial Intelligence Conference 2018 in Shanghai on Sept. 18, 2018.



(Bottom) The Intel booth during the China Digital Entertainment Expo and Conference, also known as ChinaJoy, in Shanghai on July 30, 2021.



Medical workers arrive with a patient at a fever clinic in Beijing on Dec. 9, 2022.

PANDEMIC

China's Crematoriums, Hospitals Overwhelmed as COVID Surges Across Country

EVA FU

A surge in COVID-19 cases in China has left crematoriums working around the clock to cope with the influx of bodies.

Prices for medical supplies have skyrocketed as patients struggle to get a bed at overwhelmed hospitals, where doctors and nurses have pushed on despite being sick with COVID-19 themselves.

For many, the only option to protect themselves after catching the virus is to stay home.

The desperation now shrouding China bears an eerie resemblance to nearly three years ago when the COVID-19 pandemic first erupted in the country. With the communist regime's abrupt abandonment of draconian virus curbs that had sporadically confined hundreds of millions in their homes, cases are again soaring, putting strains on China's infrastructure, which appears vastly underprepared for what's to come.

Crematoriums are so overwhelmed that they've been unable to transport corpses on the day of the death or even the day after.

"There's nothing we can do. There are just too many deaths," a funeral home owner from Shenyang, the capital of northeast Liaoning province, told The Epoch Times on the condition of anonymity.

About half a dozen other funeral homes elsewhere similarly confirmed long waiting lists.

"I haven't slept for 20 hours," another worker from Beijing's Changping Funeral House, one of three designated COVID-19 crematoriums in the city, told The Epoch Times on Dec. 15.

His colleagues are also falling ill with COVID-19. The facility, which he said processed about 100 bodies per day, has a packed schedule through the next 10 days.

"If the deaths occurred at home, we wouldn't be able to take them because there's no car available," he said. "We are dealing with [demand] from the entire city, and there's just too many to burn."

Official Tally Questioned

The scenes these workers depicted formed a stark contrast with the official death toll promulgated by the Chinese regime, which on Dec. 20 recorded only five deaths across the entire country—all of which were

from Beijing. China's official virus count and death figures have consistently been deemed unreliable because of the regime's practice of downplaying developments that may tarnish its image.

Police on Dec. 19 stood guard outside a Beijing funeral parlor, pushing journalists to the back of the parking lot as about a dozen dark minivans entered, apparently to drop off bodies. Officials from the National Health Commission have since clarified that they won't include those with underlying diseases in the official COVID-19 death count.

Questions over the virus death toll come as the regime seeks a complete exit from its long-running zero-COVID policy that has hammered China's economic growth, spawned myriad accounts of suffering and psychological distress, and given rise to nationwide protests.

In the span of a week, Chinese state narratives on the COVID-19 pandemic have made a U-turn: After previously describing the virus as a lethal threat to the populace, a top state physician recently likened COVID-19 to a common cold. Various local government agencies are now telling state employees to report to work if they test positive but have mild or no symptoms. Previously positive cases meant being barred from leaving the house or forcibly sent to

centralized quarantine centers.

But these assurances haven't tamed public worries either domestically or abroad.

U.S. State Department spokesperson Ned Price on Dec. 20 said the United States hopes to see China get COVID-19 under control and that Washington is ready to provide health support.

"That, of course, is the case because we don't want to see death or disease spread anywhere," he said in a press briefing. "We also know that whenever the virus is spreading anywhere widely in an uncontrolled fashion, it has the potential for variants to emerge."

Neglect

In Shanghai, a number of seniors have fallen dead on the train, a subway station worker told The Epoch Times. In Hunan province, a 25-year-old woman built herself a tent in her family's farmland after testing positive for fear of infecting her family. A Beijing woman wept after visiting three hospitals to get treatment for her infected father, only to be told there were no beds available.

"Yours is a serious case, and we can't take you," the woman, Ms. Du, later recalled a doctor telling her in video footage she posted online.

"Don't say I'm lying to you, take a look

yourself, we are not even talking about beds, just see if there's room to stand."

The doctor also said they were able to vacate some 10-plus beds from the deceased patients that day, far from enough to accommodate Du's father.

In a sign of how short-staffed the hospitals have become, retired medics are being brought back to work. An internet celebrity recalled in an online video being helped by a young doctor after she got a high fever from COVID-19. The doctor, who was drawing her blood, was coughing during the treatment. He told her he had been sick for five days but was unable to take leave.

5 Deaths—Despite the long waiting time for crematoriums in China, the official death toll on Dec. 20 recorded only five deaths across the entire country—all of which were from Beijing.

Ms. Li, a Shanghai local, said her son was infected with COVID-19 after returning from a work trip. She tried to lower his body temperature by applying alcohol and ice bags. They didn't try to seek hospital treatment, knowing that there would be no medication available for them, she said.

The cost of lemons, sought after for their antibacterial properties, has jumped. Panic buying has resulted in anti-inflammatory drugs and cough medicines selling out on some Chinese e-commerce platforms. Even canned yellow peaches are selling like hotcakes for their purported ability to relieve anxiety.

Li said this neglect shows where authorities' priorities lie.

"If they truly care about your health, this should be the time where white-clad health workers are all over the street, going door to door to distribute medical supplies," she told The Epoch Times. "But that's not happening. When you don't need it, they come kicking your doors, but when you are the most vulnerable, they are nowhere to be found."

Luo Ya and Hong Ning contributed to this report.

TECHNOLOGY

ZTE Whistleblower Who Defied CCP: 'Be Careful What You Wish For'

SAMANTHA FLOM & JAN JEKIELEK

As an ambitious young lawyer, Ashley Yablon wanted nothing more than to become the general counsel for a large corporation, so when presented with his "dream job" opportunity by the Chinese telecom company ZTE, he took it, no questions asked.

However, when he eventually realized that his dream job came at a price he wasn't willing to pay—his loyalty to his country—the dream quickly became a nightmare.

"I don't think I'll ever feel safe," said Yablon, who authored the book "Standing Up to China: How a Whistleblower Risked Everything for His Country" after blowing the whistle on ZTE's schemes for circumventing U.S. export laws.

Yablon recounted the story of how he came to defy the Chinese company and, by extension, the Chinese Communist Party (CCP) during an interview for Epoch TV's "American Thought Leaders" program that aired on Dec. 15.

Blind Ambition

Yablon began working at ZTE in October 2011, after having spent years "rounding out his toolbelt" at various law firms and working his way up the corporate ladder.

"At a law firm, you're practicing one type of law, but you have many clients," he said. "As a general counsel, you have one client, but you're practicing many types of law. And that interested me—more assisting business versus working at a law firm and just billing business."

Prior to landing the role of general counsel at ZTE, Yablon worked at the antivirus software company McAfee and then at Huawei, another Chinese telecom company.

"I thought, 'What an unbelievable opportunity. Here's a multibillion-dollar international company, and I'm assistant general counsel,'" he said. "So, I had no idea what I was stepping into working at Huawei, but quickly learned the difference between American culture and Eastern culture, or specifically, Chinese culture."

One of those differences was that the Chinese appeared to view the concept of morality through a different lens, according to Yablon.

He recalled an instance at Huawei in which one of his Chinese national coworkers, another attorney, insisted that obeying the law was "just a suggestion."

"We have a moral compass, or we believe that things are immoral," Yablon said. "They don't see it that way. And it's not that they're immoral people, but it's that they don't look at business or decisions like that in the same way that we do here in the West."

In hindsight, he said that incident should have been a "red flag," but he was blinded by his own career goals.

"It made me question, but it didn't

make me stop in my hubris or desire to want to work my way up to be the general counsel," Yablon said.

Risky Business

At ZTE, it didn't take long for Yablon to realize that the company was under investigation by the U.S. House of Representatives as a potential threat to national security, and when a contract between the company and Iran was leaked, the risks of the job became clearer.

"An article came out in Reuters magazine where they got a copy of a contract between ZTE and the country of Iran, and ZTE was selling hundreds of millions of dollars of spying technology," he said. "The problem was that they were using U.S. component parts to do that."

As Yablon found out, ZTE was using shell companies to acquire U.S. component parts, directing them back to China, and from there, selling them to Iran.

Under U.S. government sanctions against Iran, the exportation of any goods to that country is prohibited under U.S. law.

After ZTE's contract with Iran was leaked, Yablon said he was allowed just 15 minutes to review what was in the document and assess any potential damage.

"I saw a section of the contract that was titled 'How We Will Get Around U.S. Export Laws,' and it laid out all the shell companies, it described what each one would do, and I nearly fell out of my chair when I saw that," he said. "And I knew that I needed to do something."

Risking It All

Yablon advised his employer to comply with the U.S. government's investigation but later learned that the company had decided upon another course of action.

"They wanted to lie," he said. "And they wanted me to be the scapegoat for them to say that they were not doing anything illegal. That's when I became what is known as a whistleblower and had to go to the FBI and explain what was going on."

Yablon provided the FBI with a 32-page affidavit exposing the company's scheme of circumventing U.S. export laws to sell to embargoed countries. That document was later leaked to the press, exposing Yablon as a whistleblower and putting his and his wife's lives in grave danger, given that, according to the attorney, ZTE is effectively run by the communist Chinese regime.

"My wife and I were sitting at our computer, just hitting the refresh button waiting and waiting for that article to come out because I knew my life would never be the same after that," he said. "And certainly, that's what happened. The moment that hit, we jumped up. My wife said to me, 'We have 30 minutes to get out of this house, or we're going to get killed.' And that's what we believed."

While they were able to go into hiding for the short term, Yablon was



Former ZTE general counsel Ashley Yablon in Dallas on Nov. 19, 2022.

later forced to return to work at ZTE to preserve his employment claims against the company. On his first day back at work, he returned to his office to find the door covered in police tape and a single message written on his whiteboard: "DIE!!!"

Further describing incidents in which he and his wife were followed by Chinese nationals, Yablon noted that he also received several death threats from his employer.

"They're saying, from ZTE, 'We, ZTE, are going to kill you. We're going to kill your family. We're going to kill your children. We're going to kill your children's children.' And it went on and on," he said.

In 2017, ZTE and the U.S. government reached a settlement in which the telecom company pleaded guilty to conspiring to violate the International Emergency Economic Powers Act by illegally shipping items of U.S. origin to Iran, as well as obstruction of justice and making a material false statement.

In total, the company paid approximately \$1.2 billion in fines and penalties.

On Nov. 25, the Federal Communications Commission adopted new rules prohibiting the import or sale of Chinese communications equipment that's considered to pose a national security risk, including those from ZTE and Huawei.

For Yablon, the effects of being outed as a whistleblower were also career-altering. For more than two years, he struggled to find another job, eventually finding one with the help of a former ZTE coworker. Now, he offers legal guidance to companies to assist with compliance.

As for the lessons he's learned? "Obviously, ambition is great, and it's what fuels all of us," Yablon said. "But left unchecked, it can be disastrous. So, I think, theme one is be careful what you wish for because you just might get it. And the second theme, I think, is how far will you go to do the right thing?"

Noting that he felt he had "passed the test," he said: "I risked not only my job—I risked my career. I risked all my finances. But most importantly, I risked my own life."

ZTE officials didn't respond to a request by The Epoch Times for comment.



The logo of Chinese company Huawei in Reading, England, on Jan. 28, 2020.



A health worker takes a swab sample from a woman to test for COVID-19 in Shanghai on Dec. 19, 2022.

OPINION

Xi's Saudi Summit and the United States' Weakening Global Position

DOMINICK SANSONE



In international relations, appearances are key.

The enormous difference between the lavish welcome and fruitful trip of Chinese leader Xi Jinping to Saudi Arabia versus U.S. President Joe Biden's unsuccessful July visit to Riyadh is therefore not inconsequential. Quite the opposite. It is indicative of the fundamentally shifting nature of geopolitics and a U.S. administration that simultaneously reduces the country's geopolitical position while creating a mockery of its culture and people. While other nations seek to act in their national interest, Washington prioritizes ideologically fueled left-wing policies that harm the American people.

Xi was welcomed graciously by his Arab hosts as the two parties discussed steps that would increase energy cooperation between their countries. He also focused on China's continued efforts to have the yuan used in place of the dollar as the currency denomination for the Chinese-Saudi oil trade by utilizing the Shanghai Petroleum and National Gas Exchange as a payment platform. Such a move would signify a monumental shift in the geopolitical landscape to the advantage of Beijing.

Since the rise of the petrodollar in the wake of then-President Richard Nixon's decision to take the United States off the gold standard in 1973, the dollar has been the currency of choice for the world's oil transactions. While it is highly unlikely that Riyadh would opt to denote a large portion of its energy exports to China in the yuan, even having the prospect on the table is therefore an explicit rebuke of the United States.

However, that is not the only example of their defiance. Riyadh and other Gulf countries in OPEC+ have firmly refused U.S. pressure to condemn Russia for the ongoing war in Ukraine. They have also ignored Washington's warnings against strengthening relations with Beijing. While China's oil demand has been relatively muted due to the large-scale reduction in economic activity stemming from its zero-COVID policy, Saudi Arabia remains China's top supplier. Xi's trip to Riyadh also produced commitments to increase cooperation in other key areas related to energy.

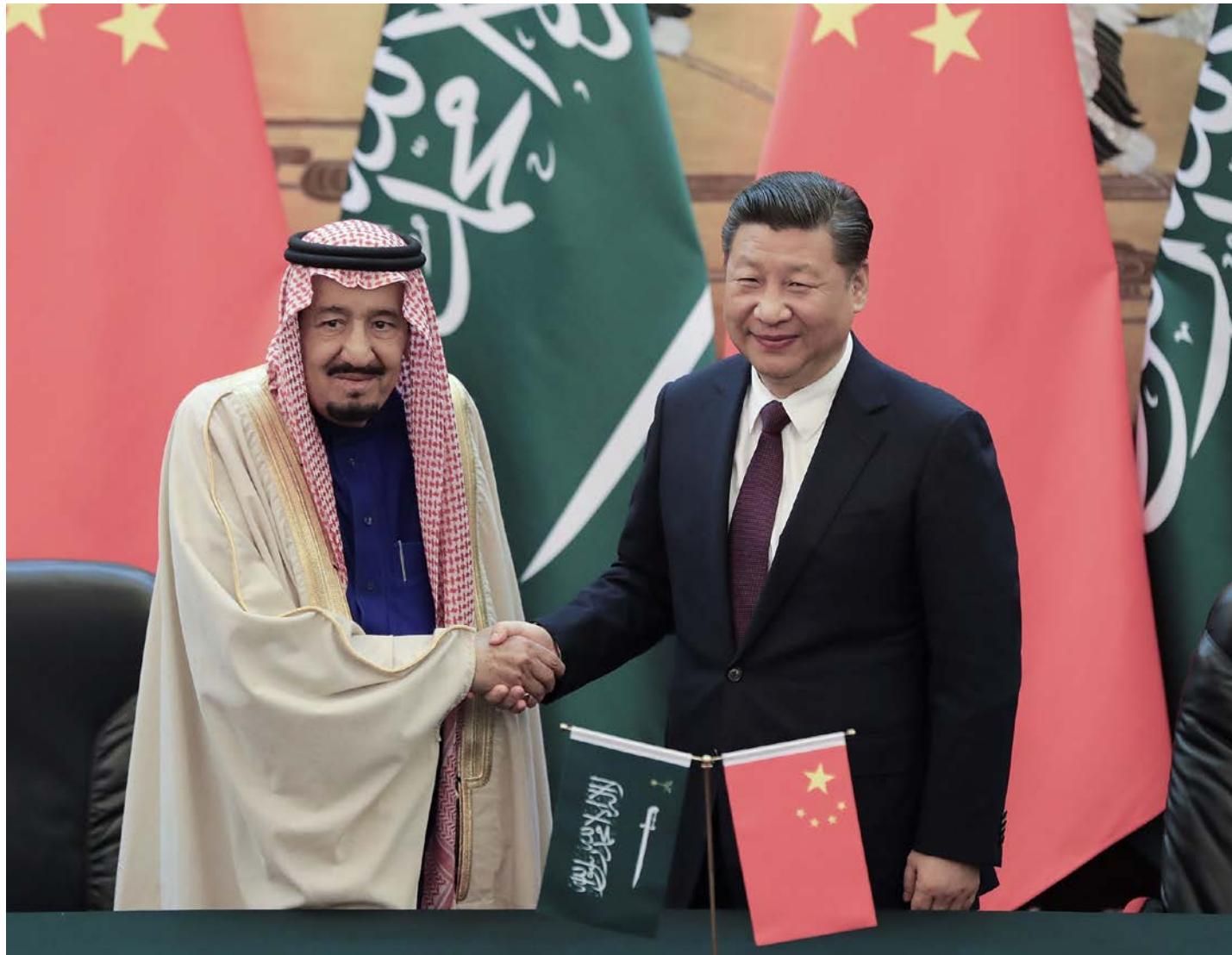
The incremental attempt to wean countries off the dollar is part of Beijing's long-term strategy to replace the latter with the yuan as the world's reserve currency. The United States is able to maintain its outsized international presence due to the fact that other countries hold large amounts of the dollar, and subsequently use it for international transactions, particularly in oil and gas.

To avoid sounding alarmist, this is likely not a development that may happen in the short term. Beijing's onerous capital controls on money flowing in and out of the country mean that a market for Chinese yuan would probably need to exist off of the mainland to enable such a system. Increasing the amount of its currency stored in central banks around the world in accordance with an amount that would supplant the U.S. dollar does not currently seem feasible. But one must always remember that the Chinese Communist Party (CCP) leadership is always thinking 10 moves ahead.

And it's definitely not on its own in seeking to get out from under the yoke of U.S. financial hegemony.

Consider that at the beginning of the Russo-Ukraine War, Europe paid for only about 60 percent of its imports of Russian gas in the euro, with the rest being denoted in dollars. In the face of sanctions and Western attempts to crush the Russian economy, Moscow's demand for countries to pay for gas imports in rubles forced many European gas buyers to open bank accounts denominated in the Russian currency in order to make payments.

Putin's move to peg the ruble to gold, which is also traded in dollars, essentially set a minimum price for the ruble relative to the dollar and allowed the Russian currency's exchange rate to stabilize. After bottoming out in March, it currently stands at a rate that is 14.26 percent stronger than where it was at this time last year (December 2021) before the invasion of Ukraine.



Chinese leader Xi Jinping shake hands with Saudi Arabia's King Salman bin Abdulaziz Al Saud during a signing ceremony at the Great Hall of the People in Beijing on Mar. 16, 2017.

Russia is increasing its natural gas supply to China through the Power of Siberia pipeline, hitting a new maximum recorded level on Dec. 14—16.1 percent higher than previously contracted. On Dec. 7, another important section of the pipeline was put into operation, allowing gas to flow directly from Tai'an in the northern Shandong Province of China to Shanghai (China and Russia have also denoted their energy transactions in rubles and yuan).

Furthermore, the Power of Siberia 2 Pipeline is set to begin construction by 2024, which will pass through Mongolia and be able to transport an additional 50 billion cubic meters of natural gas to China. According to Bloomberg, China's total energy imports from Russia—which includes coal, oil, and natural gas—have reached \$60 billion since the beginning of the Russo-Ukraine War. That is \$35 billion more than in the same period of 2021. Moscow claims this will provide a more than sufficient replacement for the Nordstream 2 pipeline originally planned to supply gas from Russia to Europe through Germany.

Meanwhile, practically nothing came out of Biden's July trip to Riyadh besides an awkward fist bump with Saudi Crown Prince Mohammed bin Salman. The administration failed to secure its sought-after commitment for Saudi Arabia to boost oil production. The United States remains central to Saudi Arabia's political position in the Middle East not only by purchasing its oil, but through its defense contracts (of which China is also a competitor with the United States) and the presence of its armed forces.

Riyadh likely smelled weakness in the Biden administration. Riyadh knows

that the United States is desperate for Saudi energy after the 46th president essentially ended oil and gas production in this country, and drained the U.S. strategic petroleum reserve (the nation's emergency supply of crude oil) to its lowest level in nearly four decades. This would clearly be the time for the Saudis to exert pressure on Washington in a way that is strategically advantageous for them.

China is more than happy to reap the benefits of obliging the Saudis' foreign policy. Just like it is more than happy to reap the benefits of cheap energy while the United States attempts to crush the Russian regime (not to mention drain its own weapons stocks and simultaneously send tens of billions of dollars to Ukraine). That is because, while one may despise the ideology of the CCP, China is a serious country that seeks to win.

And what does the United States care about? The recent drag show performance at the White House and Biden's presidential announcement that we must protect the rights of minors to have irreversible gender reassignment surgery should tell you all you need to know about where our priorities lie.

While life gets harder here in this country and the U.S. global position continues to weaken, our enemies laugh at us.

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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A Gazprom logo at the Amur gas processing plant, part of the Power of Siberia project, outside the far eastern town of Svobodny in Amur region, Russia, on Nov. 29, 2019.

ECONOMY

Kyle Bass: China's Xi Intentionally Crashing Housing Market, Preparing for War

LIAM COSGROVE

Dallas-based hedge fund manager Kyle Bass is predicting big economic issues for China throughout 2023, stemming from an overleveraged financial system, collapsing property market, and unsustainable birth rates.

China, a nation accustomed to greater than 7 percent real GDP growth for the past 10 years, is seeing signs of economic sluggishness. "The volume of exports could actually shrink by 6 percent on average in 2022 and 2023," predicted the BlackRock Investment Institute in an October report.

Bass, founder of the asset management firm Hayman Capital and prominent China hawk, claimed the Chinese are in a financial conundrum of their own making. "They have architectural problems," the fund manager said in a Dec. 17 interview on the podcast Forward Guidance.

Blaming the Chinese Communist Party's (CCP) incentives and monetary policies for creating an environment of "riverboat gambling in their property sector," Bass warned of real estate's burgeoning share of Chinese GDP. Estimates of the property market's share in the nation's economy vary, but economist and Harvard professor Kenneth Rogoff estimated it to be around 30 percent, as of September 2021.

The growth of the property sector has ushered in an unprecedented drop in housing affordability.

Last year, according to Bass, the median home price-to-income ratio in tier-one Chinese cities exceeded 36—meaning it would take more than three decades for the working class to accumulate the necessary income to purchase a home. The fund manager juxtaposed these figures to those of the U.S. housing bubble in 2008.

"Just to put these into perspective, in the United States, median home prices got to be just over six times median income when our subprime crisis collapsed."

Xi's War on Housing

Despite its lofty heights, the Chinese property is cooling off. National home prices have declined for the preceding 16 months, according to data from the National Bureau of Statistics in China.

Property developers are feeling the sting. S&P Global Ratings estimated in September that the Chinese real estate market needs a bailout of almost \$100 billion to ensure projects can continue.

These real estate pains are intentional, said Bass. They are part of CCP leader Xi Jinping's mission to solve the country's worsening demographic crisis.

"What Xi figured out is the average birth rate of the average Chinese woman has dropped from over 2.1 to now 1.2," the fund manager explained. Bass connected birth rates to house prices by pointing out that home ownership is essential to family formation.

"They can't marry in the basement of their parent's house, so they don't," he added. "The birth rate started collapsing, and we all know the demographic curve of China looks terrible because of the one-child policy, but this supercharged the problem."

The "one-child policy" refers to China's population curbing initiative, implemented in 1980 by former Chinese leader Deng Xiaoping, which punished parents for having more than one child. The policy drastically reduced the country's younger population, led to a stark gender imbalance, and was repealed in 2015.

According to Bass, Xi recognizes the severity of China's demographic problem and has decided to reverse the trend at all costs.

"Xi decided to squash real estate. He knows it has to come down and stay down."

Taiwan Invasion Risk Factor

The Texan fund manager has long been sounding the alarm about the communist regime's plans to invade Taiwan and has



A commercial housing community under construction in Nanjing, Jiangsu Province, China, on April 15, 2022. Since March, due to weakening market demand, banks in more than 100 cities across the country have voluntarily lowered mortgage interest rates.

warned western capital allocators to divest from China while they still can. Such an invasion is a matter of "when" not "if," as Bass sees it.

"If you listen to Xi ... He is battering down the hatches," Bass said in the interview. "There's no question that he moves on Taiwan."

Bass sits on the board of the Quadrilateral Security Dialogue (Quad) fund, a newly launched investment fund founded by insiders from Washington, Australia, Japan, and India. The goal of Quad is to advance initiatives that give the West competitive advantages over China.

If China were to invade Taiwan, Bass believes the United States should not hold any punches, specifically advocating for their removal from the SWIFT system—a move taken against several Russian banks earlier this year. "We can collapse their economy in a matter of months or maybe

even weeks," the fund manager said.

Some economists disagree that the United States has the upper hand in an all-out trade war scenario as they believe Beijing can weaponize its U.S. Treasury bonds by dumping them. China owns just over \$900 billion in U.S. Treasury bonds as of October, according to data from the Treasury Department.

However, Bass believes China cannot sell bonds all at once, since doing so would cause economic distress for Beijing.

"You need dollars running your economy ... 86 percent of their settlements are in dollars, so they desperately need dollars to deal with the rest of the world," Bass said.

Liam Cosgrove works as a freelance journalist covering business, markets, and finance. He received his bachelor's degree in mathematics from the University of California-Santa Barbara.

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