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# CHINA INSIDER

## THE LONG GAME

INSIDE CHINA'S  
EFFORTS TO  
INFILTRATE US  
POLITICS

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# Inside China’s Long Game to Infiltrate US Politics

By Eva Fu

As Chinese authorities escorted the senior Federal Reserve official from his Shanghai hotel room, they demanded that he “say good things about China” when back in the United States.

The atmosphere was “frightening,” the official, who remained unnamed, told the Fed.

That was the first of four times that the official was detained and interrogated during a 2019 trip to Shanghai. Chinese authorities threatened his family, tapped his phones and computers, and copied contact information of other Federal Reserve officials from his account on Chinese social media app WeChat, according to Senate Homeland Security Committee Republicans who made public the details in a report last July.

The U.S. official recounted how Chinese authorities tried to pry “sensitive, non-public economic data” out of him and insisted that he “advise senior government officials” on sensitive economic issues such as trade tariffs while the United States and China were embroiled in a trade war. They forced him to drink liquor and attempted to make him commit to future meetings to allow them to gather economic intelligence, he said.

Unsettling as it is, the incident was but part of a “long-running and brazen” malicious campaign by China over the course of more than a decade to undermine U.S. economic policy and advance Beijing’s ambition to supplant the United States as the global superpower.

Coercion and threats represent only a sliver of the regime’s toolbox used to target the Western political sphere. A Chinese think tank based in Beijing, partnering with the state-affiliated Tsinghua University, in 2019 rated White House advisers and U.S. governors by their friendliness to Beijing. The group labeled officials as “friendly,” “ambiguous,” or “hardline” after combing through metrics such as age, work history, public statements, trade activities with China, and length of term.

Time, patience, and thoroughness—these are attributes that Michel Juneau-Katsuya, former Asia Pacific chief at the Canadian Security Intelligence Service in the 1990s, sees in the Chinese regime’s craft of infiltration.

China doesn’t have a democratic election process that can displace leadership from power, Mr. Juneau-Katsuya noted.

“So they know that they can plant today something that will be capable to be harvested in five, 10 or 15 years,” he told The Epoch Times.

Sen. Mike Braun (R-Ind.), who has advocated for a tougher stance on China, agreed. “They’re playing the long game,” he told The Epoch Times.

**A Chinese spy reportedly drove for the recently deceased Sen. Dianne Feinstein (D-Calif.) for 20 years.**

## Biding Their Time

Few, if any, U.S. leaders—from the federal, state, local, tribal, and territorial levels—are immune to the risk of the Chinese regime manipulating them to bolster its hidden agenda, the National Counterintelligence and Security Center warned in July 2022.

By leveraging relationships with U.S. officials—called “using the local to surround the central” in communist slogan terms—Beijing can pressure Washington to back policy outcomes favorable to the regime, such as deepening bilateral economic ties and tamping down criticism of the regime’s abysmal human rights record.

A Chinese spy reportedly drove for the recently deceased Sen. Dianne Feinstein (D-Calif.) for 20 years.

Christine Fang, an alleged Chinese spy working for China’s top intelligence agency, the Ministry of State Security (MSS), reportedly used campaign fundraising, networking, and romantic relationships with at least two Midwestern city mayors to gain a foothold in their spheres of influence.

Ms. Fang also approached Rep. Eric Swalwell (D-Calif.) when he was a member of the Dublin City Council, raised money for his 2014 reelection campaign, and facilitated



▲ Christine Fang with then-Dublin, Calif., City Council member Eric Swalwell at an October 2012 student event.

an intern’s placement in Mr. Swalwell’s office, according to Axios.

The connection prompted a two-year investigation by the bipartisan House Ethics Committee, which in May ultimately decided against taking any action against the California lawmaker.

The United Front network, which helps the Chinese Communist Party (CCP) control the Chinese diaspora, also plays a role in co-opting well-placed individuals for Beijing’s interests.

Lu Jianwang, one of the two alleged operators of a secret Chinese police station in New York, together with his brother, in recent years has given tens of thousands of dollars to New York politicians, including vice chair of the Democratic National Committee Rep. Grace Meng (D-N.Y.), New York Mayor Eric Adams, and New York Gov. Kathy Hochul, campaign finance records show.

“Local-level officials, state officials are just not going to be as aware of or as attuned to some of these influence efforts—they’re just trying to create jobs,” Sarah Cook, a senior China analyst at the Freedom House, told The Epoch Times.

“The CCP is very good at taking advantage of that, to get people to side with them, to get people in the United States to have a stake in what the CCP also wants. Then, later,

that can be activated to create situations that are more problematic.”

As with Ms. Fang’s case, Chinese influence operations often begin early in the local leaders’ careers.

“They’re very, very patient. Their determination and their focus is remarkable,” Mr. Juneau-Katsuya said of the regime.

He said that Chinese intelligence officers-turned-defectors have detailed to him how they were instructed to be model citizens in the Western world for five to 10 years, working their way up the ladder in society before being “activated.”

## Lashing Out

Taiwan, Uyghur, Falun Gong, Tiananmen Square—the list of the Chinese Communist Party’s trigger words goes on. And the regime has made it clear that no one should go against its will.

Late at night on March 28, a day after the House overwhelmingly passed Rep. Chris Smith’s (R-N.J.) Stop Forced Organ Harvesting Act of 2023, a furious email from the Chinese Embassy’s minister counselor, Zhou Zheng, arrived in the inbox of an aide to the congressman.

The email—sent from a Gmail account registered under Mr. Zhou—declared the bill “absurd” and claimed that the “so-called ‘forced organ harvesting’ in China is a farce.”

Mr. Zhou, in true Beijing fashion, demanded that the United States stop “baseless hype and anti-China moves and stops preceding [sic] this legislation.”

Mr. Smith said the claims in the email were “a big lie in plain sight.”

“The Falun Gong practitioners and the Uyghurs are being killed for their organs, and it’s tens of thousands every single year, as we know,” he told The Epoch Times.

“That’s crimes against humanity.”

A few weeks before the email to Mr. Smith, counselor Li Xiang with the Chinese Embassy wrote to Sen. Josh Hawley (R-Mo.), insisting that he retract his bill ordering the declassification of information surrounding the origins of COVID-19, which had been signed into law on March 20.

“Hahaha. Not a chance.” Mr. Hawley wrote in a social media post on March 9.

Mr. Li also hit a wall when he tried to block a scheduled congressional hearing on the origins of COVID-19.

He was also unsuccessful in his warning to House lawmakers against meeting with Taiwan’s President Tsai Ing-wen during her visit to Los Angeles.

The audacity of the regime in making demands of an elected member of Congress “incensed” Rep. Ashley Hinson (R-Iowa), one of the recipients of the threatening letter.

“Basically, I just said, ‘No, you can’t tell

me who I can and can’t meet with, and I’m going to go ahead and meet with her,” Ms. Hinson told The Epoch Times. “And that’s what we did.”

## ‘Chilling Effect’

Despite receiving backlash, what keeps Beijing’s officials going, according to Ms. Cook, is that although it may not work this time or with some “veteran CCP critics,” it can “make people think twice about a critical action next time.”

Those who aren’t familiar with Chinese state-directed maneuverings are more vulnerable to the CCP’s bullying, she said, especially if they aren’t aware of how often it happens. Some of the threats voiced are just bluffs, she said.

If Chinese officials “remind” U.S. leaders of the potential economic consequences, someone newer to an elected office or a lawmaker who’s introducing a policy action that provokes Beijing may decide to “avoid the controversy” next time, even if they carry through on the current action.

“If they are local officials receiving an intimidating letter from a big national and repressive government like China’s, then that’s two entities that aren’t operating at the same level,” Ms. Cook said.

An example occurred in California in 2017 when then-state Sen. Joel Anderson tried to push the state legislature to take a symbolic stance against the Chinese regime’s persecution of Falun Gong.

Two days after his resolution unanimously passed through the state’s judiciary committee, a round of letters flew from the Chinese consulate in San Francisco to California state senate members.

Immediately, a “chilling effect” set in on Mr. Anderson’s colleagues who had previously been supportive of the resolution. During the final week of the Senate session, he tried at least 18 times to bring the measure to a floor vote but to no avail.

His colleagues “didn’t want to talk about it,” he later told The Epoch Times. And “the only difference between supporting it or not supporting it” was the letter.

## Penetrating Deep

The Party’s tactics for gaining influence have become increasingly aggressive over the years. Where money fails, espionage and outright intimidation come in.

According to a recent Times of London report, an agent with China’s MSS used LinkedIn profiles to entice thousands of British officials with cash and lucrative deals in exchange for state secrets.

In October 2020, two Chinese officials snapping photos of guests at a Taiwan-held reception event in Fiji assaulted a Taiwanese official after being barred from entry. The Taiwanese diplomat suffered head in-



▲ Rep. Chris Smith (R-N.J.) speaks to reporters at the House Triangle in Washington on July 12, 2023.

juries and had to be hospitalized.

The regime’s mix of reward and retaliation appears to have paid off to a certain extent.

In the conservative state of Utah, as many as 25 lawmakers have routinely taken trips to China every other year since 2007, with Chinese state media featuring their jubilant quotes in order to amplify Beijing’s agenda.

After being approached by a Beijing advocate, a Utah state legislator introduced a resolution in 2020 expressing solidarity with China early on during the COVID-19 pandemic. The resolution passed, although the governor declined to sign it.

A similar resolution, proffered by Chinese embassy officials, was rebuffed in Wisconsin.

Asked in September during a Senate intelligence committee hearing whether the Chinese regime has been successful in changing policy outcomes, Glenn Tiffert of the Hoover Institution answered “absolutely yes” and pointed to Beijing’s successful manipulation of corporate America through economic incentives.

President Joe Biden last May called out the regime for lobbying against a bipartisan measure to bolster U.S. semiconductor manufacturing. The U.S.-based Semiconductor Industry Association trade group in July also called on the Biden administration to “refrain from further restrictions” on chip sales to China, just as administration officials mulled updating the restrictions aimed at crippling the Chinese chip industry that were rolled out last October.

“China does not need to insert itself directly into those consultations, because the American firms’ interests themselves point in that direction,” Mr. Tiffert told the senators.

The incentive factor manifests in other forms, too. When Rockville, Maryland, was contemplating a sister city agreement with Taiwan’s Yilan City, Chinese diplomats in Washington dangled investment opportunities in front of Rockville city officials and pressed them to scrap the sister city plan, citing Rockville’s unofficial connection with southeastern Chinese city Jiaxing, Mr. Tiffert noted at the hearing.

“Fortunately, the city stood firm,” he said, but partnerships such as this with China have become one of the windows for the Chinese to lay claims on U.S. policy.

## A ‘Sophisticated Network’

To conquer an opponent requires an understanding of where they’re weak, and one weakness for the West is democracy—the need to have election cycles to “renew ourselves constantly,” Mr. Juneau-Katsuya said.

“Because we renew ourselves, also, we are in the process of constantly seeking approval, seeking support, seeking election votes,” he said.

The power of that control was on display during the 2021 Canadian federal election. Amid the Conservative Party’s surge in the polls, Chinese state-affiliated entities waged a disinformation campaign to discredit conservative candidates, which some analysts believe resulted in keeping hawkish candidates, such as Canadian parliamentary member Michael Chong’s former colleague Kenny Chiu out of the office.

“The CCP is very clever, and they have a very sophisticated network in place in penetrating many of the diaspora communities,” Mr. Chiu told The Epoch Times’s sister media NTT.

The regime also has something else to its advantage: the sheer volume of people. Roughly 60 million ethnic Chinese were

living outside of China as of 2020, and hundreds of thousands of Chinese students study abroad each year. These overseas Chinese populations are under constant watch by Chinese front groups that report to their local Chinese consulate or embassy, effectively making them a pawn for amplifying the regime’s agenda, Mr. Juneau-Katsuya said.

## ‘Across the Board’

The depth of Chinese infiltration globally has largely been in the shadows until recent years.

A scheduler for Rep. Don Beyer (D-Va.), who was on Capitol Hill for 34 years, was fired last October after allegedly attempting to arrange meetings between congressional offices and Chinese embassy officials.

The UK’s Conservative Party in September stated that it had dropped two would-be Members of Parliament linked to the regime’s United Front network after domestic counterintelligence agency MI5 flagged them as a risk.

During the first five months of this year in Canada, concerns about Chinese foreign interference came into the open as more than 350 witnesses testified before four parliamentary committees probing the issue. Mr. Juneau-Katsuya said it was a further indicator of Beijing’s success in compromising “every single level” of political strata in his country.

At the Tiananmen Memorial in New York in September, Rep. Mike Gallagher (R-Wis.), chairman of the House Select Committee on the Chinese Communist Party, told reporters that “it’s reasonable to assume that all of us in Congress and our staff” are targets for the MSS and the United Front system.

“We need to be aware of that fact and cognizant of that fact [when vetting congressional staffers],” he said.

**They know that they can plant today something that will be capable to be harvested in five, 10, or 15 years.**

Michel Juneau-Katsuya, former Asia Pacific chief, Canadian Security Intelligence Service

“For whatever reason, the MSS doesn’t occupy the same place in people’s imagination or minds that let’s say the KGB did, so it’s hard for people to truly understand the scale and scope of Chinese espionage as a result.”

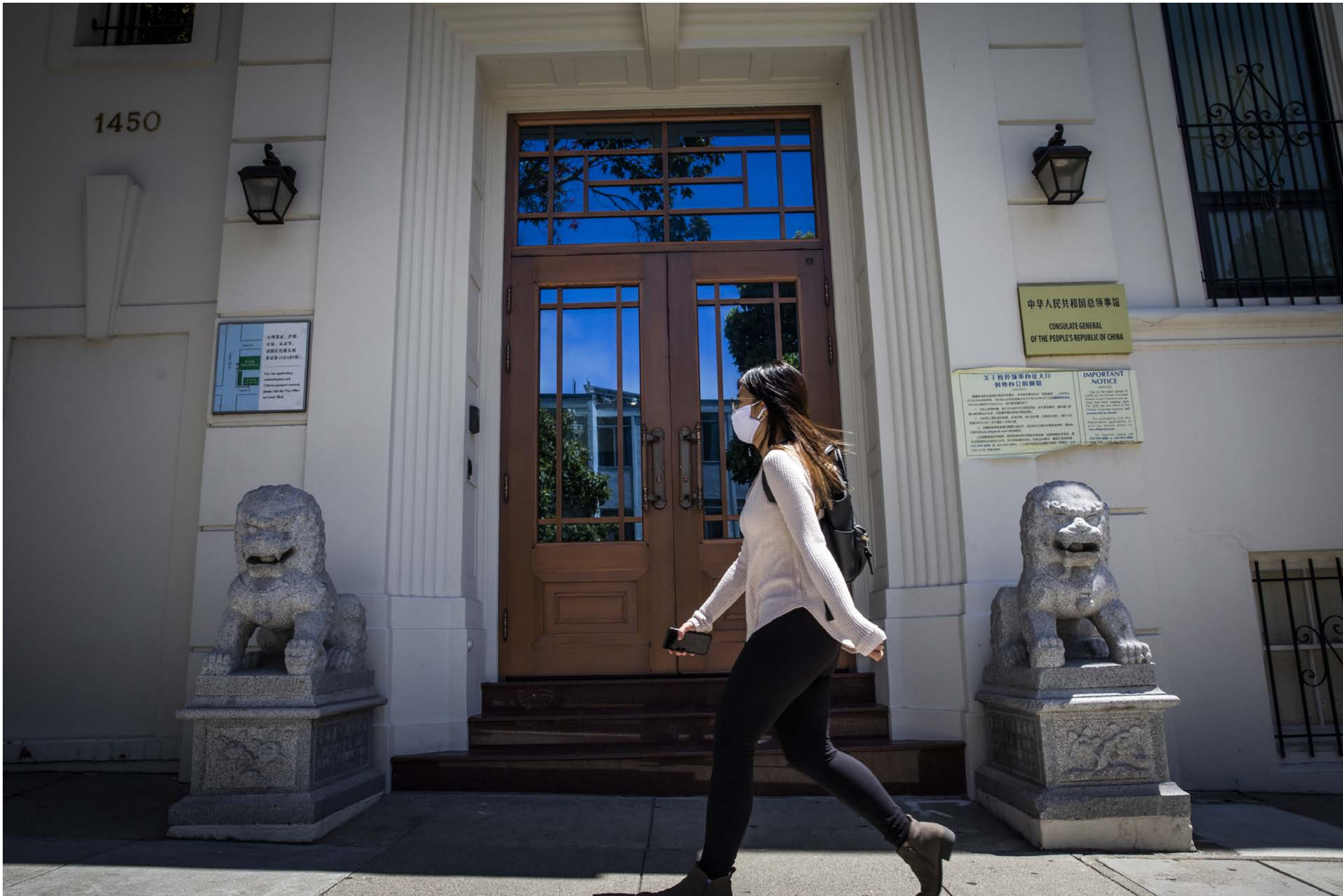
He told The Epoch Times that he believes that Chinese political interference is occurring “across the board.”

Mr. Juneau-Katsuya sees the task of unmasking covert Chinese operations as equivalent to trying to tackle a “monster” well-fed by the West and with “tentacles everywhere.”

If Western countries stick together, there will be a change—although it’ll take time, he said.

“They are formidable opponents, and they’ve been at it for decades now,” he said of the CCP. “They’re subtle, they’re everywhere. So it’ll take a while before we succeed in regaining control.”

*Epoch Times senior editor Jan Jekielek and NTD reporter Steve Lance contributed to this report.*





TECH THREAT | IN-DEPTH

# As Chinese Tech Unveils New CCP-Approved Chatbots, Experts Warn of AI Threat From Beijing

By Venus Upadhayaya

As Chinese tech companies unveil their answers to ChatGPT, experts warn that China's artificial intelligence landscape poses a host of threats.

On Aug. 31, tech giant Baidu introduced Ernie, the Chinese counterpart to ChatGPT, while Alibaba announced its AI model, Tongyi Qianwen, on Sept. 13.

Although Ernie was initially unveiled in March, the chatbot has now been approved and is available for download.

"In addition to ERNIE Bot, Baidu is set to launch a suite of new AI-native apps that allow users to fully experience the four core abilities of generative AI: understanding, generation, reasoning, and memory," Baidu said in a statement announcing Ernie's release.

[The] Chinese don't need AI to propagate the ideology, as they do so from schools with tighter control on shaping the mind of their younger generation.

As strategic competition heats up within the United States, Beijing has increased its support of Chinese companies working with AI. Alibaba's cloud intelligence division said in a message on its WeChat account that several organizations, including OPPO, Taobao, DingTalk, and Zhejiang University, have reached cooperation agreements with Alibaba to train their own large language models (LLMs) on Tongyi Qianwen.

China's use of cutting-edge AI tools could potentially enhance national security risks for its adversaries, experts say.

"Employing large language models such as ChatGPT, Alibaba's Tongyi Qianwen or similar AI systems can potentially be considered a security threat as misinformation, automated attacks, ethical concerns, and data privacy," said AI researcher and author Sahar Tahvili. Ms. Tahvili is the author (with Leo Hatvani) of "Artificial Intelligence Methods for Optimization of the Software Testing Process: With Practical Examples and Exercises."

Generative AI describes algorithms that can generate new content, including audio, code, images, text, simulations, and videos. LLMs are the text-generating component of generative AI.

LLMs involve a deep learning algorithm that can perform a variety of language processing tasks, such as recognizing, translating, predicting, or generating text or other content.

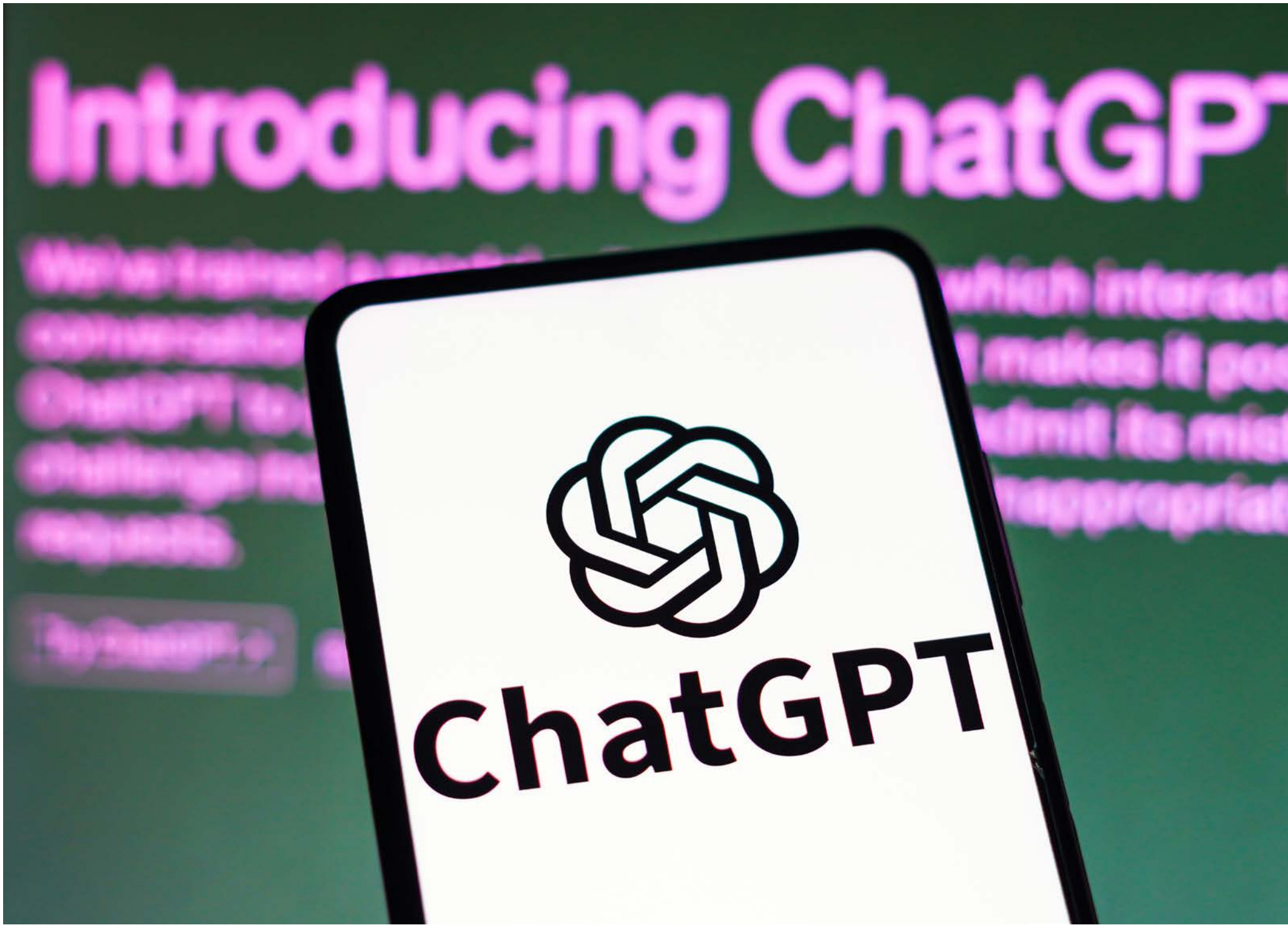
The Chinese are 15 years ahead of the rest of the world in using complicated AI LLMs, estimates Ashwin Kumaraswamy, a deep tech investor based in the UK. Mr. Kumaraswamy sits on the board of a number of tech companies.

Although the majority of Western social media platforms are banned in China, Mr. Kumaraswamy noted that Tencent's WeChat platform (known in China as Weixin), which is ubiquitous in China, allows users a myriad of options, including shopping, messaging, conducting business, microblogging, and chatbot features.

"Digitally, they are really strong and integrated," the venture capitalist told The Epoch Times.

**Core Socialist Values: 'Let's Talk About Something Else'**  
Experts told The Epoch Times that the AI-related threat from China stems from

Baidu CTO Wang Haifeng speaks at the unveiling of Baidu's Ernie chatbot, at an event in Beijing on March 16, 2023.



▲ Analyst Josh Baughman cited an article by retired PLA Maj. Gen. Hu Xiaofeng, currently a professor at China's National Defense University, in which Hu said, "The cutting-edge technology of artificial intelligence represented by ChatGPT will inevitably be applied in the military field."

the ideological divide between Beijing and the West.

"If one wants to evaluate how China is approaching the LLM boom, one must analyze the regulations put forward by the cyberspace administration," Mark Bryan Manantan, Director of Cybersecurity and Critical Technologies at the Honolulu-based Pacific Forum, told The Epoch Times in an email.

"Although the buzz is very much about AI, the main concern for China is still information security that is rooted in core socialist values and in alignment with existing laws and policies on data security and personal information protection," he said.

Ms. Tahvili noted that the Chinese iteration of ChatGPT, like other AI models, is a "black box system." That means "the inner workings or decision-making processes of the model are not easily interpretable or understandable by humans."

The black-box nature of generative AI typically makes it unpredictable, which may give the appearance of autonomous thought processes. Therefore, other nations may be naive about the ideological impetus behind China's AI, she cautioned.

However, media reports have said that it is mandatory for tech companies in China to report to the regime at every step and this makes Beijing's strategic thrust involving its LLMs unmistakable, according to experts.

In fact, as noted in a Sept. 9 BBC article, when Ernie is asked a "difficult" question, it typically responds "Let's talk about

something else" or "I'm sorry! I don't know how to answer this question yet."

The general public in China has pretty much given up on resisting the Chinese Communist Party's (CCP's) political ideology—it has been brainwashed for a long time, Mr. Kumaraswamy said.

"Given they have data and info on general mood [and] general chit chat, those models can be used by ChatGPT-style solutions to auto-fill. But [the] Chinese don't need AI to propagate the ideology, as they do so from schools with tighter control on shaping the minds of their younger generation," he said.

## Military Applications

Chinese LLM has potential applications within the People's Liberation Army (PLA), particularly in areas like cognitive or information warfare.

Josh Baughman is an analyst with the China Aerospace Studies Institute at the U.S. Air Force's Air University. In a paper entitled "China's ChatGPT War" published Aug. 21, Mr. Baughman wrote that generative AI will, in the words of Friedrich Engels, "cause changes or even revolutions in warfare."

The PLA aims to capitalize on AI's military applications, he said, noting the large number of articles on AI that have been published in recent months in Chinese military journals.

Baughman cited an article by retired PLA Maj. Gen. Hu Xiaofeng, currently

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OPINION

## China's Belt and Road Suffers Another Setback

By Milton Ezrati



Xi Jinping's Belt and Road Initiative (BRI) faced difficulties even before Italy began talking about withdrawing from the scheme. Now, the loss of Rome will deal an especially hard blow to this once-imposing project. Meanwhile, the Biden White House and India have announced a plan for a trade corridor that will build rail and sea routes to connect Asia with the Middle East and Europe, in other words, an alternative to China's BRI.

Beijing's aim to use the BRI as a means to extend its global economic and diplomatic reach seems to be falling far short of the ambitions that prompted Mr. Xi to describe it not too long ago as the "project of the century."

Rome has not yet made a final determination. When at the recent G20 meetings in India Italian Prime Minister Giorgia Meloni was asked, she told media outlets that her government had not yet arrived at a final decision. Italy has until December, for the arrangements settled when Italy joined the BRI in 2019 will automatically renew next year unless Rome makes a formal withdrawal announcement. If, as is likely, Italy does withdraw, it will take from China's BRI the only member that is also part of the G7.

Diplomatic circles speculate that Washington had pressured the Italians to withdraw. Some pressure may have been exerted. After all, Italy will assume the rotating presidency of the G7 next year. But if Washington applied pressure, neither Washington nor Rome admitted it. All the Italian government has said is that membership has failed to benefit its economy sufficiently and that otherwise, Italy is determined to maintain friendly trade and diplomatic relations with China.

At the G20 meetings, Ms. Meloni and Chinese Premier Li Qiang jointly expressed their intention to "consolidate and deepen dialogue between Rome and Beijing." Still, maintaining good relations after a withdrawal from the BRI could, according to Washington's thinking, encourage others to sever their links to the arrangement.

Italy's likely departure is not the only trouble facing the BRI. Many other members have found the arrangements burdensome. From its beginning, the BRI always had a Mafia-like feel to it. Beijing would approach needy countries in Asia, Africa, Latin America, the Middle East, and the periphery of Europe and offer loans for important infrastructure projects – ports, rail links, dams, roads, and the like.

a professor at China's National Defense University, in which Hu said, "The cutting-edge technology of artificial intelligence represented by ChatGPT will inevitably be applied in the military field."

LLM and natural language processing (NLP) models have several potential applications within the military and defense sectors, according to Ms. Tahvili.

Mr. Baughman's paper mentions seven main areas of application: "human-machine interaction, decision making, network warfare, cognitive domain, logistics, space domain, and training."

The Pacific Forum's Mr. Manantan discussed the aspect of cognitive or information warfare. ChatGPT can amplify disinformation campaigns and enhance their execution, he said.

"LLM can create more convincing text. Other security threats include malware generation hacking and sophisticated phishing."

Generally, cognitive warfare involves influencing the perceptions, beliefs, and decision-making of adversaries.

According to Ms. Tahvili, "In this regard, AI can be utilized for strategic planning, information analysis, and translation. Moreover, the AI models can be integrated into military training programs and simulation environments to provide realistic and interactive scenarios."

## Cautious of Pitfalls

Mr. Baughman said that while articles in the PLA media talk about the inevitable use of ChatGPT in warfare, "there is also not a rush for significant integration into military operations anytime soon." Three major concerns play into this, he said, namely, "building a data set, optimization, and low mutual trust of the technology."

Then there's the issue of censorship: "In addition, while not mentioned by the PLA media, there's also the issue of the Chinese communist party (CCP) itself. A program that has the potential to speak negatively about the Party will not be allowed and this could inhibit the overall efficacy of generative AI."

Overall, Mr. Baughman said, "China understands the need to be a first mover (or close follower) in Generative AI on the battlefield."

Like the United States, however, he feels the Chinese are cautious about integrating the technology too quickly, aware of the many potential pitfalls of intelligent warfare.

State-owned Chinese banks would arrange the financing, and Chinese contractors would execute the projects and, when complete, manage them. If the host country failed to pay, the projects would come under Chinese ownership. Either way, Beijing gained influence and considerable leverage over the nations that allowed themselves to become involved. Since Mr. Xi took power in 2012, China has made over \$1 trillion in such loans in some 150 countries, making China the world's largest official creditor.

Italy's prospective withdrawal not only makes bad optics because of the prominence of that economy, but it also highlights all the difficulties surrounding the BRI for China and its client states

Over time, many BRI clients have realized the one-sided nature of these arrangements. A big part of the problem is that the projects pursued under the BRI were chosen for political and diplomatic rather than economic reasons. Many of these efforts were always economically dubious, and now it is clear that these projects cannot earn enough to support the loans. In Sri Lanka, for example, even before the COVID-19 pandemic shut down trade, the BRI-built port never saw the traffic needed to meet the terms of the loan. These loans have gone bad. Others have, too, even when the Chinese state-owned banks involved fail to make such a declaration.

Similar things are occurring across the entire scheme. Pakistan, one of the largest BRI participants, has fallen so far short of its obligations that it has had to turn to the International Monetary Fund for relief. Loans in Africa look especially shaky. Economists at the World Bank estimate that some 60 percent of all BRI loans now involve countries in financial distress.

For a long time, Beijing refused to acknowledge the financial trouble. Chinese bankers long ago had warned Beijing about the financial and economic viability of BRI arrangements. Some of these bankers were so concerned that they insisted Beijing extend to several loans the moniker "policy designated" to make clear that the decision to lend came from Beijing and not the banks' managements. Officials pressured bankers to avoid any reference to bad or failed loans. Instead, the banks were encouraged to keep the borrow-

ers afloat by extending the maturity of the loans, which in banking jargon is cynically referred to as "extend and pretend."

Beijing refused to cooperate with Western efforts through the G20's Paris Club to renegotiate troubled loans. No doubt China's leadership wanted to avoid the embarrassing admission that BRI loans had problems, but refusing cooperation would also have put repayment to China ahead of others should failure become unavoidable.

Now that China's state-owned banks are also facing massive defaults from domestic property developers, such as Evergrande, Beijing has realized that the BRI is perhaps as unsupportable a burden on China as it is on the client states. In the past, when China's economy was growing by leaps and bounds, Beijing might have been able to cover for the defaults with its own resources, but that is no longer the case.

Accordingly, Beijing has become much more open to talks on debt restructuring. Negotiations have already started between Beijing and Chad, Ethiopia, and Zambia. Indeed, the Chinese authorities have joined with international groups, such as the Paris Club, to work out what is called a "common framework" to deal with these sovereign loans, whether part of the BRI or not. Mr. Xi has certainly changed his rhetoric. He now describes the BRI as "increasingly complex" and in need of stronger risk controls and cooperation—quite a comedown.

Italy's prospective withdrawal not only makes bad optics because of the prominence of that economy, but it also highlights all the difficulties surrounding the BRI for China and its client states. It certainly is no longer considered the "project of the century," either in Beijing or elsewhere. Political and diplomatic imperatives will keep the scheme alive for some time. But the BRI does look set to shrink, no doubt to the delight of Chinese bankers and the Ministry of Finance, but not Mr. Xi.

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

Milton Ezrati is a contributing editor at The National Interest, an affiliate of the Center for the Study of Human Capital at the University at Buffalo (SUNY), and chief economist for Vested, a New York-based communications firm. Before joining Vested, he served as chief market strategist and economist for Lord, Abbot & Co. He also writes frequently for City Journal and blogs regularly for Forbes. His latest book is "Thirty Tomorrows: The Next Three Decades of Globalization, Demographics, and How We Will Live."



▲ The Trieste Old Port in Trieste, Italy, on Apr. 2, 2019. The historic city is preparing to open its new port to China, with Italy becoming the first G-7 nation to sign on to China's BRI infrastructure project.

An AI application launched by the Anhui Institute of Artificial Intelligence, a subsidiary of the Chinese Academy of Sciences, can test the loyalty of communist party members.





OPINION

# China Bank Bailouts Begin

By Christopher Balding

As Chinese banks creaked and groaned under the weight of increased demands to lend and large amounts of undeclared bad loans, it only became a question of time before bank bailouts began. Well, the bank bailouts in China have begun.

Despite hyperbole over unprecedented risks to the Chinese financial system from pundits, a rickety Chinese banking system and bailouts are very pre-cedented. In the early 2000s, China faced a rising tide of bad loans that threatened to overwhelm its banking system. From roughly 2004 to 2006, China undertook a massive recapitalization of its banking system covering national- and city-state-level banks.

The recapitalization occurred through two primary channels. First, Beijing created four state-owned “bad banks” that were capitalized with state money, which then purchased bad loans from banks. These banks have a decidedly mixed record. Some of the loans ultimately were repaid as China enjoyed rapid growth from 2005 to 2020. However, large amounts of these loans haven’t been repaid and exist as zombie assets that are unlikely ever to be repaid at even heavily discounted rates. Today, these bad banks range from officially bankrupt to teetering on the edge of bankruptcy.

Second, many local governments stepped in to buy assets from banks to keep them from collapse. Here’s how the deals generally worked. The local government would buy a large amount or all of the bad debt, so the banks wouldn’t have the bad loans in their book and could continue making loans at a very long-term low or zero interest rate. The bank would then repay the loans based upon a specific hurdle or event, such as going public with a specific portion of earnings or repurchasing the bad debt in tranches.

Since large amounts of the bad loans were linked to public projects and the government needed the banks to keep making loans, there was a symbiotic need for each other. The downside was that the debt was never written down, or assets disposed of, as the government never addressed the underlying problem of bad debt. So when the bank was repaying its bad loan debt or repurchasing them, nothing had fundamentally changed about the bad debts.

China was able to tackle a significant amount of its previous bad debt by simply outgrowing its bad debt, not by actually adjusting valuations, writing down or writing off loans, or addressing banking practices. Outgrowing bad loans is uncommon on individual bad loans and incredibly rare at a macro-economic level.

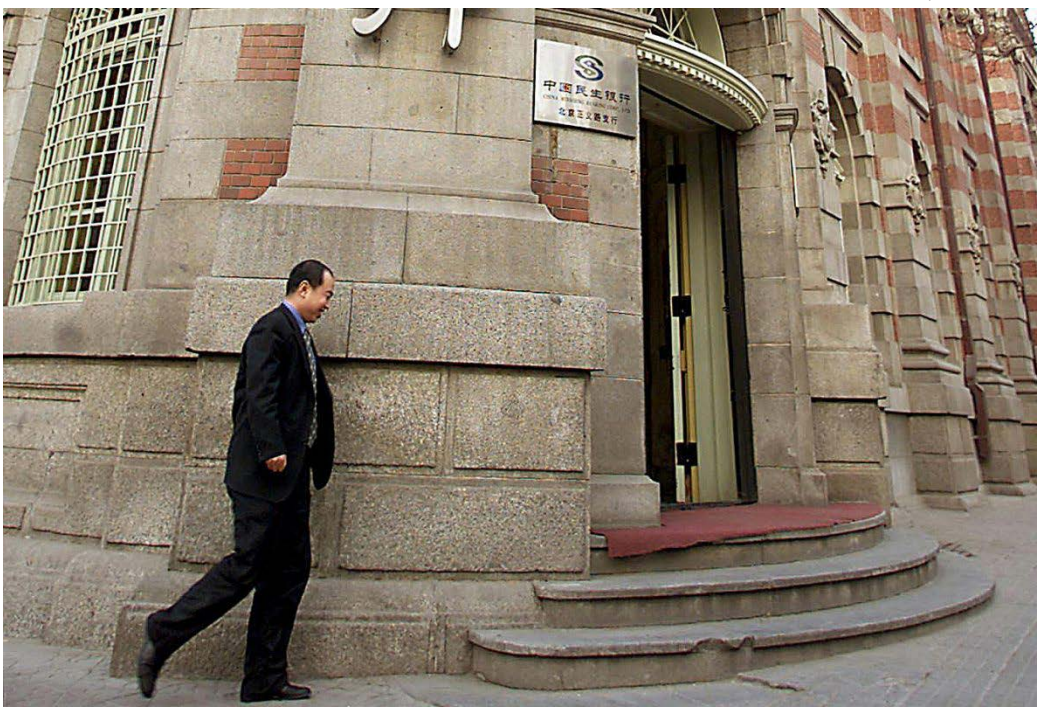
China hopes to repeat this feat as it starts addressing bad loans in the banking sector less than 20 years after the last time Beijing tried to recapitalize the banks.

Just recently, Hong Kong-listed Shengjing Bank from the northeastern province of Liaoning announced that it had sold 176 billion yuan (\$24 billion) worth of bad loans to the Liaoning provincial government. However, a closer look at the transaction reveals a lot of movement and little substance.

The deal between Shengjing Bank and Liaoning is straightforward and just serves to paper over and delay dealing with the fundamental problem. No actual money is changing hands in the transaction between Shengjing Bank and Liaoning. Liaoning Asset, under the local department, is simply receiving a package of loans and investments and then issuing 15-year notes for the 176 billion yuan back to Shengjing Bank, which carries a 2.25 percent interest rate. In effect, Shengjing Bank is passing off its bad loans to the local government, hoping to get repaid in 15 years while accepting a minimal interest payment well below the official rate.

Shengjing Bank undertook this asset disposal in order to “enhance the asset quality of the bank.” However, on the surface, this is a puzzling move if we accept its published records as factual. According to Shengjing Bank’s half-year report, it had a nonperforming loan ratio of 3.17 percent, which actually declined from the 2022 level of 3.22

The problem is actually deeper and more hidden than the official financial statements make it appear.



A man walks by the head office of China’s largest private lender, China Minsheng Bank, in Beijing on Feb. 25, 2002.

percent. Additionally, Shengjing Bank supposedly has bad loan provisions of 4.5 percent, meaning it has set aside 1.5 times as much as its bad loans to cover bad loans.

The amount of the loan sale also seems puzzling. The 176 billion yuan asset sale to Liaoning Asset comprises 16 percent of all Shengjing Bank’s assets, and the loan portion comprises more than 20 percent of all loans on its books. Put another way, Shengjing Bank is offloading more than five times the amount of bad loans it reports, even as it reports plenty of provisions to handle bad loans.

The problem is actually deeper and more hidden than the official financial statements make it appear. Until late 2022, Shengjing Bank’s largest shareholder and one of its largest clients was real estate developer Evergrande. In fact, in late 2022, Shengjing Bank filed a lawsuit against Evergrande for more than 32 billion yuan (\$4.4 billion) in unpaid loans.

That 32 billion yuan in unpaid loans is important beyond the fact that Evergrande is unlikely to repay those loans any time soon. In its first-half financial results, Shengjing Bank listed only 3.7 billion yuan (\$507 million) in loan losses and has less than 20 billion yuan (\$2.7 billion) in bad loans in total. So, somehow, Shengjing Bank can’t collect more than 32 billion yuan from a client that’s in default and declaring bankruptcy, but it lists only 20 billion yuan in bad loans in its entire portfolio.

There are a few key points about the Liaoning-Shengjing Bank bailout. First, this basic structure is the historical pattern for Chinese bank bailouts. Little or no money actually changes hands, bad assets are moved to some other legal entity, and nothing is done to address the underlying asset value or banking practices. Consider this a generalized framework for future bank bailouts.

Second, even with rapid growth, large amounts of debt and assets remain from the last Chinese bank bailout nearly 20 years ago during a period in which China enjoyed historically unrivaled growth in the history of mankind. China is highly unlikely to enjoy such luck a second time, meaning more bad assets will pile up in the financial system and on government balance sheets. Even with the interest rate at a significant discount, Liaoning will struggle to repay this debt in 15 years with any type of reduction in asset value. If these are real estate and public infrastructure assets, the most likely pool of bad loans sold, then this has merely deferred the day of reckoning at a higher cost.

Third, this entire case cuts directly to why Chinese and international investors don’t believe published economic and financial data or that the government won’t stand behind major investors. Shengjing Bank’s financials clearly don’t come close to reconciling with its own financial problems, and Beijing is bailing out a bank that it desperately needs. Investors won’t believe financial and economic data but will continue to believe that the government will always come to the rescue.

As Chinese banks continue to need assistance, this is just the beginning of what’s sure to be an enormous, expensive, and lengthy process.

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

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



People walk past a branch of the Bank of China in Beijing on Sept. 11, 2009.



A military statue and Taiwanese flag on top of an arch built in remembrance of the Battle of Gunningtou in 1949 at Taiwan’s Kinmen islands, which lie just 2 miles from the mainland China coast in the Taiwan Strait, on Oct. 20, 2020.

TAIWAN

## CCP May Resort to Covert Warfare to Take Taiwan, Experts Warn

By Alex Wu

As tension over the Taiwan Strait increases, the international community has been discussing the possibility of an imminent military attack on Taiwan by the Chinese communist regime.

Observers believe that the ruling Chinese Communist Party (CCP) leader Xi Jinping is unlikely to launch a military attack on Taiwan right away. However, they warn that the CCP’s covert warfare is more dangerous, as it could use secret CCP members and sleeper agents in Taiwan to attack and sabotage from inside the island to cause Taiwan’s front-line military defense to collapse.

Since last year, the CCP has increased the frequency and scale of incursions into Taiwan’s airspace while conducting more military exercises surrounding the island nation. Last month, the communist regime flew 103 military planes toward Taiwan in one day, setting a record high.

According to the latest “National Defense Report” recently released by the Ministry of National Defense of the Republic of China (Taiwan), the CCP has intensified its threat toward Taiwan in recent years. Besides regularly deploying new fighters and drones, it has expanded three airports in Longtian, Hui’an, and Zhangzhou along the coast of Fujian facing Taiwan. Among the three, Longtian Airport is only 155 miles away from Taipei.

U.S. Assistant Secretary of Defense for Indo-Pacific Security Affairs Ely Ratner reiterated the U.S. position when asked at

a think tank seminar in Washington on Oct. 5 whether China might invade Taiwan and the possible timetable.

“Conflict in the Indo-Pacific region is neither imminent nor inevitable because deterrence is real and strong today,” he said.

Military commentator Shen Zhou told The Epoch Times that the CCP’s current military capability isn’t enough to capture Taiwan.

Wang Juntao, co-chairman of the National Committee of the China Democratic Party who currently resides in the United States, told The Epoch Times on Oct. 6 that he thinks Mr. Xi won’t attack Taiwan in the short term because he’s busy conducting a large-scale purge in the military and the CCP’s own military morale is low.

“[Xi Jinping] doesn’t want to provoke a war now and cause the whole Western world to impose immediate sanctions on China,” he said.

However, in light of the CCP’s recent emphasis on increasing cross-strait economic and social integration, Mr. Wang warns that the outside world, especially Taiwan, needs to be more vigilant about the CCP’s covert operations.

“Xi Jinping wants to defeat Taiwan without a fight. Attacking Taiwan would be politically uneconomical for him, as he knows now the CCP is not strong enough, and attacking Taiwan will lead to a complete blockade of China,” he said.

Mr. Wang believes that Mr. Xi’s next move must be to improve Sino-U.S. relations.

**Covert Warfare**  
Mr. Wang pointed out that during China’s

civil war (1945–49), the CCP’s Army had two main methods of fighting.

“One was to draw out the Nationalist government’s main forces to fight,” he said. “The other, which is the most important method, was to plant secret CCP members in the nationalist-controlled big cities, recruiting more members and developing networks. Then they engaged in a coordinated campaign of sabotage, such as occupying power stations and water supply systems, etc., to terrorize people behind the front line. That’s how they defeated the nationalist military without a fight.”

“If the CCP wants to attack Taiwan, it must first use nonmilitary means to develop secret CCP party organizations in Taiwan. When its troops start to attack Taiwan, these organizations can start to do things for them inside the island, such as form assault groups to occupy some places or set fire to key facilities, to create some chaos from behind. Then the military on the front line will collapse, because they will feel that something has happened and they’ve already lost.

“So now, many people are talking about the U.S. military’s style of fighting a war, such as the regular positional warfare, but it’s not how the CCP fights.”

**Infiltration**  
On Oct. 3, Taiwan People’s Communist Party Chairman Lin Te-wang and Vice Chairman Cheng Chien-hsin were accused of accepting financial aid from officials of the Taiwan Affairs Office of the CCP in an

attempt to influence Taiwan’s elections and promote communist ideology. These two have been indicted by the Taipei District Prosecutor’s Office for breaching the Anti-Infiltration Act and the Civil Servants Election and Recall Act.

Taiwan has just unveiled its first domestically built submarine, as part of the indigenous submarine program. It has been revealed that Kuomintang legislator Ma Wen-chun was accused of attempting to block the submarine program and leaking more than 3,000 confidential files on submarines to South Korean officials. As a result, several engineers who secretly assisted Taiwan in building submarines were arrested and sentenced after returning to South Korea. Taiwan’s judicial authorities have launched an investigation.

Former naval adviser for Taiwan Guo Xi also revealed on a live broadcast that Ms. Ma also sent sensitive submarine information to the Chinese Embassy.

Former Taiwan Air Force Deputy Cmdr. and retired Lt. Gen. Chang Yanting told The Epoch Times on Oct. 7 that Taiwan has indeed been deceived by the CCP in many aspects.

“The CCP is following a step-by-step approach, whether it is the united front strategy, dividing Taiwan society, or military pressure, which is quite worrying,” he said, noting that Taiwan’s main problem is psychological defense, not national defense, because without psychological defense, there’s no national defense.

“The CCP’s military is already in the middle line of the Taiwan Strait, and everyone is used to it. The most terrifying thing is that everyone has accepted this fact, and not to strongly oppose it, giving up resistance. We often talk about how we need to strengthen our citizens’ defense mentality. This is Taiwan’s internal problem.”

Ninghai Zhong and Luo Ya contributed to this report.

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