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CHINA INSIDER

ECONOMIC STAGNATION

CHINA'S WOES ARE SELF-INFLICTED,
ANALYSTS SAY

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ECONOMY

ANALYSIS: China Headed Toward a Decade of Economic Stagnation

'People need to learn that the days of Chinese rapid growth—debt-fueled as it was—are basically over,' says one analyst

By Terri Wu

China has slid into deflation after months of disappointing export, manufacturing, home sales, and youth employment results. That's led to louder calls for the Chinese Communist Party (CCP) to roll out stimulus measures to kickstart the sputtering economy.

The world's second-largest economy has been struggling for months, failing to achieve the post-pandemic boom that many had anticipated. The latest July data release showed exports posting its sharpest year-on-year drop since before the pandemic, and imports at five straight months of decline. Factory-gate prices fell for the 10th consecutive month, while new home sales saw its most significant monthly drop since July 2022.

If Beijing's been waiting for the best timing to boost the Chinese economy or trying to avoid moral hazard from bailing out its heavily indebted property sector and local governments, it should wait no more, some analysts have argued.

But some say otherwise: the CCP isn't waiting—it simply doesn't have the money or fiscal space to do it.

That's the view of William Lee, chief economist at the Milken Institute, an economic think tank based in California, and Christopher Balding, an expert on the Chinese economy at the Henry Jackson Society, a UK-based think tank.

In Mr. Balding's view, China's economy will be "very, very sluggish" and "turn into a long grinding mess as long as Beijing can draw it out."

"People need to learn that the days of Chinese rapid growth—debt-fueled as it was—are basically over," he told The Epoch Times. "And now they're just trying to keep it from collapsing."

Edward Yardeni, president of Yardeni Research, a global investment consultancy in New York, is more specific in his predictions. He said China's economy would go into an "economic stagnation" that "could very well be for the next 10 to 20 years."

"I think maybe whatever [the CCP] said that they think the economy can grow at, I would cut that in half," he told The Epoch Times. "So we are looking at more like 0 to 2 percent growth for the next few years."

Chinese authorities have shown a change in policy direction, but its implementation is meeting hurdles, according to Mr. Ng.

CCP Can't Pay for a Big Stimulus
Experts say that the CCP is simply unable to inject a significant boost into China's economy.

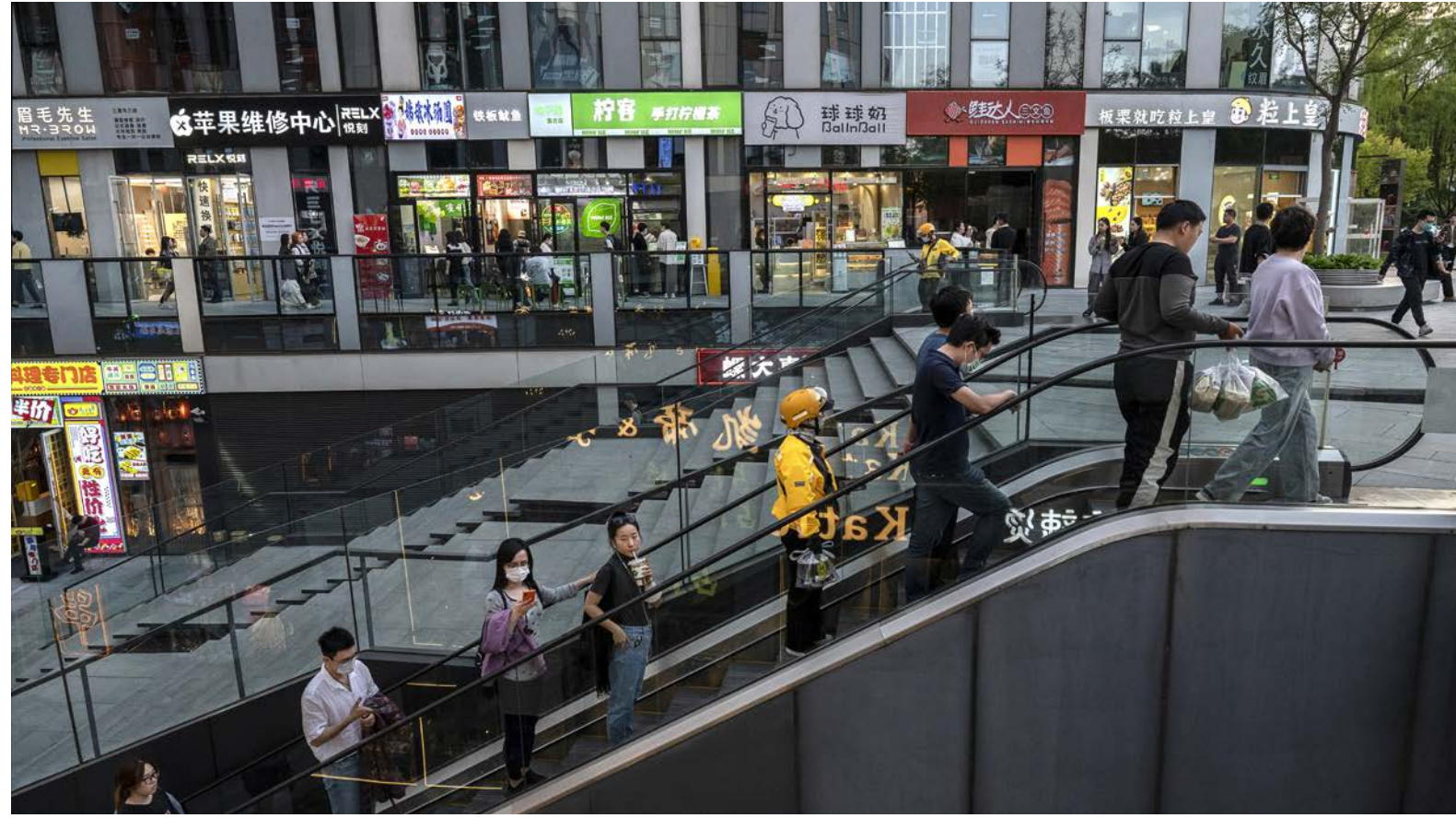
Mr. Lee of the Milken Institute said that local governments had been the traditional channels for implementing stimulus in China. They are now heavily indebted and want Beijing's help, but Beijing also has excess debt—26 trillion yuan (about \$3.6 trillion) at the end of 2022, according to the CCP's official count. Therefore, Beijing cannot finance new spending without raising taxes, he said.

Rhodium Group estimated local government finance vehicles, which cities use to raise funds for infrastructure and real estate projects, to be 59 trillion yuan (over \$8 trillion) last year, about half of China's gross domestic product (GDP). According to the same report, additional local debts through schools, hospitals, and other mediums would bring the total to about 100 percent of the GDP.

"Restructuring local debt or 'solving' the local government debt problem would change China's entire economy," Rhodium analysts warned about the decade-old problem. "Any meaningful resolution of the local debt problem would likely trigger a significant structural slowdown in investment, and a sharp slowdown in economic growth for the next decade."

Local governments and the property sector are struggling together.

On average, land sales make up over



▲ People ride on an escalator in a busy retail shopping area in Beijing on April 18, 2023.

30 percent of the total revenue for local governments. That ratio is as high as 50 in some coastal provinces with higher land prices. When developers are not buying land due to heavy debt and dropping property prices, municipalities face difficulties repaying their debts.

Mr. Balding said that the CCP doesn't have the money to bail out developers and hopes that consumers will solve the problem by buying more real estate. But consumers have become more educated about the risks and won't foot the bill.

The situation has evolved into one in which Beijing, local governments, and consumers are kicking the deflation ball to one another, he said, noting that consumers are not spending, and this low demand won't lift China's economy.

He used the example of Evergrande, the world's most indebted property developer, to illustrate the size of the problem and why the CCP doesn't have the money to bail out the property sector.

Evergrande had 1.7 trillion yuan (\$236 billion) in short-term debt and 13 billion yuan (\$1.8 billion) cash on hand, according to its 2022 annual report.

Mr. Balding equated that situation to an individual having \$100,000 in the bank and \$2 million overdue credit card debt. Hence, repaying the debt looks impossible.

To further illustrate the point, he pointed to the Industrial and Commercial Bank of China (ICBC), the world's largest bank by total assets, which reported a capital base of 4.3 trillion yuan (\$597 billion) at the end of 2022.

If Evergrande's debt were to be written off, that would swallow about 40 percent of ICBC's capital.

The above example, he noted, was for explaining the size of the problem with the property sector without knowing ICBC's total exposure to Evergrande. ICBC is reported to be one of Evergrande's major creditors.

Will the international community bail out the CCP? Mr. Balding thinks not.

"The very simple reason is that nobody in the world has the amount of capital that Beijing would need," he said.

Based on the total assets of China's banking system at about \$50 trillion, he said even a 20 percent recapitalization would require \$10 trillion, equivalent to saving 50 Silicon Valley Banks, the mid-sized bank that collapsed in March due to poor risk management.

"The IMF doesn't have that type of money," he said, adding that neither do international investors.

CCP and the Private Sector

In recent months, Chinese authorities have turned to frequent new policy releases, stopping short of deploying concrete stimulus measures.

In July alone, Chinese authorities announced multiple policies to support private enterprises, encourage electronics and car consumption, extend property loan expiration, and improve the educa-

tion system to address the high youth unemployment rate after the central bank lowered key interest rates a month earlier. On Aug. 15, the regime announced it would stop releasing monthly data on youth unemployment.

"The government is not rolling out a strong set of fiscal stimulus measures because, number one, the fiscal space is limited because of the high indebtedness of the local and the federal government. So they cannot finance the fiscal spending by issuing debt," Mr. Lee of the Milken Institute told The Epoch Times.

"Number two, the main target for fiscal policy is to strengthen the private sector. And they don't have the credibility to convince the private sector that their policies will not reverse again because of what they just did," he added, referring to the Chinese regime's aggressive clampdown on private businesses over the past three years.

Mr. Balding called the new policies "do-nothing measures."

On July 28, stemming from a policy promoting public sector growth, the cabinet-like State Council established an online platform to collect complaints about private businesses facing obstacles. This is Mr. Balding's favorite "do-nothing" example, as he doesn't believe

any private companies in China will file any reports.

Gary Ng, Asia Pacific senior economist at Natixis, a French corporate and investment bank, said that Chinese authorities have shown a change in policy direction, but its implementation is meeting hurdles.

For instance, most of the bank loans are still going to the "safe player" or state-owned companies (SOEs), he said. "For the private firms, I doubt how much money they can get because if we look at what happened in Country Garden recently, it's quite clear that the stress is still very high."

On Aug. 11, Country Garden, China's biggest developer by 2022 sales, warned that it could lose as much as \$7.6 billion for the first half of this year. It also confirmed earlier that it had missed \$22.5 million in international bond payments. And this was after the company got a \$7 billion credit line from a state-backed bank in November. On Aug. 14, the company suspended 11 of its domestic bond listings.

For land auctions, Mr. Ng said that SOEs now win 80 percent compared to 40 percent to 50 percent in the past. He added that local governments are holding down payments that are supposed to be passed through to developers when

construction milestones are met.

China's private sector obtained less than 15 percent of total business loans during the first quarter. The latest July data showed new business loans at the lowest in almost three years.

"I think there is still a very clear pressure in terms of this preference towards the safer player. And the companies which need the liquidity the most still cannot get it," Mr. Ng told The Epoch Times.

'Telling a Communist Government Not to Be Communist'

To Mr. Balding, the communist regime and the private sector are fundamentally in conflict.

"You're telling a communist government not to be communist anymore when you say Beijing needs to encourage the private sector," he said. "You're telling the communist government, 'If you're not communist anymore, things will get better.'"

"I'm just going to be blunt," he said, adding, "At the end of the day, all of Chinese economics is still about the state" because the Party controls the capital.

The CCP has built its legitimacy by telling the Chinese people that it was a good economic and financial manager of the country, Mr. Balding said. "Beijing cannot allow an event, a hard landing, a crisis, something like that; they simply cannot. Because if they do, that's the end of the CCP."

"And they will do everything they can to prevent that situation," he added. But with limited resources and means, the CCP will likely drag the country's decline for as long as possible.

Mr. Yardeni thinks the CCP is responsible for the country's current economic woes as some of its past growth "was done with the speculative excesses and poor government policies, especially the one-child policy."

"The CCP's foreign policy has also had a direct impact on China's export markets."

"The foreign policy of China has been very aggressive and hostile towards the West. And the West has responded by recognizing that Western businesses need to be much less reliant on Chinese suppliers," he added.

Confidence Is the Key

The 10-month decline in factory-gate prices suggests that the deflationary environment is "getting more and more entrenched," according to Mr. Lee.

He said the chain effect causes people to delay spending: when businesses are not doing well, they may lay off people. Given

China's over 20 percent youth unemployment rate, consumers are worried about their children's and their own jobs. At the same time, the price of property, where many Chinese invested their savings, is falling.

"When wealth is dropping, and income is not secure, people don't spend," Mr. Lee added.

Mr. Ng agreed. The current economic situation didn't happen overnight. But, in the past several years, households and companies still believed that they could earn more money in the future, according to him.

"But right now, everyone has become more cautious simply because they are not too certain about the future," Mr. Ng said. "So I think, in a word, confidence is the most important thing to watch in the future."

He added that regulatory uncertainty has also played an essential role in low confidence in the market. Mr. Ng said that the Chinese regime is no longer putting growth as its first priority. While there isn't much coherence in Beijing's current policies, if one has to summarize a new priority theme from the regime's latest guidelines, it would be stability.

What signs do we need to see to know that the confidence is back? He mentioned two things.

"First, we will need to see a very clear rebound in consumption and corporate investment."

"And second, we will need to see a rebound in the asset prices in China as well, which generally is more related to equity, and real estate as well, because that will actually show that people are more confident in not putting the money in the bank savings and they're willing to consume or invest."

Mr. Ng doesn't expect this to happen until at least the end of this year or early next year.

He pointed out that 2024 would be more challenging because it no longer has the "base factor," referring to the low economic figures from 2022, a pandemic year, for 2023 to show growth.

"It's really about next year because if we do not see a very meaningful pickup in consumer and corporate sentiment, then I think the growth prospect will be much more challenging next year," he said.

In Mr. Yardeni's view, China's situation is similar to what happened in Japan in the late 1980s, pointing to the country's property bubble and aging population.

"They're going to be faced with a period of economic stagnation because of the demography, because of their speculative bubble bursting," he said.

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▲ Containers at Lianyungang Port, Jiangsu Province, China, on July 13, 2023.

BIOSAFETY

California Lawmakers Point Fingers as More Details on Secret Chinese Biolab Surface

By Brad Jones & Lear Zhou

Two California-based legislators are calling for an investigation into a secret Chinese-owned biolab discovered in Reedley, California, and how the company that owned it was approved for government loans and tax credits amounting to more than \$500,000.

House Speaker Kevin McCarthy (R-Calif.) and Rep. Jim Costa (D-Calif.), who represent congressional districts in California's Central Valley, wrote a letter to the Pandemic Response Accountability Committee seeking a probe into how and why Universal Meditech Inc. was granted two Payment Protection Program (PPP) loans of \$74,912 each in April 2020 and February 2021.

Universal Meditech was also awarded a \$360,000 tax credit in 2018 under California Gov. Gavin Newsom's CalCompetes GO-Biz program, although the company failed to meet guidelines and never actually received those funds.

The black market lab at 850 I St. was discovered last December, when a code enforcement officer for the City of Reedley's fire department noticed a green garden hose protruding from the back of a warehouse. Jesalyn Harper told The Epoch Times that she inspected the building after receiving an anonymous complaint about a possible business operating in the warehouse, which was thought to be vacant at the time.

Thousands of vials of bacterial and viral agents, including coronavirus, chlamydia, E. coli, streptococcus pneumonia, HIV, hepatitis, herpes, rubella, and malaria, were discovered at the site, raising grave concerns about biosecurity.

The warehouse space housed nearly 1,000 lab mice, of which 200 were found dead. The rest of the mice—except for 10 samples stored in a refrigerated facility—were euthanized and incinerated.

The company, which changed its name to Prestige Biotech before moving to Reedley from Fresno, is believed to have produced COVID-19 and pregnancy test kits.

A spokesperson for GO-Biz told The Epoch Times in an Aug. 10 email that the company "was found to be in material breach of their tax credit agreement and on June 15, 2023, it was terminated."

"They never received a single dollar," the spokesperson said.

Do we have a problem? Absolutely. Are they Chinese nationals? Absolutely. Are they manipulating viruses? No evidence of that.

Nicole Zieba, Reedley city manager

In 2019, when the tax credit agreement was signed by Cheryl Akin, deputy director of the governor's Office of Business and Economic Development, and Universal Meditech CEO Zhaoyan Wang, the company was operating as a licensed business in California and agreed to hire full-time employees and invest in intellectual property and tenant improvements as part of their expansion in Fresno in exchange for the tax credit, according to the spokesperson.

Investigations involving city, county, state, and federal authorities, including the FBI and U.S. Centers for Disease Control and Prevention (CDC), have alarmed residents in this small city about 25 miles southeast of Fresno.

Joe Prado, assistant director of the Fresno County Department of Health, released a



▲ The exterior of a suspected biolab in Reedley, Calif., on July 31, 2023.

chronology of events regarding the company and the biolab at a County Board of Supervisors meeting on Aug. 8. He offered more details and photographs of biologic materials that were found inside the warehouse, while stressing that the facility doesn't pose an imminent threat to public health.

During the first week of July, the county removed 126 44-gallon containers and one 38-gallon container, but then discovered another 10 44-gallon containers of "biologicals," he said.

"So, think of this warehouse. It is packed ... to the ceiling with boxes," Mr. Prado said. "And everywhere, as we're moving things around, we're finding more chemicals, we're finding more biologicals; we're having to deal with more issues as we go through this cleanup."

Inspections of the site also uncovered 35 freezers and refrigerators, according to court documents. They contained biological material, including blood, tissue, serum, bodily fluid samples, medical waste, and infectious agents.

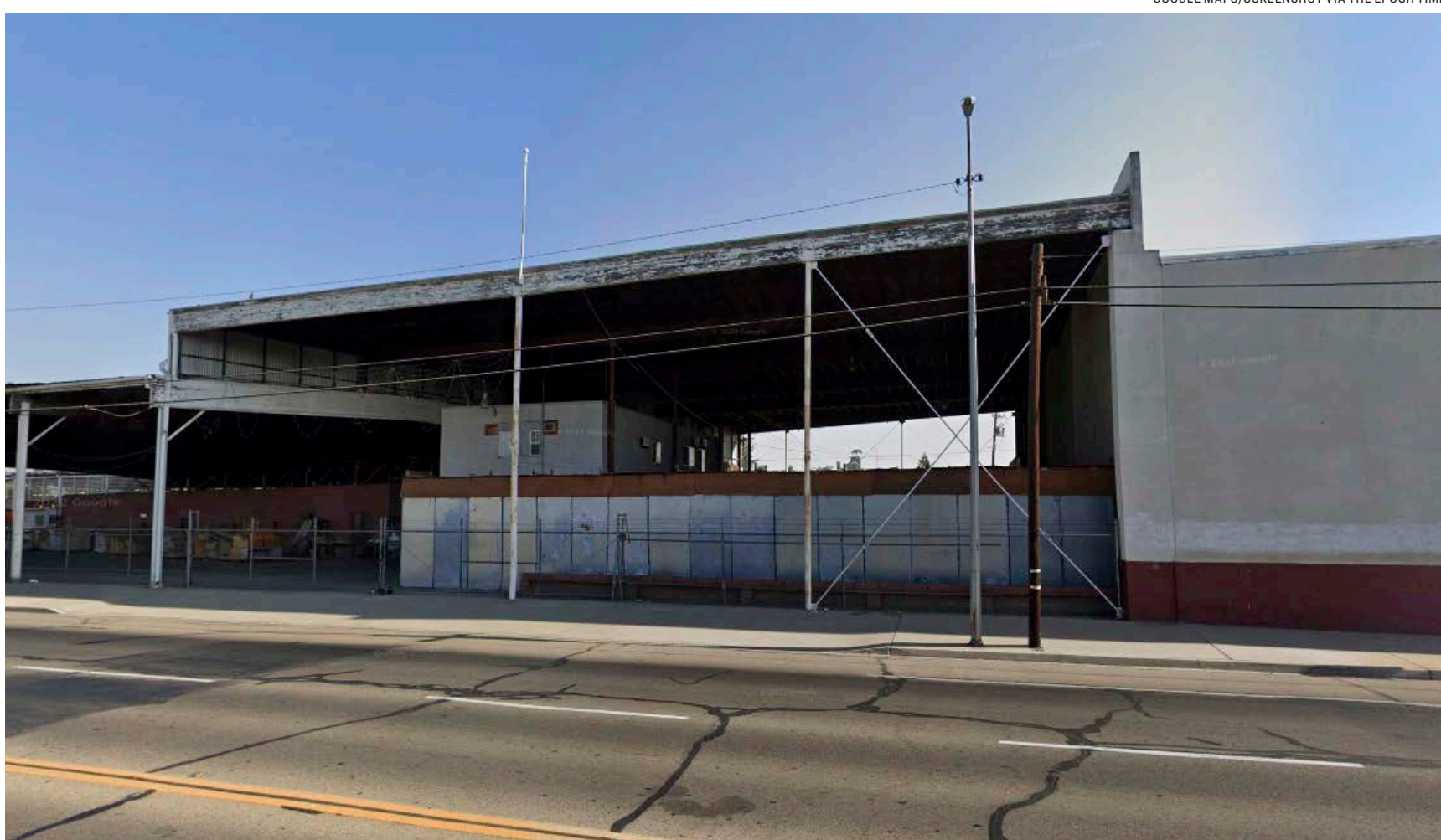
All the freezers and refrigerators were full of blood and tissue samples, Mr. Prado said.

"Those were a particular concern to us," he said.

Public Disclosure

The FBI told all agencies on Dec. 21, 2022, to "stand by" while it assessed whether a federal investigation would be conducted, Mr. Prado said.

Federal and state authorities told the city and county not to speak publicly about the continuing investigation as a matter of protocol, he said.



▲ The interior of a suspected biolab in Reedley, Calif., on July 31, 2023.

Medical Lab SARS-CoV-2 Antigen Rapid Test Kits that were manufactured from October to December 2021.

The products were distributed in January 2022 in California and Texas "without appropriate premarket clearance or approval which potentially could result in inaccurate test results due to lack of performance evaluation by the FDA," the announcement stated.

Public records show the company was first registered in Nevada to Zhaolin Wang—also known as Lynn Warner—on April 3, 2019, before Xiuqin Yao, who is based in China and doesn't speak English, took over as president on May 28, 2021, Ms. Harper said.

Harper interviewed Ms. Wang and a man named David He, who both said they were consultants to Ms. Yao.

The company hasn't cooperated well with authorities in the ongoing investigation, which has resulted in the abatement warrants, Harper said.

Blame Game

Fresno County Supervisor Nathan Magsig blamed the California Department of Public Health (CDPH) for allegedly advising the county to suppress information about the lab, and keeping the public in the dark.

At the Aug. 8 meeting, Mr. Magsig raised the issue of a "holding statement" that was prepared by the county and intended to be released in case the public or media began to ask questions about activity at the warehouse.

Mr. Magsig told The Epoch Times on Aug. 9 the county wanted to release information about the lab discovery to the public, but "were told not to" by the state, a claim that CDPH has flatly denied.

County spokeswoman Sonja Dosti had prepared the "holding statement" and sent it to CDPH suggesting the information be ready for release in case the public and media asked questions about activity at the warehouse as investigations and cleanup operations began.

The CDPH "basically redacted a bunch of it and turned it into some a document that said nothing," Mr. Magsig said.

Emails exchanged between the County and CDPH obtained by The Epoch Times show that CDPH did suggest a shortened and revised holding statement.

The county anticipated questions from the public and media with investigators and cleanup crews going in and out of the warehouse, and wanted to prepare the holding statement, Ms. Dosti told The Epoch Times.

"We had some concerns about wanting the holding statement to be a bit more detailed, to share more information, because people were starting to go in and out with PPE [Personal Protective Equipment] and we anticipated that there may be questions ... and so we raised those concerns, and we also pitched a more detailed holding statement," Ms. Dosti said.

But, Ali Bay, CDPH communications director, said in a statement emailed to The Epoch Times the agency never asked Fresno County to withhold a statement.

"The claims being made by a county supervisor that the state asked for a news release be withheld are patently false," she said. "CDPH worked closely with the county to draft a holding statement should ques-

tions arise, and helped ensure that information was accurate and didn't interfere with the state investigation."

The state worked with local and federal authorities to protect public safety and public health throughout the course of the ongoing investigation to swiftly shut down the unlicensed warehouse, according to Ms. Bay.

Fresno City Councilman Garry Bredefeld panned public officials at a July 31 press conference for not telling the public about the biolab until eight months after it was uncovered when the Mid Valley Times broke a story on the unlicensed lab.

Mr. Bredefeld told The Epoch Times on Aug. 9, that withholding information about the lab for that long shows an "overt disrespect" for the public.

"Certainly, when there's an investigation, you don't want to do anything to compromise it but at what point were they going to tell the public?" he asked.

"People need to know when there's some kind of danger in their community, and when you have the Wuhan 2.0-type lab ... in your backyard," he said. "It's a complete disaster. They owe Fresno County residents an apology rather than trying to justify his terrible decision."

Mr. Bredefeld called the news conference when the story came out in the local newspaper because people were calling him and asking questions about the lab, he said.

And, although he has been criticized for allegedly putting out inaccurate information on the mice, he cited court documents stating that Ms. Wang told investigators the lab mice "were genetically engineered to catch and carry the COVID-19 virus."

Mr. Bredefeld, who is running against incumbent Supervisor Steve Brandou for the District 2 Board of Supervisors seat, countered criticisms directed at him for holding the press conference.

At the Aug. 8 meeting, Mr. Brandou thanked Ms. Zieba and Mr. Prado for the data on the biolab.

"And yet I don't believe it will deter for one minute those who are politically motivated and the sycophants that follow them to try to tear down and destroy elements of their community in their own political efforts."

Mr. Bredefeld said the thinly veiled "attack" on him and his supporters was "a complete disgrace."

Supervisor Buddy Mendes accused Mr. Bredefeld of using McCarthy-era tactics for his own political gain.

"This whole deal with the councilman reminded me of Joe McCarthy in the '50s, who just launched accusations at hearings in the Senate. They were some of the first TV hearings in the Senate, and nine times out of 10, it was all false and he ruined a lot of people's lives," Mr. Mendes said.

"These are dangerous tactics."

But Mr. Bredefeld told The Epoch Times he won't bow to political attacks or back down from his pursuit of transparency.

"You have politicians ... on the Board of Supervisors who don't respect the right of their constituents to know [about] these kinds of dangers, attacking me—one calling me Joe McCarthy and the other one ... calling his constituents and my constituents sycophants because they want to know about a Chinese lab in their community," he said. "It's cowardly. It's weak. It's pathetic."



▲ A sign on the wall of a suspected biolab in Reedley, Calif., on July 31, 2023.

"They were making it very clear to us we cannot speak on this," he said. "They've made that clear pretty much from day one."

Reedley City Manager Nicole Zieba claimed during the meeting that local authorities wanted to disclose information about the biolab discovery sooner but were told not to.

"We had to be able to come out with as much information as we possibly could, but when the FBI and the CDC and everybody else in the alphabet soup of state and federal agencies tells you we cannot even comment whether we're doing an investigation, you cannot comment," she said. "When they tell you that, you're not going to defy the FBI."

Ms. Zieba told the board there's good reason to disclose information now to debunk myths about the facility, about which "conspiracy theories abound," she said.

One such rumor in Reedley is that a grocery store across the street from the warehouse was shut because mice got out and infected the supermarket, she said.

"No, no, no, no, no. The roof is collapsing in the supermarket and it shut a year prior to this lab coming to Reedley. So, it really behooves us to get out in front of the media now to debunk these myths, because the conspiracy theorists are having a field day with it," she said.

State and local authorities believe the company, Prestige Biotech wasn't operating as a laboratory but was instead used as a storage site for equipment, medical devices, chemicals, and biologic materials such as blood, urine, and tissue samples.

"I have heard everything," Ms. Zieba said. "I have watched a local politician on national television talking about communist Chinese labs that are manipulating viruses. We had to be able to come out to the public to say do not listen to the conspiracy theorists."

"Do we have a problem? Absolutely. Are they Chinese nationals? Absolutely. Are they manipulating viruses? No evidence of that."

She praised Reedley and Fresno County officials for how they handled the crisis.

"This little David city took down Goliath with a green garden hose," she said. "I'm incredibly proud of our city, our code enforcement officer, and I will stand up anytime and say that we did everything in our power to keep the public safe."

'Bad' Company

Universal Meditech was owned by a group of Canadian and Chinese investors and specialized in research, development, and

the assembly of diagnostic test kits used in dairy cattle production, according to a 2015 article published in the Visalia Times Delta.

"This was ... a bad actor company that was kicked out of Canada," Ms. Zieba said. "They went to Texas. They got kicked out of Texas. They came to California, recruited with tax credits by the way."

In California, the company set up operations in Fresno, then moved to Tulare, went back to Fresno, and then moved to Reedley, Ms. Zieba said.

After an electrical fire caused extensive damage at its leased Fresno facility, the company—facing financial setbacks and threat of eviction—moved to Reedley when one of two businesses leasing the facility agreed to sublease a vacant warehouse to Prestige Biotech, Ms. Harper, the code enforcement officer, told The Epoch Times.

Public records, specifically Commercial & Government Entity reports, show the business was registered in Tulare City, California, but that registration had expired by March 23, 2017. The document lists a person named Wendy Chen as the contact person for the business at the time.

The company's website posted a notice on Jan. 16, 2023, recalling 56,300 Skippack

US-CHINA

Efficacy of Biden's Ban on China Technology Investments Questioned

By Andrew Thornebrooke

President Joe Biden's executive order aimed at barring some investments into China's tech industry is drawing mixed responses from experts and lawmakers.

Some China hawks believe the order doesn't address critical vulnerabilities in U.S.-China trade relations, while others have hailed the order as a landmark move against a hostile regime.

Rep. Mike Gallagher (R-Wis.), who chairs the House Select Committee on the Chinese Communist Party (CCP), is among the former.

According to him, the Biden administration's limited targeting of key technology sectors will not sufficiently limit the CCP's ability to further expand its authoritarian vision for the global order at U.S. expense.

"President Biden's long-awaited executive order is a small step in the right direction, but the loopholes are wide enough to sail the [CCP's] Navy fleet through, and it doesn't address the passive flows of U.S. money into malign CCP-affiliated companies," Mr. Gallagher said in a prepared statement.

"Congress needs to step up now and ensure we stop funding the CCP's military buildup, techno-totalitarian surveillance state, and human rights abuses, including the ongoing genocide in Xinjiang."

Too Tough for CEOs, Too Soft for Congress

President Biden's executive order, signed on Aug. 9, declares a national emergency regarding the "unusual and extraordinary threat" posed by "countries of concern" that are using U.S. investments into critical technologies to advance their own domestic military and intelligence capabilities.

It also grants authority to the Secretary of the Treasury to bar investments into artificial intelligence (AI), quantum information technology, and semiconductor and microelectronics manufacturing if such an investment is deemed to benefit the military modernization of such a nation.

The treasury simultaneously released a notice of proposed rules and sought public comment related to the implementation of the order, which will begin a lengthy comment period before the Treasury formally adopts the new rules sometime within the next year.

Emily Kilcrease, a senior fellow at the Center for a New American Security (CNAS) think tank, said that President Biden's carefully tailored order would do much to craft meaningful and enforceable rules with which to slow China's military modernization.



▲ President Joe Biden delivers a speech to mark the one-year anniversary of his signing into law the Promise to Address Comprehensive Toxics (PACT) Act at the George E. Wahlen Department of Veterans Affairs Medical Center in Salt Lake City, Utah, on Aug. 10, 2023.

"The administration is trying to throw a pitch straight down the middle, and with this EO, they have largely succeeded," Ms. Kilcrease said in a statement to the press.

"The scope hits on those transactions that present high national security risk, without burdening agencies with a program that is too big to properly enforce."

With that being said, Ms. Kilcrease added, the order's limited, middle-of-the-road approach would likely draw pushback from both sides of the China debate as Congressional hawks seek greater decoupling from China's economy and industry leaders seek more engagement.

President Biden's long-awaited executive order is a small step in the right direction, but the loopholes are wide enough to sail the [CCP's] Navy fleet through.

Rep. Mike Gallagher (R-Wis.)

"This EO will make many camps unhappy," Ms. Kilcrease said. "China hawks, both in Congress and former Trump administration officials, wanted more holistic decoupling of investment ties. Industry will chafe at the additional roadblocks for investing in an increasingly difficult market."

Role of Treasury Department Scrutinized

Other analysts, meanwhile, are raising concerns with the administration's decision to allow the Treasury Department

and that the Treasury's long comment period will likely see the proposed rules for investment greatly changed as new problems arise.

"This approach reflects a balancing act between wanting to have impact while not unnecessarily limiting broader investments," Mr. Hughes said in a press statement.

"We can expect to see changes to the scope and focus as the administration receives data and feedback on its impacts, with current areas of focus expanded, tweaked, or even potentially abandoned to match priorities and concerns."

A Glancing Blow to China's Military Modernization

In all, the Biden administration's new push to curtail Chinese military development is only in its earliest stages but may still prove effective at bolstering U.S. national security against the CCP.

Anders Corr, publisher of the Journal of Political Risk and a contributor to The Epoch Times, believes that the focus on semiconductors in particular could be beneficial in this regard.

"All military equipment now, even non-military equipment like toasters, computers, everything is reliant on computer chips that make decisions based on sensors that the machine has access to," Mr. Corr said during an Aug. 10 interview with NTD.

"Without access to those computer chips, China's military is at a disadvantage, its economy is at a disadvantage, [and] its manufacturing sector is at a disadvantage."

Still, while Mr. Corr believed President Biden's order would be "something of a blow" to the CCP, he said there remained concerns over the lack of transparency from the regime about its role in the Chinese economy.

There is little to prevent the regime, he said, from redirecting allegedly non-military companies in China to contribute to its defense program. In this way, the CCP might continue to garner massive investments in the Chinese stock market from American investors without those investors ever knowing that their money is being leveraged for military gain.

"This is the problem with the complete opaqueness of China's economy to foreign investors now with the new national security laws, because we just can't tell what we're investing in," Mr. Corr said. "So these so-called targeted sanctions and targeted restrictions really aren't very effective at controlling money flows."

Steve Lance and Tiffany Meier contributed to this report.



▲ Attendees from various forces march next to a banner promoting the new national security law at the end of a flag-raising ceremony to mark the 23rd anniversary of Hong Kong's handover from Britain in Hong Kong on July 1, 2020.

OPINION

China's Counterespionage Law Complements the National Security Law

The counterespionage law is the latest manifestation of China's security state

By Stu Cvrk



Despite the fact that communism has failed to deliver its promises in every country in which it was tried, Chinese leader Xi Jinping continues to push "communist innovation" as the way ahead for China while claiming that "Marxism works, particularly when it is adapted to the Chinese context and the needs of the times," as reported by state-run media China Daily on July 3.

Mr. Xi further claimed without proof that the Chinese Communist Party (CCP) "has mastered the scientific theory of Marxism, and has constantly promoted theoretical innovation in light of new realities." The real translation: the CCP is in total control, and we implement arbitrary laws whenever we think they are necessary to shore up that control over Chinese society.

Those "new realities" include the persistent yearning of individual Chinese for the personal and economic freedoms enjoyed by other nations despite the relentless efforts of the CCP and its security apparatus to surveil, monitor, coerce, persecute when necessary, and control the actions of all Chinese citizens. And those "theoretical innovations" implied by Mr. Xi are typically arbitrary byzantine laws, regulations, strictures, and diktats aimed at tightening control to eradicate perceived threats to the CCP.

The latest theoretical innovation is Beijing's anti-espionage law, which was amended significantly and superseded the previous version on July 1. This update was of a piece with the general clampdown on Chinese citizens courtesy of Mr. Xi's push to implement socialism with Chinese characteristics, rejuvenate the CCP (and root out its systemic corruption), and return to Marxist orthodoxy in all affairs while tightening Beijing's control of Chinese society down to the actions of individual citizens.

For all practical purposes, this amended law is a mutually supporting companion law to Hong Kong's national security law implemented by Beijing on June 30, 2020. The national security law and counterespionage law are intertwined. Let us examine the topic.

National Security Law

The original national security law was passed in 1993 to primarily regulate the work of China's national security agencies, whose primary function is counterespionage. It was focused on people who were "endangering Chinese national security by (1) plotting to subvert the government, dismember the State or overthrow the socialist system; (2) joining an espionage organization or accepting it [sic] mission assigned by an espionage organization or by its agent; (3) stealing, secretly gathering, buying, or unlawfully providing State secrets; (4) instigating, luring or bribing a State functionary to turn traitor; or (5) committing any other act of sabotage endangering State security."

China's new counterespionage law 'expands the definition of espionage from covering state secrets and intelligence to any documents, data, materials, or items related to national security interests, without defining terms.'

The law was renamed the counterespionage law in November 2014 as a new national security law was drafted and implemented in July 2015. The new law was expansive in scope, as reported by The Diplomat at the time: "China must defend its national security interests everywhere, including outer space and the polar ice caps" (with the details left for future rules and regulations). The new law included a focus on cyber security, with an emphasis on "[making] core Internet and information technologies, infrastructure as well as information systems and data in key sectors' secure and controllable."

The law incorporated the "great firewall" regulatory and technological system to monitor, limit, and block internet-based content as deemed appropriate by the CCP. It provided a legal basis for

prosecuting law-breakers.

The Standing Committee of China's rubber-stamp legislator, the National People's Congress, passed the latest version of the national security law on June 2020, which includes 66 articles and covers four areas of criminal activity: secession, subversion, terrorism, and collusion with foreign or external forces.

"Collusion with foreign or external forces" refers to espionage, which overlaps with the new counterespionage law. The 2020 national security law applies to anyone anywhere in the world and is expansively extraterritorial in its scope.

According to Article 38, it can apply even to offenses committed "outside the region by a person who is not a permanent resident of the region." It has been harshly applied in Hong Kong. It will certainly be applied to Taiwan after any cross-strait invasion by the Chinese military, the People's Liberation Army (PLA).

Counterespionage Law

The original counterespionage law was implemented in 2014, replacing the 1993 national security law. It primarily targeted "foreign spies and Chinese individuals and organizations" who collaborate with foreigners in capacities that could compromise state secrets. While Mr. Xi's predecessors were focused on China's economic progress, this law marked his shift in priorities to national security to enhance the power, authority, and security of the CCP over all other considerations.

The newly updated law further tightens the noose on Chinese citizens and foreigners seeking to do business in China. As reported by the National Counterintelligence and Security Center (NCSC) on June 30, China's new counterespionage law "expands the definition of espionage from covering state secrets and intelligence to any documents, data, materials, or items related to national security interests, without defining terms."

And the ambiguities in those definitions are made to order for arbitrary enforcement by Chinese authorities who could selectively designate any documents, data, materials, or other items relevant to Chinese national security. The objective is to suppress outward information flows from China that could include bona fide "secrets" and simply informa-

tion considered embarrassing to Beijing.

Who wants to risk incarceration or worse under an ambiguous law?

Concluding Thoughts

The Chinese economy appears to be going south, as reported by The Epoch Times. The historical 140-year floods are wreaking vengeance on Chinese agriculture and food security. Nations in East and South Asia—such as India, Japan, the Philippines, South Korea, Australia, and Taiwan—are collaborating diplomatically and militarily in response to PLA belligerence.

What is Mr. Xi's response? To batten down the hatches at home, squeeze Chinese citizens with new laws, and move Chinese society further and further toward the authoritarian surveillance state envisioned in George Orwell's epic novel "1984."

According to some observers, the new counterespionage law will incentivize the Chinese to "spy on the neighbors," just as the Soviet KGB and Nazi Gestapo once encouraged. On Aug. 1, Reuters paraphrased an announcement by the Chinese state security administration: "China should encourage its citizens to join counter-espionage work, including creating channels for individuals to report suspicious activity as well as commending and rewarding them."

Will the ambiguities in the new law discourage foreigners from doing business in China? Will foreign companies risk arbitrary enforcement of the overlapping counterespionage and national security laws? These are some severe and self-imposed headwinds facing China's export economy.

Stu Cvrk retired as a captain after serving 30 years in the U.S. Navy in a variety of active and reserve capacities, with considerable operational experience in the Middle East and the Western Pacific. Through education and experience as an oceanographer and systems analyst, Cvrk is a graduate of the U.S. Naval Academy, where he received a classical liberal education that serves as the key foundation for his political commentary.

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