The CCP Sanctions Hudson, Macron in China, and the PRC's Local Banking Crisis

TRANSCRIPT

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Hello and welcome back to the China Insider, a podcast from the China Center at Hudson Institute. It's Tuesday, April 11th, and we have three topics to discuss today. The first is the fallout from President Tsai Ing-wen's visit to the United States, including sanctions on the Hudson Institute, Ronald Reagan Library, and new PRC military drills around Taiwan. The second will be a conversation about French President Macron's visit to Beijing, what he said about strategic autonomy, and France's very strange approach to diplomacy with the PRC. And then the third topic we'll discuss is an ongoing local bank crisis in China and what it says about the broader financial sector there. Miles, how are you doing?

Miles Yu:

Very good, Wilson. Thank you for asking.

Wilson Shirley:

Good. So, the first topic that we're going to discuss today is just a quick note on the aftermath of President Tsai's visit, which we discussed this last week. So, President Tsai was on a 10-day trip, she transited through the United States. She made stops in Guatemala and Belize and the PRC's reaction to it has been pretty intense. They sanctioned the Hudson Institute, our think tank, and the Ronald Reagan Library, and there are also massive drills around Taiwan right now. So, what do you make of all of this and the reaction to it?

Miles Yu:

I think China's reaction is predicted but also kind of pathetic because there's nothing new. They really haven't say anything that's credibly believable, right? So, on the other hand, there is some kind of, you know, very ironic competition for being sanctioned by China because as the saying goes, “no rumor is true inside China until it's officially denounced” and “no person is honored until you're officially sanctioned by the Chinese regime.” So, this is basically the badge of honor for Hudson Institute and Ronald Reagan Library. And I think it is because we're doing the right thing and President Tsai deserves such award for her wisdom, for her aplomb, and for her courage, and most importantly for her personal traits including humor and personal approach to ordinary folks. And I think, you know, she is a leader of the world. As I say, world peace hinges on a few individuals right now and she's one of them.

Wilson Shirley:

So, our friends at the Ronald Reagan Library were sanctioned because they hosted President Tsai to give remarks and also Speaker McCarthy and a bipartisan congressional delegation. And I think that was really part of what the CCP’s reaction to this whole visit was. And people are comparing that meeting in California to Nancy Pelosi’s trip to Taiwan last fall when after her visit the PRC shot off missiles, sent naval drills all around, and they're doing the same thing now. They're doing, it's called Operation Joint Sword. People are saying that this is a rehearsal for an attack on Taiwan. I saw a few different accounts. One said that there were 8 warships including an aircraft carrier, 71 planes flying around Taiwan by Monday morning. The Chinese released an animated video of missiles hitting Taiwan. But obviously, again, this is not the first time that they’ve done something like this. So, when you see these types of drills, this type of
reaction to President Tsai, a democratically elected leader, speaking on US soil with a speaker of the house, what do you think?

Miles Yu:

We tend to overdramatize the degree to which China is encircling Taiwan. I mean, it's not the case in a way because China always has this kind of cranky response. Keep in mind there is solid support for Taiwan's defense from the world’s leading power, that is in United States and its allies also. So, as long as that strategic clarity of, for the defense of Taiwan is clear, I think China would have to think twice. I mean, listen, you know, in 1958, China launched this ferocious shelling of the Taiwanese-held offshore islands of Quemoy and Matsu. That shelling continued for the next 20 years until Jimmy Carter switched diplomatic recognition from Taipei to Beijing. So, this is always the case. China always do this shadowboxing and use intimidation and to destabilize and even destroy Taiwanese will to resist. So, it's bullying, and I think they show the world that the nature of the regime, and right now, China is showing all this kind of huffing and puffing, and the United States and its allies are continuing to do whatever we do that is to show resolve. We send our warships past, to pass the territories, the waters that China claim as its own just a few days ago. And we also send our aircraft carrier off the coast of Taiwan, recently, a little bit farther than the Chinese carrier on the eastern part of East China Sea. So, this is not, nothing out of ordinary. So, we don't want to play into this kind of psychological drama.

Wilson Shirley:

And that's a really important sort of historical note that they were shelling Taiwanese islands for 20, 21 years.

Miles Yu:

The only reason they were shelling Quemoy and Matsu Island held by the Taiwanese in 1958 until 1979 was because those offshore islands were not included in the US-Taiwan Mutual Defense Pact. For the same reason, the only reason China has been held back right now is because United States has expressed clear strategic intent to defend Taiwan should China launch any military adventure against Taiwan Island itself. So, keep that in mind.

Wilson Shirley:

Yeah, and you pointed out to me a while ago that the shelling of Quemoy and Matsu was actually a subject of the presidential debates in 1960 between John F. Kennedy and Richard Nixon, which just goes to show how long this has been an issue and how long we've been talking about it. Our next topic though gets into something that happened just before all these military drills around Taiwan. And that was a three-day visit from French President Emmanuel Macron and UN [sic] Commission President Ursula von der Leyen to Beijing. So, we talked about this trip before it happened because Ursula von der Leyen gave a pretty interesting speech just before talking about de-risking the EU relationship with China. That was her emphasis. But Macron has taken what seems like a pretty different line after the trip. He had an interview in Politico that's gone viral where he talked about the paradox of panicking and just becoming America's followers, the need for European strategic autonomy to become a third
superpower he talked about. So, is Paris out of step with Brussels on this, and how much does this matter in the broader European cooperation with the United States?

Miles Yu:
Well, France is always a very unique member of the international community, even within its own community of Europe. It's like, you know, a problem child in a big family of democracies. Macron even said, and I quote, “Europe must reduce its dependency on the United States and avoid getting dragged into a confrontation between China and the United States over Taiwan.” And that's just silly. Was Nazi [Germany] America's problem? Is Ukraine only America's problem? So, the answer is very obvious. Taiwan is not just American's problem. It's everyone's problem. And I think, you know, the French have this unique capability to mistake crankiness for independence, appeasement for strategic autonomy, childish rebellion against the whole family as a wholesome passage to adulthood. I mean, Macron is a leader of France and he tried to play a major role in international politics, particularly on war and peace. Yet by so doing he forget the only thing you have to play that role, you have to have credibility and principle.

I mean his main agenda to China actually was in Ukraine. He tried to persuade Vladimir Putin and failed and because he would not address the key issue, right? And then he went to China. But in the 51-points declaration at the end of his visit to China, Ukraine was barely mentioned. It wasn’t even mentioned once and repeated China's ridiculous position. So, the real matter here is Russia, it’s China's master on Ukraine. So, China cannot do anything on Ukraine without Moscow's approval. And I think Macron failed that. But his main failure in his trip to China is really related to United States and his remarks about Taiwan and other issues, I cannot use rude language, but Macron's statements and his approach signify a betrayal of EU collective policy on China, which is systemic rivalry.

Wilson Shirley:
Yeah, that's going back to 2019.

Miles Yu:
Yeah, yeah. So, the Indian Foreign Minister, Jaishankar, had a very poignant point a while ago, and he thinks that Europe traditionally believe its problems are world's problems, but the world's problems are not European's problems. So, that basically is a very important illustration of Macron's parochialism. Technically, it's also very, very hard to imagine that Europeans would not get involved over a major conflict in the Pacific over Taiwan. Because keep in mind, United States is a leading member of NATO alliance. So, is France.

Wilson Shirley:
And France is also a permanent member of the Security Council.

Miles Yu:
That's right. So, NATO alliance is a multilateral collective defense alliance. That means attack on one member is attack on all. So, if China wants to invade Taiwan, one of the most likely scenarios is it's going to attack in the United States first to prevent us from getting military involved.
Wilson Shirley:

In places like Guam or Okinawa.

Miles Yu:

Well, Guam, Okinawa, that's a different story because there was some kind of technical nuance over there, but it's likely that some part of the United States will be under attack, right, on mainland and North America, and that would automatically trigger Article Five of NATO. So where would that put France in? So, it's very dangerous to make reckless and irresponsible statements to upend the collective policy toward China by EU. And Macron did just that. It's very unfortunate.

Wilson Shirley:

It is unfortunate. He has sent warships around Taiwan inside, in sort of shows of solidarity and defense as well in the past. So, it's unclear how much this rhetoric matches with what France’s policy would actually be, as you just said, I wanted to talk a little bit too about how France and China think of each other today. So, on this trip, Macron went and he brought around 60 French business leaders with him, including the CEO of Airbus. And Airbus signed a big deal with China while they were over there. So, when people look at France’s attitude towards China, I think that these days they mostly think of a commercial relationship. But then how does China think about France throughout its history? France has, you know, history in the region through French Indochina, part of the Boxer Rebellion, Western Coalition. Where does France fit into the Chinese historical memory and to the PRC’s calculation?

Miles Yu:

Well, I mean history is so remote, it’s completely irrelevant at this moment. What's really relevant is the Chinese Communist Party’s traditional and very effective strategy of playing the French sensitivity against its main adversary that is United States. I mean we have seen this since the 1950s and ’60s. We got Charles de Gaulle, you got Mitterrand later on, and they all are used by the Chinese as the wedge between United States and its transatlantic partners in Europe. So, Macron is playing the same role. Unfortunately, he didn't, he probably is not realizing how tragic a figure he has become in this whole game of global international politics. It's also a self-defeating, I mean when the French vigorously opposed American’s Global War on Terror and they denounced the United States leading the pack of European countries against our actions in the Middle East and before long French, France became the primary victim of international terrorism on its own soil. It's always back and forth, back and forth. United States, France had a major problem with NATO, they kick NATO headquarters out of Paris. And so, we moved to Brussels, and then later on with France would have to come back to join us again. So, it's a uniquely French problem. So, as I said earlier, France is always a cranky child in a major family, in a big family.

Wilson Shirley:

And France is also, and Macron is also, facing a lot of challenges at home over issues like pension reform. So, he's got pressures on both fronts. We wanted to close out with a discussion that wasn't as much in the news as the first two topics that we talked about today, and that is a
banking crisis that's been going on throughout China for a while now. So, let's talk about the Chinese economy. Reports I've seen have shown that the local banking crisis when rural banks started to freeze creditors’ deposits started around a year ago. In case people don't remember that, there was a run on some banks. These were crushed with violent opposition from the Chinese state. But that crisis has continued. So, what's going on and why is it important, Miles?

Miles Yu:

Well, it's important because the problem has not gone away. It's getting worse and worse. I mean just less than two weeks ago, on March 23rd, there's a 59-year-old man from my hometown in Chongqing and he went to the local bank and deposited a hundred thousand yuan into the bank account. A few minutes later after he was given a card, you know, a receipt, and he asked the clerk to say, "Hey, listen, can I just see my money actually did into, go into my account?" The clerk said, "Well," and showed him the account and it was zero, the money didn't go there. And he just panicked, he is freaked out and he asked a bank manager, he said, "Listen, I just deposited a hundred thousand yuan and I need to see it." And the bank manager was a woman and said, "Well, this is not my problem." And this man get into an outrage and he used hammer and just hit the bank manager and killing her.

Wilson Shirley:

Oh my God.

Miles Yu:

So, yeah. This basically, this is to show you how the average people in China were so afraid of the fraudulent practice of the banks. We have been focusing on the major banks in China. Chinese banks are state-run, they are gigantic. I mean there are the world's leading banks, but we have not paid enough attention to the small local rural banks. That's where the problem we're talking about right now. Because in many, many provinces, particularly in the central province of Hunan, starting from last year, more than half a million Chinese depositors in those local and rural banks suddenly found out they could not get the money out of the bank. So, the bank refused to get the money back to the depositor of even if they requested. So, you have this enormous wave of protest, that protest wave, by the way, in Hunan hundreds of local banks in Hunan, it still continues until this day.

So, the Chinese approach obviously is using brutal police force to arrest many of them and beat them up. And so, this basically aggravated the situation. So, the point right here is that all across China, you got this problem of this rural banks who got a lot of depositors' money over the years, and those banks were inadequately regulated, and they invested a lot of depositors' money into real estate and then real estate is now has gone bad and that's why they don't have money to pay back money to their depositors. So, you have a problem like this all across China and you got a major problem because it ultimately become a terribly destabilizing political factor. China now basically has no viable solution to ending this depositors' protest.

Wilson Shirley:

So, you touched on something that was going to be my next question, which is, to what extent is this a local issue in places like Hunan or, and how much is it a national issue reflective of things that you talked about a second ago? The entire country of China has had major issues in the
real estate sector for a long time. People might remember the Evergrande issue last year. So, you think that this local problem, and I think local debt in China is something like $5 trillion. It's huge. You think that these local problems are going to have much larger national ramifications?

Miles Yu:

Definitely. I mean, I think, you know, of course, issues of a local nature in any normal country would remain that way. Because local, parochial and very few people know about is local news. You know, can watch it on evening news. In China, anything local could be national within seconds if you unfurl some kind of banner in Tiananmen Square and it's major political news worldwide.

Wilson Shirley:

Yeah.

Miles Yu:

So, that's the nature of the regime. Now, if you talk about the finances, financial institutions, China's finances basically is not really, not really sort of, you know, accidental. I mean many of the problems were actually systemic and institutional. Like the using depositors' money to invest illegally in some of the high-risk projects without any sort of supervision. That's national, that's institutional. And Chinese banks, as you say, I mean were deep in debt and how this system's going to continue and sustain. I mean, nobody knows, and I think, you know, it's, it's going to be a time bomb.

Wilson Shirley:

So, I have a question about how this moves forward because the finance sector was a major focus a couple of months ago at the Two Sessions. We saw a new central financial commission that is set to strengthen the party's control over the financial sector within China. So, what do you think is going to happen as a result of the creation of that commission, and will it have an effect on the issues that we've been talking about?

Miles Yu:

It's not going to have any effect at all. The reason is because the financial institutions or the banking system were completely monopolized by the Chinese Communist Party. There's no supervision. There's absolutely no effective check and balance on what the bank can do and cannot do. That's why if you look at some of the corruption cases in China, a local bank branch chief could easily embezzle hundreds of millions of dollars and get away with it. I mean it's just, it's not even porous. It's actually, the power is concentrated in the hands of one political party who is self-immune to all kinds of checks and balances, and that's going to be the problem. So, I think China tried to sort of solve this problem through draconian execution and purging of the bank chiefs. I mean, it has been going on for 15, 20 years, and to no avail. So, that's the problem. I think unless China become a country of transparency, free flow of information, and effective governing methods and approaches, I don't see the end of this problems in the near future.

Wilson Shirley:
It doesn't look like that's going to happen. So what option, or at least in the near term, what option do the Chinese people have when they bank? I mean China has pretty intense capital controls. You can't take money out of the country very easily at all. So, I imagine that that contributes to the frustration that they must feel.

**Miles Yu:**

Well, traditionally, the Chinese people basically invest their money in real estate. I mean that is an even bigger time bomb, real estate right now is in big trouble.

**Wilson Shirley:**

Yeah, I think it's like 70% of Chinese wealth.

**Miles Yu:**

That's right. Another way is they try to find any possible way to get the money out of China, which created this huge wave of money laundering operations. China has one of the world's most strict currency control mechanisms. Each individual is only allowed to send $50,000 outside of China each year. And so, a lot of people basically try all kinds of ways, legal or illegal ways, mostly illegal ways, to get money out of China. So that's why capital flight out of China is humongous. If you look at the banking statistics, you can make money in China, but because of political problems, because of the ownership structure in China, and monopoly by the government of all what they call means of productions. So, you really cannot really invest safely in some of the major venues. So, people just trade money out of China and through all means.

**Wilson Shirley:**

Yeah, and that's an issue for foreign investors as well. I think that's all the time that we have this week, Miles. But we'll definitely be following each of these stories. They're going to continue to have ramifications for a long time. So, I'm looking forward to our next episode recording next week. Thanks again.

**Miles Yu:**

Thank you, Wilson. See you next time.

**Wilson Shirley:**

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