Retiree Protests Spread, China's Top Tech Investor Disappears, and Wang Yi at the Munich Security Conference

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TRANSCRIPT

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Wilson Shirley:

Hello and welcome back to the China Insider, a podcast from the China Center at Hudson Institute.

It's Tuesday, February 21st, and we have three big topics to talk about today. The first is a follow up from our conversation last week about retiree protests throughout China. They started in Wuhan and now they've spread to other cities throughout the country, including on the coast. Then we'll follow up with the disappearance of Bao Fan, who is one of China's top tech investors and what that means for the Chinese tech sector going forward. And will finish up with a recap of what happened at the Munich Security Conference over the weekend. Speeches from Wang Yi meetings with US, secretary of State, Antony Blinken, and of course continuing conversations about the balloons all over the world. Miles, it's good to see you.

Dr. Miles Yu:

Good to see you too, Wilson.

Wilson Shirley:

All right, so we're going to start off with following up on a subject we discussed last week, which is protests in China among retiree populations. And just as a quick refresher, last week when we spoke, there was a protest of about 10,000 retirees in Wuhan who surrounded the municipal government building because their subsidies for healthcare were cut pretty dramatically by over 50%. This week, protests have spread outside of Wuhan to a city in northeastern China, a port city called Dalian. So, what's going on there?

Dr. Miles Yu:

Well, it's not just about Dalian, I mean also has spread to the eastern metropolis Nanjin, and there's was a report yesterday. There was also a large protest in Shanghai. So, this has become a sort of a prairie fire, if you will, and

Wilson Shirley:

All among retirees in these different cities?

Dr. Miles Yu:

Mostly retirees, but also addressed to a that means that what happened in Wuhan, Dalian and Shanghai, they're not just a local, there's a kind of pattern. And the pattern is this, it is really about the collapse, the financial collapse of the Chinese local governments. This financial collapse is actually, profoundly impactful, it caused basically by none other than the stupid policies of Xi's regime.

Wilson Shirley:

Mostly zero covid, right?

Dr. Miles Yu:
Well, zero covid is just one. The major reasons, let me just explain a little bit, for about three decades local governments, provincial government, and municipal governments, about 70% of the entire revenues came from real estate related projects, particularly housing projects and through basically the sale of lands because in China land belongs to the state because the socialist country owns the means of production. And so, the municipal government was able to profit tremendously from the land sales, also property taxes. But the problem, what happened is in last year or so, the housing industry has collapsed in China. So, the government could no longer sell land to profit. On top of that, the central government was also kind of, it's not broke, but they need money too. There's a money shortage. So, what happened in 2022, Xi did something that's very dramatic. Most people have not paid attention to it.

That is he actually banned local governments from sharing tax revenues. That is all taxes collected at local level must go to the central government in Beijing first and then let the government in Beijing reallocate the funds to the local governments, which is much, much smaller in portion. So, this drastically reduced the purse of the local governments. So, all local governments have to do several things. One is they have to reduce public services including healthcare, public transportation. And also, what they did was that they have issued tremendous amount of more traffic tickets, for example, and also increased the fees of licensing.

Wilson Shirley:
Extract more revenue from people.

Dr. Miles Yu:
That's exactly right. And one of the things that of course they do is to use the public health trust fund, which the ordinary citizen contributed to, to pay, for example, extravagant projects like the covid testing and the lockdowns and that basically has drained a lot of money. That's why the local government has to really reduce and cut the pensions and medical insurance that really is the source of the protest among many people. The retirees were among the most vulnerable group in China because they were living on very small and fixed incomes.

Wilson Shirley:
You have very small, fixed incomes. I've seen the stipends are cut. It's like $38 to $15, which is not a lot of money to begin with and obviously even less with that. Cut. Let's talk a little bit about how the government is responding to these protests. So, I've seen reports of a few protestors who have been detained in Wuhan. There are a couple of cities, Guangzhou, which have withdrawn this policy. For instance, the policy being the healthcare cut. How do you see local and national governments responding to the protests, which as you've said are spreading and may happen more in the future as more and more retirees need more and more healthcare going forward?

Dr. Miles Yu:
Normally the traditional response, without any exception for the Chinese government is to crack down, crack down. But this time the timing is very peculiar because this is toward the end of February and every year the first week of March is always a very sensitive time because this is what China calls two sessions. That is the People's National, national People's Congress and
the Chinese People's Political Consultative Conference. They have two sort of sham sessions to elect the leaders. So, all the political shenanigans that Xi has engineered in the last couple years would have to be officially stamped by the rubber stamped by the two sessions. So, every year before the two sessions, weeks leading to the two sessions, the Chinese Communist Party would have to create the facade of victory triumphs and glory. So, they cannot have any political disturbances. That's why you can see there's an enormous pressure on the local government to crack down on these issues. But on the other hand, if they really crack down, they normally would do and you might just make this crisis snowball into something bigger. So that's why they're very, very in a big dilemma. You can see in people like in cities like Nanjin and even Shanghai, the cops were increasingly nasty. On the other hand, mostly it's remaining peaceful, but peaceful with a lot of tensions in all the cities. I suspect in the days to come there will be a lot more cities, but you can see these mass protests.

Wilson Shirley:

Yeah, I think that's definitely right. So, speaking of crackdowns within China, there was interesting news last week about one particular crackdown and that was against a man named Bao Fan who was China's top tech investors. So, he founded a group called China Renaissance in 2005. He comes with a background from international finance at Morgan Stanley and Credit Suisse. And on Thursday last week, China Renaissance reported to the Hong Kong stock exchange. That Bao Fan, again, the top tech deal maker in China has gone missing. Where is BFA and what does this mean for the finance sector in China?

Dr. Miles Yu:

Okay, Bao Fan is one of the top tech investors in China. And when we talk about tech investor, this actually has carried certain irony because it assumes China is a free market with open capital markets. China is basically the country of profound contradiction. For example, the country politically, the country claims itself as a country of people's democratic dictatorship that's written in the constitution. You cannot have a democracy as well as dictatorship in the same sentence. So economically, China claimed a system called a socialist market economy. You cannot have a socialist and a market in one sentence to describe the economy. Because of this, China is a country of a lot of very peculiar features. One aspect of this is that you would have to be very creative, some very smart people like Mr. Bao who could basically exploit this kind of ambiguity. So, you have a lot of people like him who actually have thriving tremendously.

You mentioned that Mr. Bao used to work for Credit Suisse and Morgan Stanley. So, he knows the western system, how the Western free market system works. On the other hand, he's also deeply involved in the commons system of banking and financing. So, he can basically, take advantage of both. For example, in 2017, Mr. Bao got a 200 million loan from the state-owned bank of industry and Commerce, and then the director of that bank's lending division is a gentleman by the name of (inaudible). He was soon hired by Bao to work for him with the report salary of something like 10 million a year. And Mr. Bao could then use loans like that to get his companies listed in Hong Kong and New York City and attracting enormous investors' money from the US and from other free market economies. And with those money he gathered from the western capital markets, he invested in China's emerging internet e-commerce markets.

And so that's why he could really explore the two systems and it became very smart. The problem is like Jack Ma and then many of his cohorts, Mr. Bao has become too big, to influential
and at times when the PRC government needs a lot of cash to finance Xi’s extravagant projects such as the BRI buildup and his national lockdowns. So, the PRC in Beijing really <laugh> needs the cash and the people like Bao and his financial empire moving and confiscated the huge assets of Mr. Bao’s financial system and that could be worth hundreds of billions of dollars. So, this is a pattern and Mr. Bao is no exception.

Wilson Shirley:
I’m glad you brought up Jack Ma because that was obviously a very famous example and the last couple of years the founder of Ali Baba went missing for a few months and then showed up a few months later and basically is just reading philosophy no longer, no longer running his company. He disappeared and has been effectively neutralized because he spoke out against extreme regulatory policies from Beijing’s China Renaissance group, actually one of its presidents in September also went missing someone named Kong Lin. So, can you talk a little bit about this broader tech crackdown within China and what do you think is driving Xi Jinping to go after what for a while has been kind of the golden goose? People in the West are intimidated by the rise of China’s tech sector and the model of autocracy for which for a while that model was hailed as pretty effective.

Dr. Miles Yu:
As I say, on one hand there are non-state factors run by smart people like Bao, like Jack Ma, like Ma Huateng at Tencent. So those guys actually could take advantage of both systems and profit enormously. The problem is Xi realized that could also pose enormous risk to the communist monopoly of everything in China because much of the financial empire actually is not within China for example, many of the Jack Ma’s and Alibaba investors were actually foreigners. Right? Americans and Japanese in particular

Wilson Shirley:
Through Hong Kong mostly.

Dr. Miles Yu:
That’s right. So, he wanted to cut off that line. So, Xi from about a year and a half ago has been actively sort of doing things possible to decouple the Chinese economic system from the Western connection. So, this is all very politically driven, ideologically driven. And that’s one reason why he would go after people like Jack Ma and Mr. Bao. And also, this list can go on can be extend to, for example, ByteDance, the parent company of TikTok, right? He’s also in trouble and you also have a Tencent the company that owns WeChat. And so those big companies are controlled by the Chinese Communist Party, but they also are connected with the global international system and Xi could not really tolerate that.

Wilson Shirley:
And also it’s a demonstration of how he can destroy companies overnight. I think that China Renaissance group shares fell by 50% on Friday and closed out 28% down. So the company lost more than a quarter of its value in one day because of the disappearance of its founder. So to
Dr. Miles Yu:

we call except call disappearance. That's a very nice word. It is real euphemism is the real word to describe such like this is kidnapping <laugh> and a lot of billionaires disappear. Kidnapped in China.

Wilson Shirley:

Yes. State sanctioned kidnapping. Thank you for that clarification. To close off, the Munich security conference happened last week. It closed on Sunday, started on Friday and there were a lot of big names at the Munich Security Conference from the US side. There was Vice President Kamala Harris, there was Secretary of State, Antony Blinken, Olaf Scholz, Macron, on the Chinese side, The biggest name was Wang Yi and this event obviously comes just a couple of weeks after the balloon incident that everyone was talking about that we did an episode about a couple of weeks ago. So, at the Munich security conference Wang Yi and Anthony Blinken sat down to talk with each other and had an exchange. Anthony Blinken canceled his trip to China a couple weeks ago. So, this is the first high level in-person meeting between US and Chinese officials. What came out of that exchange?

Dr. Miles Yu:

Well, that exchange didn't come up really nicely for both. I think on the part of the United States we warned the Chinese about the balloon incidents. This is a violation of American sovereignty, but I think we should have protested rigorously number one. Number two, we also warned the Chinese to stop supplying the Russians with material assistance, even lethal weapons, right?

Wilson Shirley:

Yeah. Antony Blinken emphasized that he believes that China is considering that going forward. They haven't yet provided lethal assistance but may.

Dr. Miles Yu:

That's right. So overall Mr. Blinken has been a gentlemanly person and he tried to basically give the possible, soft possible warning to the Chinese. So, the Chinese reaction by Wang Yi is absolutely bizarre. This guy is basically an international clown. I mean he first says he's protesting Americans reaction to this Chinese spy balloon for the United States. He said the United States is doing all the things that are in violation of international norms. So, this really is amazing. This is a very similar reaction as the Chinese claim that Covid in 2019 was really caused by the US Army Bio Lab in Fort Dietrich Maryland. This is the national narrative that is still going on in China today. So yeah,

Wilson Shirley:

They're calling for investigations of Fort District. It's insane

Dr. Miles Yu:
So, in China people basically believe in this the government is still talking about this. So, it's really, really making China look really, really bad. But as I say, I mean he's basically a clown. I think he's done enormous damage to China's international reputation.

Wilson Shirley:

Yeah. The speech he gave at the conference, I just looked it up. The title was Making the World a Safer Place, which is a very ironic title coming from him. But the reaction that he had to the US position on the balloon, you mentioned it a second ago, I'd love to quote what he said. He said quote, we asked the United States to handle the balloon calmly and professionally based on consultation with the Chinese side. The American reaction he characterized as absurd and hysterical, this is 100% an abuse of the use of force. And then an Antony Blinken went on TV and said, we've exposed the Chinese balloon program. There are balloons over more than 40 countries around the world that are similar to the one that was in the United States. So, I think this is a big, big expose of what the Chinese side has been doing for a long time.

Dr. Miles Yu:

Mr. Wang’s statement basically neglected two fundamental faults of Chinese propaganda. Number one he often forgets there is a fundamental difference between domestic propaganda and international propaganda. I mean normally there was kind of duplicity there. Sometimes the international propaganda is more beguiling, but now Wang Yi basically talks about issues like this as if he's talking to the Chinese domestic audience without any refrain, right? So that's basically his mistake. Secondly, Wang Yi talks about peace and stability. China wants to look like a mature statement, and he forgets that western intelligence, western political analysis of China is far more advanced than he thinks. So, for example, Mr. Blinken correctly pointed out, this is not just about spying in America, they're spying on 40 some other countries. So, it is no accident. It's not like a balloon out of control gone astray to the United States without a particular mission. And the purpose, that's why he's, his reaction to the balloon incident is really bizarre and unhelpful.

Wilson Shirley:

So, we could talk about the balloon all day as commentators have been talking about the balloon now for weeks. But the main subject at the Munich Security Conference was obviously Ukraine and China has played a very interesting role throughout the war. As you alluded to, Anthony Blinken is worried about the possibility that China is going to send lethal support to Russia. There are indications that China may be getting closer to Russia. So, let's talk a little bit about how China is viewing the war now that it's about to enter its second year. And as we do that, I'd love to read you what Senator Lindsey Graham said at the Munich Security Conference

Senator Graham:

And to the Chinese, if you jump on the Putin train, now you're dumber than dirt. It would be like buying a ticket on the Titanic after you saw the movie. Don't do this.

Wilson Shirley:

So, are they getting closer? Is that what we should expect in year two?
Dr. Miles Yu:

China's position on the war in Ukraine has been not only opportunistic, but also, it shows China has no standing to be the leader in global affairs because it's totally devoid of any moral outrage sense of morality. I'm just reading you the Chinese spokesperson the Chinese foreign affairs department's tweet quote, "it is the US, not China that has been pouring weapons into the battlefield in Ukraine. The US is in no position to tell China what to do. China will never accept the US finger pointing or coercion on China-Russia relationships". Now pause for a moment. China does not take a stand on the naked aggression, and on the other hand is taking the side of the aggressor. When the war started, China put out a statement like this and was totally devoid of any moral standing. That's why China looks worse and worse in the eyes of the international stage. So that's why China, it's hard to imagine China could really, really cooperate willingly with the West, the United States. So, I think the hope, the desire that China is going to cooperate on some aspects of global agendas such as climate, such as fentanyl, such as regional security is just a fantasy.

Wilson Shirley:

Yeah, and it's a big contrast. Wong Ye talked about territorial integrity and sovereignty during his speech, but obviously he, as you just said, is siding with the aggressor in the case of Russia, Ukraine. And there's another irony. President Biden on Monday was in Kyiv and Wong Ye on that day was on his way to Moscow to meet with Putin. So big contrast there as well. I want to close out here with talking though about what the war in Ukraine means for security cooperation internationally. Because at the Munich Security Conference, NATO Secretary General Jens Stoltenberg, how to quote a connecting Europe to the Indo-Pacific. He said, quote, what is happening in Europe today could happen in Asia tomorrow? And he said that in the context of an upcoming NATO summit, I think in July in Lithuania, that's not only going to have traditional NATO members, it's also going to kind of have countries from Asia including Japan, South Korea, and then also Australia and New Zealand. So, NATO is broadening the lens of what it considers its security concerns. What does that mean going forward for security cooperation and countering the CCP?

Dr. Miles Yu:

What the Ukrainian war has done to the world is that it has drawn the line between the epic struggle between freedom, leadership and tyranny and oppression. So there there's an increasingly clear two camps. On one hand is a Russia China camp because Russia and China not only agree with each other, but also the logic of aggression is stunningly similar. Russia invades Ukraine, on account of ethnic linguistic heritage shared by Ukraine and Russia in the past.

Wilson Shirley:

Yeah, Putin says Ukraine does not exist. There's no such thing as a Ukrainian people.

Dr. Miles Yu:

Has nothing to do with respect for sovereignty and nationhood. China wants to invade Taiwan and many other regions in Asia including territories held by Vietnam, India, Taiwan, Philippines,
and several other countries on account of the exact same thing, ethnic linguistic heritage. In the case of Taiwan, for example, 95% of people in Taiwan are ethnic Chinese. But Taiwan is a sovereign independent nation, which has totally different cultural and political existence from China. So, you can see this is not only a sort of formation of a coalition of the evil, but also a coalition of the sheer ideology. So that's why it's dangerous. What the Ukrainian war has done is that to solidify the camp on the democratic side that is EU, NATO, US, Australia, and you name it, right? So, they all look at this threat not just from Russia but also from Russia and China together.

And this threat has become Euro-Asia, transcontinental. So that's why NATO Secretary Stoltenberg has been repeatedly saying that what happened in Ukraine could also happen in Asia because China's next target is Taiwan. We got to stop that from happening. So that's why I think in this NATO summit in Lithuania is a very symbolic, yeah, it is a continuation on what NATO has been doing. The last NATO summit was held in Madrid, Spain in July last year. It also invited leaders from South Korea, Japan, Australia, and New Zealand. So, I think NATO's increasing influence in Asia is not a coincidence.

Wilson Shirley:
And it was also one of your New year's predictions going into 2023 that we were going to see more dynamics like this.

Dr. Miles Yu:
Yeah, I'll be happy to take that credit. Yes.

Wilson Shirley:
Well, thanks Miles. That's all that we have time for today. Really enjoyed this conversation and looking forward to the next China Insider episode next week.

Dr. Miles Yu:
Thank you Wilson and looking forward to talking with you again next week.

Wilson Shirley:
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