

Pennsylvania: Case Study of the CCP's Infiltration into the Free Market and Erosion of Liberty

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The ongoing coronavirus pandemic offers an opportunity to rethink our relationship with the Chinese Communist Party (CCP), whose cover-up of the virus information has resulted in one of the worst health crises in history.

There is evidence that countries and regions with close ties to the CCP were hit hard by the virus. The CCP, which survives and thrives on the ideology of class struggle, violence, deceit, and lies, has a track record of brutality against its own citizens—killing about 80 million people since it came to power a few decades ago. As the CCP grew its influence internationally, thanks to the long-term appeasement policy adopted by Western society, it has also exported its ideology and harm to the rest of the world.

The West didn't hit the pause button to stop economic collaboration with China when the CCP committed human rights abuses time and again. The CCP-run China was able

to join the WTO in 2001, which in turn enabled it to grow into the largest exporter of goods by 2009 with exports of \$2.5 trillion in 2018.

China's growing economy gave the CCP unparalleled leverage for domestic suppression of people of faith (such as Falun Gong practitioners) and dissidents (such as students in the 1989 democracy movement and whistleblowers during the coronavirus pandemic), as well as for international expansion of influence (such as silencing human rights criticism from other countries and the United Nations, and influencing organizations such as the WHO during the coronavirus pandemic).

In this article, we would like to use Pennsylvania in the U.S. as an example to highlight the CCP's infiltration of the global financial markets, and erosion of liberty.

As of May 17, 2020, Pennsylvania has over 65,000 confirmed coronavirus cases (6th place in U.S.) with a death toll close to 4,500 (4th place in U.S.).

Stocks and Mutual Funds

“China's Ant Financial, Vanguard announce China advisory venture,” read the title of an article published by Reuters on December 14, 2019. China-based Ant Financial, also known as Alipay, is an online payment service affiliated with Alibaba, the largest e-commerce company in China. Vanguard Group, based in Valley Forge, Pennsylvania, is the largest provider of mutual funds in the world, with close to \$6 trillion in assets under management. The joint venture will be operated by Ant Financial (with 51% of the ownership), while Vanguard (with 49% of the ownership) will provide strategies on investment and funds allocation, according to information from qz.com and Bloomberg.

Such collaborations have raised concerns from analysts because they provided nearly unlimited resources to fuel the CCP regime. For example, after long-time rejection due to various concerns, Morgan Stanley Capital International (MSCI), FTSE Russell, and S&P have all added Chinese stocks to their flagship benchmarks. As one of the biggest index compilers, MSCI alone has about \$12.3 trillion in assets benchmarked to its products, wrote an article on May 6 from Washington Post with the title of “How Ordinary U.S. Investors Own a Piece of China.”

This series of actions had assured that global investors would pour more money into the Chinese equity market.

Over 1,000 Chinese firms had been added to various equity indexes and about \$265 billion of mainland China equities are owned by international investors as of March 2020, according to the Washington Post article.

In addition to stock investments, China also holds sway in mutual funds, which many retirement funds invest in. For instance, 39% of the \$51 billion Vanguard FTSE Emerging Markets exchange-traded funds come from Chinese securities.

Financial Fraud

Investment in China not only strengthened the CCP's political power, but also introduced risk into the financial stability of the free world.

Dan David, a money manager in Pennsylvania, was one of the whistleblowers who noted how some Chinese companies defrauded U.S. investors and retirees. He was featured in a 2017 documentary titled *The China Hustle*. This film documents a systematic security fraud that happened after the 2007-2008 financial crisis, as investment firms sought higher returns for their clients and more commission money for themselves.

These investment firms hyped up small, nondescript, private Chinese companies with the help of paid celebrity appearances, and got the companies merged with defunct American public companies. Such mergers were called reverse mergers because they allowed a private company to occupy and operate in a publicly trading company's legal shell.

The reverse mergers enabled the Chinese companies to get listed on the New York Stock Exchange and see their prices spike. As the prices of these Chinese companies later crashed to their real value, investors were left with worthless stocks in their portfolios (many being retirement accounts).

One case covered in the documentary was China-based Advanced Battery Technologies (ABAT), which raised nearly \$90 million through reverse mergers in three separate offerings, with a market-cap of \$250 million. Even after being delisted by NASDAQ and later deregistered by the SEC, the company did not notify shareholders and continued to make false statements.

Reverse-mergers were common and the documentary said that one out forty CEOs in China was jailed for committing

such fraud. Cases like these were reported to the FBI, but little was done to address them.

Alex Gibney, one of the producers for this documentary as well as a 2005-documentary *Enron: The Smartest Guys in the Room*, explained the danger of investing in Chinese companies during an interview with *Market Watch* in 2018, “Yes, a lot of money is flowing around, but can you count on the kind of stability that you hope for if you’re a pensioner, or a nurse, or a doctor just hoping to keep their retirement savings in tact?”

“Investors need to understand the risks of what they are investing in: Every single Chinese company that goes public in the U.S. has a complex and convoluted structure, ostensibly a loophole to enable Western investment in a market that prohibits outside investors. But it also protects the core Chinese company through a host of offshore shell companies and subsidiaries,” wrote an article in *Market Watch* on May 16 regarding the scandal of Luckin Coffee (a Chinese company known as “China's Starbucks” and caught recording bogus sales that were never made).

The article continued, “On top of these structural issues is the biggest problem of all: that the accountants who sign off on company financial statements in China don’t have

access to those company's actual books and records, only what they are allowed to see.”

Infiltration of U.S. Educational Institutions

Data shows that hundreds of non-U.S. organizations, with China being the biggest donor, had made financial gifts to the University of Pennsylvania since 2013, reported an article in The Philadelphia Inquirer on February 24, 2020, titled “Penn got \$258 million in foreign money, and there may be more it hadn't disclosed.”

Since July 2019, “10 schools have disclosed \$3.6 billion in “previously unreported” foreign money, including two Pennsylvania colleges: Penn and Carnegie Mellon University in Pittsburgh,” the article wrote. These educational institutions are required by law to report such transactions, said U.S. Secretary of Education Betsy DeVos. “Unfortunately, the more we dig, the more we find that too many are under-reporting or not reporting at all,” she remarked.

The Philadelphia Inquirer article also cited a Bloomberg report that found that the University of Pennsylvania received the third-highest funding from China, totaling

\$67.6 million, behind Harvard and the University of Southern California. But the actual numbers could be much higher since the Higher Education Act only requires disclosure for gifts or contracts of \$250,000 or higher.

The CCP's infiltration of U.S. higher-education institutions through donations gives it leverage to influence American colleges. Take the University of Pennsylvania's Wharton Business School as example. After launching the Center for the Study of Contemporary China (CSCC) in 2012, Wharton China Center was opened in Beijing in March 2015.

Zhang Qiyue, Chinese Consul General in New York, visited the University of Pennsylvania in July 2016 and emphasized China's commitments to collaborate with the U.S. His visit was followed by the establishment of the annual Penn Wharton China Summit.

The Belt and Road Initiative (BRI) was proposed by the CCP in 2013 and was viewed by many Western countries as China's expansion of influence into Europe, Asia, and Africa. A report issued by Wharton in April 2019 titled "China's Belt and Road Initiative: Why the Price Is Too High," however, only discussed the risk and return of the

initiative for China, without analyzing the initiative's effect on other countries' sustainability and long-term stability.

Although carrying a message similar to the CCP's official assessment of the initiative, this Wharton report was widely circulated to world leaders and policy makers globally to aid in their evaluation of the BRI initiative.

Unprecedented Challenge for the Free World

Both being situated at 40° North latitude, Beijing and Philadelphia are like day and night when it comes to what the cities represent. As the capital for both the Ming and Qing Dynasties, Beijing had inherited the thousands-year-long traditional Chinese culture, which has unfortunately been nearly wiped out due to the CCP's violence and atheism, during the past few decades. As a former and first capital of the United States, and also the birthplace of the U.S. Constitution and the Declaration of Independence, Philadelphia embodies the spirit of freedom laid by American founding fathers.

But such a difference has become insignificant as a result of deep infiltration from the CCP. Similar to other major cities, including New York, Sydney, and London, a four-

day exhibition was held in Philadelphia City Hall on July 10, 2018, for the CCP's propaganda, titled, "40 Years of Reform and Opening-up."

On another occasion, during a China Day celebration at Kimmel Center in Philadelphia attended by the city mayor and Chinese Consul General in New York, the Philadelphia Symphony played music pieces including Liuyang River, one of the most well-known melodies in China that promoted Mao Zedong's legacy.

In both cases, nothing was mentioned about the CCP's brutality and human rights violations against its own citizens.

When a journalist from New York-based NTD Television attended a Chinese New Year Festival at the University of Pennsylvania in 2004, she was expelled because the Chinese sponsor didn't want her to raise the issue of the CCP's persecution of Falun Gong. The university remained silent on her expulsion from the festival.

Pennsylvania is not alone. The CCP has successfully infiltrated many regions and countries in Eurasia, Africa, Oceania, and the Americas. Few countries dare to openly criticize the human rights violations in China, as the CCP's

global influence has reached an unprecedented level. After the world witnessed how the WHO failed to alert the world of the coronavirus due to pressure from the CCP, China was appointed to a United Nations Human Rights Council panel on April 1, 2020 and will play a key role in selecting the world body's human rights investigators, according to Unwatch.org.

While China provides much less funding to UN than the U.S., it heads four of the body's 15 specialized agencies. "No other nation leads more than one," wrote an article on May 6 from The Atlantic titled, "China's Bargain on Global Influence Is Paying Off." "Beijing is working to rewrite the rules of the liberal system." The article wrote, "...human-rights agenda [at UN] is not about human rights... It's about Chinese politics."

When the CCP plays a dominant role, the entire world loses. The ongoing coronavirus pandemic attests to this observation.

<https://en.minghui.org/html/articles/2020/5/21/185140.html>