



VOLUME 24 • ISSUE 23 • DECEMBER 6, 2024

IN THIS ISSUE:

**Winter is Coming: Beijing Tightens Public Security**

*By Arran Hope*.....pp. 2–7

**Xi Jinping Challenged Following Spate of Violent Attacks**

*By Willy Wo-Lap Lam*.....pp. 8–11

**The Shapeshifting Evolution of Chinese Technology Acquisition**

*By Matthew Brazil*.....pp. 12–19

**Generally Unacceptable Accounting Principles: Lessons From PwC and AstraZeneca’s Contrasting Fates**

*By Martin Purbrick*.....pp. 20–25

**From Ambition to Anxiety: The Unraveling of Xi Jinping’s Vocational Education Policy**

*By Aynur Kerimu and Shijie Wang*.....pp. 26–33

**Winter is Coming: Beijing Tightens Public Security**

*By Arran Hope*



A flag-raising ceremony at Beijing's public security bureau. (Source: [Beijing Public Security Bureau](#))

**Executive Summary:**

- A new campaign, "Operation Winter," has been announced to mobilize public security officials in the wake of deadly attacks across the People's Republic of China.
- The operation seeks to mobilize extra human resources and integrated technology to enhance the party-state's apparatus of "preventive repression," resolving issues at the earliest opportunity.
- At the grassroots level, the policies create an invasive and repressive environment that is unlikely to resolve social malaise and discontent.
- The operation's evolution is a classic example of a successful local experiment (in this instance from Guizhou) being rolled out nationwide. Its rollout also exemplifies how central directives are implemented across the system.

On November 12, Xinhua reported that Chinese Communist Party (CCP) General Secretary Xi Jinping had issued important instructions in response to a shocking incident in Zhuhai, Guangdong Province, in which a car plowed into and killed at least 35 people. Xi's instructions related to the victims of the attack, the perpetrator, and public security officials themselves. For the latter, he demanded that all districts and relevant departments should “deeply draw lessons, make inferences, and strengthen the prevention and control of risks at their source (深刻汲取教训、举一反三，加强风险源头防控).” He also instructed officials to “resolve contradictions and disputes in a timely manner and prevent the occurrence of extreme cases (及时化解矛盾纠纷，严防发生极端案件，全力保障人民群众生命和社会稳定)” ([Xinhua](#), November 12).

In the ensuing three weeks, the Party-state's public security apparatus has sprung into action. At the national level, Xi's high-level directive has been cited by secretary of the Central Political and Legal Affairs Commission (CPLC; 中央政法委) Chen Wenqing (陈文清) at special meeting, by the CPLC's secretary-general Yin Bai (阎柏) at an event in Hangzhou, Zhejiang Province, by the Ministry of Justice (MOJ; 司法部) in a special meeting to announce new measures, and by the Supreme People's Procuratorate (SPP; 最高检) at the National Conference on Criminal Prosecution Work of Procuratorial Organs in Fuzhou ([SPP](#), November 19; [Xinhua](#), November 22; [163](#), November 24; [Xinhua](#), November 24). [1] Public security bureaus at the provincial level and below have followed suit.

Minister of Public Security Wang Xiaohong (王小洪) used his address to national public security organs to announce the beginning of “Operation Winter (冬季行动).” Sources indicate that the phrase is being used as an umbrella term to mobilize public security work in what is a difficult time of year—the winter months often see unrest from those seeking unpaid wages (“讨薪”), and Spring Festival tends to see a spike in crime and huge internal migration. The phrase's use alongside other key terms in the current public security lexicon suggest that it is being deployed to complement or reinforce initiatives signaled at major events earlier this year, such as the Central Political and Legal Work Conference in January and the National Public Security Work Conference in May ([SPP](#), January 14; [CCP Member News](#), May 30).

### **Operation Winter: A Case Study in Local Experimentation**

As of December 2, meetings about “Operation Winter” had been held by at least 19 provincial-level public security bodies, and likely in others too. [2] An article in *China Police Daily*—the official paper of the Ministry of Public Security—makes it clear that it is intended as an overarching framework for the next few months' work. It states that Beijing's Municipal Public Security Bureau has taken “Operation Winter” as “one of the central tasks of the entire bureau (全局中心之一),” and avows that it will “resolutely prevent the occurrence of major security accidents in the public security domain (坚决防止发生公安管辖领域重大安全事故)” ([China Police Daily](#), December 5).

The phrase seems to have appeared first in Guizhou in late 2023. The provincial public security bureau announced last November that from December 1, 2023, to February 29, 2024, it would carry out “Operation

Winter Peace (冬季平安行动)” ([China Police Daily](#), November 28, 2023). The tagline appears to have been picked up in limited fashion elsewhere—including earlier this year with references to an “Operation Summer (夏季行动)” ([China Police Daily](#), December 4). As is commonplace in the PRC, local policy innovations that achieve a degree of success are often scaled up and rolled out nationwide.

“Operation Winter” has now taken off across the People’s Republic of China (PRC). Following the national-level announcements, multiple local bodies have been burnishing their successes in carrying out work under the new rubric. In the last week of November, *China Police Daily* announced a new column titled “Deeply Implementing ‘Operation Winter’ (深入开展‘冬季行动’)”, with the aim of “reporting on the public security organs to strongly promote the measures taken and the effectiveness of the operation (及时报道公安机关扎实推进行动的举措和成效).” “Please pay attention (敬请关注!),” the authors write ([China Police Daily](#), November 24). Local bureaus have jumped on the trend, posting their own serialized content to update readers on their efforts ([The Paper](#), November 25).

Some of the work framed as part of “Operation Winter” appears to be a direct result of the recent attacks. For example, in Qin’an (秦安) in Gansu Province, public security officials have worked with the local education bureau to install 35 “anti-ramming measures (防冲撞设施)” outside all schools and university campuses in the county, along with other public places ([China Police Daily](#), December 4). Other localities are deploying drones to help surveil traffic and key areas ([The Paper](#), November 25). Patrols also appear to have increased in frequency across the country ([Xinhua](#), November 20; [The Paper/Baiyin Public Security Bureau](#), November 25; [China Police Daily](#), December 4). However, a lot of the reported work passed off as part of “Operation Winter” appears simply to be standard policing—fighting petty crimes and uncovering local cases of fraud, theft, and low-level traffic violations. This is unsurprising: Local public security departments likely do not have the resources to increase capacity, especially given the current, dismal state of local government finances.

### **Grassroots Repression via new ‘Comprehensive Governance Centers’**

Beijing’s “Operation Winter” has promoted several other public security initiatives that the Party has been prioritizing in recent times. These include the “Fengqiao experience (枫桥经验),” the “new police operation model of ‘specialization + mechanization + big data’ (‘专业+机制+大数’新型警务运行模式),” the “‘millions of police into ten million homes’ activities (‘百万警进千万家’活动),” the “new quality combat forces (新质战斗力),” “weaving a dense social and public opinion information ‘network’ (织密了社情民意信息‘网’),” and “resolving situations by nipping them in the bud (化解在萌芽状态).” [3]

One innovation that is frequently mentioned is the creation of “comprehensive governance centers (综治中心).” Chen Wenqing’s speech addressed these, noting that “efforts have been made to promote the standardization of comprehensive governance centers (着力推进综治中心规范化建设)”—something that was echoed by Yin Bai ([Xinhua](#), November 22; [163](#), November 24). Wang Xiaohong describes these centers as “‘one-stop’ synthesis centers for battlefield positions (综治中心‘一站式’阵地)” ([Xinhua](#),

November 20). [4] They appear to be upgraded versions of community service centers (社区服务中心) or neighborhood offices (街道办) that primarily focus on resolving disputes among local residents. Unlike these earlier institutions, the new centers are proactive rather than reactive and are tasked with monitoring and issuing early warnings about potential social conflicts. They aggregate and synthesize relevant information from a range of sources (likely including informants, law enforcement and ‘grid management’ officials, security camera footage, and other surveillance systems). While still in an early stage of development, the centers seem to have received an official imprimatur and are being given the responsibility for managing grassroots security work. As the CPLC has articulated, these centers’ preventive measures should “improve precise predictions, accurate early warnings, and refined prevention abilities, and allow for science and technology to better empower grassroots political and legal work (提高精确预测、精准预警、精密预防能力，让科技更好赋能基层政法工作)” ([163](#), November 24).

Functionally, the proactive approach that these centers promote frequently involves a fairly invasive violation of people’s privacy and a high degree of surveillance. For instance, among other things, the Ministry of Justice has directed grassroots officials to “conduct in-depth investigations into common and frequent conflicts and disputes over marriage and family (深入排查常见多发的婚姻家庭 ... 等矛盾纠纷)” ([Xinhua](#), November 24). One example of this work given by the Yinchuan Municipal Public Security Bureau involves a grid management member being tipped off about a dispute between neighbors. In the account, the grid management member went to resolve the dispute, and upon arrival at the scene “immediately stabilized both sides’ emotions (第一时间稳控住双方情绪),” before following a dispute resolution playbook ([The Paper](#), December 3).

### **The High Cost of Preventive Repression**

The CCP’s various public security initiatives share the objective of enhancing the party-state’s coercive security apparatus—what the scholar Minxin Pei describes as a system designed to achieve “preventive repression” via “distributed surveillance.” [5] The idea of preventive repression—stopping crimes from occurring before they take place—aligns with Xi’s call in early November to control the sources of risk and resolve disputes. The phrase “resolve conflicts and disputes” is ubiquitous in writings about “Operation Winter.”

Campaigns such as the current “Operation Winter” reflect the PRC regime’s reliance on constant mobilizational efforts to achieve its goals ([CSIS](#), May 8, 2020). Given the unusually high number of “extreme cases” in recent weeks, there are grounds for arguing that the PRC’s vast surveillance state has several blind spots that need to be rectified. The head of the SPP appears to believe that this is the case, and has urged officials to be more courageous in “self-supervision (自我监督)”—a term that is connected to the idea of “self-revolution (自我革命),” which refers to a spiritually puritanical self-discipline that all officials must maintain ([China Brief](#), January 10; [Qiushi](#), March 29; [The Paper](#), November 20).

The need to go to such efforts to mobilize officials could also indicate that the leadership in Beijing harbors fears about the efficacy of the system it is constructing. For instance, there are concerns that poor conduct



from public security officials could itself lead to social backlash: The SPP also has recently argued that “the handling of cases in strict accordance with the law is in itself a means of preventing and resolving risks (严格依法办案本身就是防范化解矛盾风险)” ([SPP](#), November 19). More troubling is the fact that the recent spate of attacks has occurred despite many of Beijing’s initiatives to enhance preventive repression that have been in place well before the announcement of “Operation Winter.”

### **Conclusion**

“Operation Winter” started earlier this year than it did in its nascent form in 2023, suggesting that Beijing perceived a need to ramp up public security measures ahead of time in the wake of November’s devastating attacks. One potential measure of its success or failure may be the occurrence of any further “extreme cases” in the near future. Another will come from parsing the output from the Central Political and Legal Work Conference, likely to be held in January.

The current campaign shows that the CCP’s heavily labor-intensive and increasingly technologically equipped system of preventive repression continues to be tightened. While it has apparently been successful to date in reducing political risks to the Party—and perhaps risks to the public more broadly—it is likely to have unintended consequences. Ultimately, the Party claims that its aim with these measures is to “protect the people’s happiness and peace of mind (守护人民幸福和安宁)” ([Xinhua](#), November 21). However, the recent attacks are one tragic indicator that happiness and peace of mind are in short supply in the PRC today.

*Arran Hope is the editor of China Brief.*

### **Notes**

[1] The Party’s political legal committees are responsible for coordination of the party-state’s coercive apparatus, the procuratorial organs are responsible for criminal investigations and prosecutions, the Ministry of Justice oversees the justice system, and the public security system is responsible for law enforcement and maintaining the political security of the CCP.

[2] These include: Chongqing, Guangxi, Yunnan, Fujian, Xinjiang, Shanxi, Hubei, Heilongjiang, Jilin, Qinghai, Tianjin, Hainan, Harbin, Beijing, Zhejiang, Shandong, Sha’anxi, Jiangxi, and Gansu ([Sohu](#), November 30; [China Police Daily](#), November 29; [China Police Daily](#), November 29; [China Police Daily](#), November 30; [China Police Daily](#), December 2; [China Police Daily](#), December 5; [China Police Daily](#), December; [China Police Daily](#), December.

[3] This article lacks the space to address each of these in detail. For a good primer on the “Fengqiao experience,” see: [China Media Project](#), April 16, 2021. *China Brief* has provided one of the only English-language appraisals of “new quality combat forces”: [China Brief](#), March 15.

[4] According to Minxin Pei, “battlefield positions” refer to social settings (whether in real or cyber space) in which resistance is likely to emerge. See “Chapter 6: Controlling ‘Battlefield’ Positions,” in Pei Minxin, *The Sentinel State* (Cambridge, MA: Harvard University Press, 2024).

[5] Pei Minxin, *The Sentinel State* (Cambridge, MA: Harvard University Press, 2024)

**Xi Jinping Challenged Following Spate of Violent Attacks**

*By Willy Wo-Lap Lam*



People mourn at the west gate of the Zhuhai Sports Center on the day after a car killed a number of pedestrians. (Source: [Wikipedia](#))

**Executive Summary:**

- Xi Jinping faces mounting challenges to his legitimacy from multiple directions, with economic troubles, mass killings, and corruption in the military eroding his grip on power.
- A spate of unrelated violent incidents and rising social protests across the People's Republic of China (PRC) indicate severe social malaise stemming from the country's decelerating economy.
- Beijing's initial response has been tepid, focusing on repression through increased stability maintenance measures and enhanced surveillance of vulnerable groups.
- The suspension of Central Military Commission member and Xi Jinping protégé Miao Hua (苗华), as well as Xi's absence from recent high-level military meetings, are additional unforced errors from Xi.



Chinese Communist Party (CCP) propaganda repeatedly claims that “Chinese people are the happiest in the world (中国人幸福感全球最高)” and that they live in a country that is “among the safest in the world (世界上最安全 ... 国家之一)” ([CCTV](#), March 20, 2023; [MFA](#), November 13). These claims have been torn asunder by a spate of violent incidents that have been described as quasi-terrorist attacks ([Sohu](#), November 13). On November 11, a man surnamed Fan (樊) knocked down and killed at least 53 men and women in an athletic arena in Zhuhai, Guangdong Province. Police believe that the incident was triggered by Fan’s dissatisfaction with a judge’s ruling on the division of assets in his divorce proceedings ([Initium Media](#), November 18). Since then, copycat incidents involving students and laid-off workers launching apparently indiscriminate attacks stabbing and wounding passers-by have taken place in Guangzhou, Wuxi in Jiangsu Province, Changde in Hunan Province, and Baoding in Hebei Province. October also saw a mass stabbing incident in a Shanghai supermarket ([Youtube/Hong Kong 01](#), November 17; [BBC](#), November 19; [Lianhe Zaobao](#), November 21).

Social protests in the People’s Republic of China (PRC) increased 27 percent in the third quarter of 2024 over the same period in 2023, according to the *China Dissent Monitor*, a project run by US think tank Freedom House. Most of these violent cases were due to economic disputes between factories and workers, such as laborers being laid off or failing to be paid the wages promised by bosses in both written and unwritten contracts. Some employers, however, have fled the country due to the deteriorating business environment ([China Brief](#), October 11; [Freedom House](#), November 21; [Bloomberg](#), November 21).

### **Unrest Met by Repression**

The response to what Beijing calls “extreme cases (恶性事件)” from the administration of supreme leader Xi Jinping was initially tepid. The government has not admitted that the acts of random violence might reflect ordinary people’s frustration at failures to improve employment opportunities among the young or buttress the country’s fragile and insufficient social welfare provision. Reforms to the country’s labyrinthine justice system have also done little to improve people’s sense of security. A stimulus program unveiled in September that was expected to amount to 10 trillion renminbi (\$1.4tn) has been pared down, and now constitutes a mere RMB 6 trillion (\$830 billion) in credit spread across three years to overleveraged local governments ([CCTV](#), November 8). This stimulus will do little to assist these governments, which have accumulated debts of ten times this amount ([Radio Free Asia](#), November 18; [CGTN](#), November 18). Meanwhile, other measures signaled by the government, such as an injection of more social-welfare funds and subsidies for citizens buying big-ticket items such as fridges, televisions, and other household appliances, have been underwhelming. Rural residents are only eligible for RMB 214 (\$30) a month for old-age benefits. Workers at state-owned enterprises in cities receive over RMB 3,160 (\$440) ([Xinhua](#), November 5).

Xi’s response to the recent social upheaval has been to fall back on traditional CCP methods. Instead of ensuring a more equitable distribution of the economic pie or courting foreign multinationals to invest in the PRC, he has doubled down on strengthening control of the populace through boosting the “stability maintenance (维稳)” apparatus. Xi has mandated more surveillance and control over “eight types of losers (八失人员)” in society. These include citizens who have lost money on investments or are unemployed;

people who are dissatisfied with their way of life, are emotionally frustrated, are mentally unstable, have psychological abnormalities, or whose relationships with spouses and friends are turbulent; and unsupervised juveniles. Xi has also urged national security forces to pay more attention to people with “three lows and three insufficiencies (三低三少).” The former includes people with low incomes, low social status and low social prestige; the latter covers those who have few relationships or social networks, those with few opportunities for social and geographical mobility, and those who have no access to counselling ([New York Times Chinese Edition](#), November 14; [Voice of America](#), November 19). These are groups of people who historically the state has failed and who have slipped through the social safety net.

Several tools have been deployed to achieve this social engineering. One response has been for cities to ban large gatherings of people. Similar measures were used by police during Halloween this year, as authorities were apparently worried that people would take the opportunity to dress up in costumes mocking senior officials ([Initium Media](#), October 28). At the same time, authorities have promoted the so-called “Fengqiao Experience (桥枫经验)” —a prominent propaganda initiative revived by Xi in 2013. Originally, this referred to a social experiment enacted by Mao Zedong in the township of Fengqiao, Zhejiang Province. Mao asked families in the area to keep an eye on each other and to report to the police people suspected of acting against the Party ([China Media Project](#), April 16, 2021; [CCP Members Net](#), November 24, 2023). This method of social control harks back to the “shared responsibility (连坐)” system first advocated by Warring States-era (476–221 BCE) thinkers commonly referred to as adherents of the Legalist School. Under this system, in place for much of Chinese history, people could be found guilty of crimes by association with the perpetrator ([Beijing Politics and Law Net](#), December 18, 2020). Although technically unconstitutional in the PRC, the practice of guilt by association by authorities persists today in some localities in specific instances ([China Court](#), January 11; [Eastmoney](#), January 12).

### **Unrest Indicates Increased Pressure on Xi**

Xi’s authority in a number of policy arenas has been challenged. Even if he secures an unprecedented fourth five-year term of office in 2027, as seems likely, he will face mounting challenges. One group that appears particularly hard hit are young people in the 16–25 age bracket. Not only has unemployment remained acute for this demographic since the end of the COVID-19 pandemic, but the most recent bouts of violence were preceded by a series of mass suicides by young people that shook communities and made waves across social media earlier this year ([ChinaAid](#), May 30; [China Worker Forum](#), April 3).

Xi also seems to have lost some of his power within the Central Military Commission (CMC). He was absent for two meetings in recent months on important functions in military doctrine and strategy, which were instead led by CMC Vice-Chair Zhang Youxia (张又侠), who is the second-most powerful member of the People’s Liberation Army (PLA) (PRC MND, [September 13](#); [October 22](#)).

The suspension of CMC member and Director of the CMC’s Political Work Department Miao Hua (苗华) at the end of November for a disciplinary infraction compounds Xi’s problems ([PRC MND](#), November 28). This is not the first time he has been forced to remove former protégés as part of a thorough purge of the top

brass and will not have been well received by his many internal detractors. The clearest signal of Xi's anxiety about the loyalty of his top generals is his decision earlier this year to install his wife, Lieutenant-General Peng Liyuan (彭丽媛), to oversee discipline and promotion assessments within the upper echelons of the PLA ([China Brief](#), May 24).

### **Conclusion**

It is often unwise for an embattled leader to embark on a lengthy overseas trip. Xi's recent travels to Latin America for a state visit and to attend the APEC and G20 summits could suggest that he deems things to be relatively under control on the home front. However, back home people have noted the continued lavishing of billions on overseas infrastructure projects while welfare benefits at home remain meager ([Beijing Spring](#), November 2024).

The proliferation of violent attacks in disparate parts of the country indicate that, for some in the PRC, a crisis point has been reached. Economic malaise has begun to manifest as pervasive social malaise, to which the Party appears ill-equipped to respond. Meanwhile, ongoing problems at the top of the Party's military apparatus mean that Xi is receiving signals from multiple directions that his legitimacy is eroding ([Radio Free Asia](#), November 21; [Voice of America](#), September 9). For now, however, Xi appears to have made the bet that the PRC's economic fundamentals will steadily improve and, with that, social stability will return to a more manageable level.

*Dr. Willy Wo-Lap Lam is a Senior Fellow at The Jamestown Foundation.*

**The Shapeshifting Evolution of Chinese Technology Acquisition**

*By Matthew Brazil*



Customs officials inspect 306 CPUs that a traveler had attempted to smuggle into the People's Republic of China. (Source: [Gongbei Customs](#))

**Executive Summary:**

- Smuggling, a critical tool of the Chinese Communist Party (CCP) to acquire technology to enhance its defense industrial base, is reemerging in the wake of the US Government's technology controls.
- Diversion—falsifying the end-user—is another common tactic that the Party has successfully used to acquire critical technology, including dual-use items that it would have been otherwise unable to obtain.
- Talent attraction is an underrated part of technology acquisition that the CCP has promoted in academia as well as in the corporate sector to help advance its technology ambitions.
- Foreign businesses have been willing to engage in technology transfer in return for potential access to the PRC market. This tradeoff frequently has not paid off for these firms.



For decades, Washington has imposed various forms of export controls on the People's Republic of China (PRC) in attempts to prevent US technology supporting the military buildup or the repressive apparatus of its rival. Similarly, the PRC has complained for decades about such actions, seeing them as attempts to stymie the country's growth. Most recently, President Xi Jinping argued to US President Joe Biden that “the Chinese people's right to development is inalienable and cannot be ignored (中国人民的发展权利不可剥夺、不容无视)” ([MFA](#), November 16). By dropping the usual signifier “peaceful (和平)” to “development,” Xi implied that the PRC has the right to buy whatever it wants for any purpose, including to wage war against the seller.

Technology acquisition has long been a goal of the Chinese Communist Party (CCP)—and of China's governing elite for a century prior to its rise to power in 1949. The Party's modern program, driven by a determination to surpass the United States and its allies, has evolved through several stages. Smuggling, which provided an early lifeline to the CCP during wartime, is now back in vogue, while other tactics such as diversion (falsifying the end-user) have ebbed and flowed in recent years. [1] The prevalence of certain approaches has often come in response to the degree of openness of Western partners—whether in governments or the private sector—to sharing technology. However, Party history indicates that both licit and illicit technology acquisition have always been integral to its development strategies, and current efforts can be understood in light of those roots.

### **Key Techniques: Smuggling and Diversion**

Smuggling played a significant role in the economy of Mao's base areas in the 1940s and continued to be vital after the founding of the PRC in 1949. In the early days, the CCP relied on smuggling for weapons and ammunition, medical supplies, and cash from Moscow. [2] The CCP Social Affairs Department (SAD; 中共中央社会部), the Party's intelligence arm, smuggled shipments of opium—on which the CCP's economy largely relied at the time—into enemy-occupied cities. [3]

Macau was particularly crucial to the inflow after the CCP's 1949 victory. During the Korean War, Portuguese authorities recorded smuggled opium exports from the PRC and imports of gold bullion. [4] Following the cessation of hostilities on the Korean peninsula, Macau remained important, as did Hong Kong, to the extent that Mao defied Stalin's strong suggestions to retake the colonies. [5] Into the 1970s, Macau, then a haven for clandestine intelligence operations, became a center for CCP intelligence and the united front system to train, support, and dispatch agents to Southeast Asia and elsewhere. By the 1980s, Portuguese authorities could no longer even pretend to interfere with smuggling of technology or strategic goods across the increasingly porous Macau-PRC border. [6]

The famous red capitalist Ma Man-kei (马万祺) was an exemplar of the relationship between CCP intelligence and smuggling. His various assistances to the CCP included sheltering agents in his home as they prepared for intelligence and propaganda duties overseas in Hong Kong, Indonesia, and Portuguese territories. [7] Ma is openly celebrated in PRC media: His efforts and those of others such as Ho Yin (何贤) are praised in an article from 2021, which describes their work helping mainland agencies in Macau

“purchase and transport strategic materials to support the People’s Liberation Army’s liberation of Hainan and Guangxi (购运战略物资，支持解放军解放海南与广西)” during the Korean War ([All-China Federation of Returned Overseas Chinese](#), June 6, 2021).

Smuggling for the purpose of acquiring technologies critical to building the country’s defense industrial base is detailed in the 1956 “12-Year Science and Technology Development Plan (12 年科技规划)” and its classified annex ([Xinhua](#), September 1, 2009). [8] It was a small part of the contributions of three prominent returnee scientists of the period. On a 1949 trip to France, Qian Sanqiang (陈三强) entrusted his former professor Frederick Joliot-Curie with CCP funds to purchase books on atomic energy and relevant test equipment, while Frederick’s wife Marie provided radioactive samples to pass to another former Chinese student, Yang Chengzong (杨承宗). PRC accounts refer to the materials as “contraband (违禁),” suggesting that the two scientists smuggled them out of France and back to China ([163.com](#), September 29). [9] The rocket scientist Qian Xuesen (钱学森), who was traded by Washington back to the PRC in 1955, became the father of Beijing’s rocket and space program. A classified document that he apparently smuggled past his FBI watchers and US Customs is on display at a Shanghai library named in his honor. [10]

In the 1990s, illegal acquisitions continued apace. Chi Mak (麦大志) was born in Guangzhou in 1940 and emigrated to Hong Kong in 1970, where he was assigned to log British and American naval vessels for PLA intelligence. He moved to the United States, becoming a citizen in 1985. Since at least 1983, Mak, his wife, and family members acquired US Navy military underwater propulsion technology from Power Paragon and transmitted it to the PLA. An associate, Greg Dongfan Chung, supplied design secrets from his employer, Boeing, about the Space Shuttle, Delta IV rocket, and C-17 military transport aircraft. Chi Mak’s spy ring was active before, during, and after the Tiananmen Incident, operating between California and the PRC. [11]

Diversion has been another key tactic for technology acquisition. In the years before the astonishing growth of Huawei and other technology firms, the PRC was awash with American and other foreign telecommunications, aircraft manufacturers, computer firms, and others seeking lucrative export opportunities through middlemen who sometimes forwarded technology on to unauthorized end-users ([Spytalk](#), February 4, 2021; US [House of Representatives](#), December 4, 2023; [CFR](#), May 24; [Statista](#), July 4). Many bit players, including ambitious insiders, were convinced or bullied by contacts—not all of whom were ethnic Chinese—to help the motherland by smuggling technology. Some voluntarily stole technology to start businesses in the PRC, while others falsified manifests or diverted shipments to unlisted military destinations. There were also diversions from supposed civilian end-use to military, police, or other purposes that would have likely been denied in the US export licensing process. Examples of “dual use” items targeted included precision machine tools able to make prosthetics or missile nose cones, semiconductor manufacturing equipment (consumer electronics or military grade components), supercomputers (weather forecasting or simulated nuclear tests), and space launch technology (global communications or spy satellites) ([Air & Space Forces](#), August 1, 1999; [CSIS](#), accessed December 2). [12]

Even more serious cases involved purely military technology. For example, PRC scientists convinced Peter Lee, originally from Taiwan, to provide them with classified US nuclear weapons design information in 1985,

and submarine detection technology in 1997. [13] More recently, Philip Cheng of Cupertino, California brokered the sale of military night vision equipment to the PRC, creating fake shipping documents suggesting Taiwan was the destination and not the PRC—a classic case of technology diversion. [14]

### **Other Tools: Licit Transfers, Attracting Talent**

If smuggling and technology diversion were like transporting technology in a cocktail glass and China's talent programs brought technology like a firehose, the added combination of willing foreign suppliers and cybertheft seems like Niagara Falls.

US President Richard Nixon's 1972 visit to the PRC marked a shift back to pursuing foreign technology acquisition, with an overriding focus on licit imports and close cooperation with the United States and other Western countries. Beginning in the late 1970s, Mao's successor Hua Guofeng collaborated with Zhou Enlai, Li Xiannian, and Deng Xiaoping to purchase equipment and knowhow for reviving industrial output, including petrochemicals, petroleum exploration, steel, metallurgy, power generation, and light industry technology. Though the program had a rocky start, legitimate technology imports surged after Mao's death in September-October 1976 ([Institute of Party History and Literature](#), December 26, 2019). [15] In subsequent US administrations, the government authorized the sale or transfer of dual-use systems to the PRC, including ground satellite stations, civilian jet aircraft, and high-speed computers. President Carter supplemented these after 1979 with military equipment such as transport aircraft, helicopters, communications hardware, and radar systems, while Reagan went one better, providing the PRC with torpedoes, anti-aircraft, and anti-tank weapons. [16] The "Peace Pearl (和平珍珠)" program, which equipped PRC fighter jets with advanced American avionics, was frozen by Washington in the wake of June Fourth and canceled by the PRC side in 1990 ([The National Interest](#), February 29, 2020). Washington also approved the sale of UH-60 Blackhawk helicopters to the PLA. [17]

Over the last three decades, western firms have frequently traded technology for the promise of revenues in the PRC's enormous market. Hikvision (海康威视), the company whose mission to build the PRC's surveillance state began in the early 2000s, was greatly aided by the US firms Western Digital and Seagate. The latter worked with Hikvision beginning in 2005 to develop the world's first surveillance hard drive and in 2017 released its first storage drive for "AI-enabled surveillance." Hikvision has been implicated in PRC's gross human rights abuses in Xinjiang ([IPVM](#), July 25, 2023).

The PRC is also a key source of sales for chip firms Nvidia and Intel, where their products support the PRC's ever-expanding urban surveillance network. [18] The Tianhe-1 supercomputer, developed in 2009–2010 and rated as the world's sixth fastest machine, was built by the National University of Defense Technology (NUDT; 国防科技大学) with 6,144 Intel CPUs and 5,120 AMD GPUs, and was enhanced in 2010 with Nvidia GPUs ([Xinhua](#), October 29, 2009; [Hunan University](#), May 28, 2019; [ZOL](#), November 2, 2009).

Attracting talent is a key branch of the PRC's technology acquisition program. The PRC has poured vast resources into the Plan to Attract High-Level Overseas Talents (国家海外高层次人才引进计划)—aka the Thousand Talent Plan (千人计划)—and its iterations. All targets are approved by the CCP Organization

Department to advance key projects. Sometimes, those approved are allowed to keep their jobs abroad but are required to not disclose the nature of their work in the PRC to unauthorized parties (like their foreign employer). [19]

In one case, the German scientist Ulf Leonhardt was not informed that his research was benefitting a military project and was not paid all his promised compensation. More recently, the former chair of Harvard's chemistry department, Charles Lieber, was fully compensated at premium rates for bringing his US National Institutes of Health-funded nanoscience research to a PRC university ([US DOJ](#), January 28, 2020). [20] Nanoscience has numerous military applications for manufacturing protective gear, weapons systems, and surveillance equipment ([Sustainable Nano](#), accessed December 1).

Courting international talent also takes place at the corporate level. A prominent example of this is the multi-pronged campaign in the 2000s by the PRC's leading computer chip maker, the Semiconductor Manufacturing International Corporation (SMIC), to catch up with Taiwan Semiconductor Manufacturing Corporation (TSMC). TSMC sued SMIC twice for theft of trade secrets, and by 2003 SMIC had lured 100 TSMC employees. SMIC paid millions to its competitor in legal settlements, but now SMIC and Huawei are developing AI chips that may eventually challenge the global leaders ([Asia Financial](#), November 21). [21]

### **The New Era: Cybertheft, Tech Absorption, and Export Control Evasion**

The rise of the Internet and a digitally connected world has led to the emergence of a vast, sophisticated network of state-sponsored hackers, dubbed APTs (advanced persistent threats). These groups became infamous in the mid-2000s for successfully stealing huge tranches of online information, including the massive US security clearance databases of the Office of Management and Budget and of companies whose databases would show government travel records (United Airlines and Marriott Hotels). They also acquired large amounts of proprietary technology useful for military and civilian manufacturing. The latest revelations about the potential APT Salt Typhoon, which has targeted the telecommunications, technology, consulting, chemical, and transportation industries in various countries, indicate that PRC's cybertheft capabilities are advancing dramatically ([Trend Micro](#), November 25).

The continued growth of licit and illicit technology transfer in the 2010s prompted a reexamination of previous strategies. Long Guoqiang (隆国强) of the State Council Development Research Center wrote that "China emphasizes the introduction of technology but does not pay attention to its absorption." A popular saying lampooned the technology acquisition program as habitually "introducing [technologies], falling behind, reintroducing, and falling behind again (引起, 落后, 在引起, 再落后)." [22]

This situation gradually changed with the 12th and 13th Five-Year Plans (2011–2015 and 2016–2020, respectively) that emphasized "re-innovation (再创新)": taking foreign technology and improving it through "indigenous innovation (自主创新)," leapfrogging advancements in key sectors and developing "strategic emerging industries." [23] Though the PRC appears to struggle with dozens of "chokepoint" technologies, breakthroughs are evident in quantum computing, artificial intelligence, and hypersonic missiles ([VOA](#), June 5, 2023; [ASPI](#), March 1, 2023). One area that appears to have been a beneficiary of "re-innovation" are the



PRC's supercomputers. Tianhe-3, co-developed by NUDT, uses PRC-made chips that appear to be one or two generations behind the cutting edge, but is competitive with the fastest American machines ([Baijiahao](#), July 27, 2018; [Baijiahao](#), February 14).

Washington has sought to respond to the PRC's growing number of successes through a tightening and widening array of technology controls. Current regulations target the military, military intelligence, intelligence, and police entities in the PRC, Russia, and a handful of other countries, and constitute a significant enhancement of export controls ([Covington](#), July 30).

This has led to a resurgence of old-fashioned techniques. Smuggling is now a key vector for the acquisition of technologies Beijing has dubbed its “chokepoints (卡脖子)” ([China Brief](#), December 1, 2023). Smuggling Nvidia microchips into the country has been described as an “industry,” and high-end chips have been brought into the country in cars, packed in luggage, and strapped to human travelers ([INSIDE](#), July 11, 2023; [inews](#), June 20; [The Information](#), August 12). Illicit technology transfers of other kinds are also back in vogue. In a Chinese-language advisory note to clients, international law firm King & Wood Mallesons counseled readers to:

1. Sort out business units and customers supplying parts and services to military entities, including universities doing military research, and evaluate the possible impact should US authorities learn about them;
2. “Formulate mitigation plans (制定 ... 风险应对计划)” such as the separation and isolation of business lines to prevent the impact of risky businesses on normal businesses; and
3. Be careful not to release public statements that “could attract the suspicion of or trigger an investigation by US regulators (可能会导致美国监管机构的质疑并引发调查)” ([King & Wood Mallesons](#), August 9).

That law firm may soon amend its advice. Washington upped the ante on December 2 by targeting over 140 additional PRC entities and key equipment makers whose machines are needed to make almost all computer chips ([BIS](#), December 2; [Technode](#), December 3). Included in the new rules is a provision targeting the PRC's AI efforts. The controls also restrict shipments of High Bandwidth Memory (HBM) chips to the PRC, which are needed to process the massive amounts of data required to power AI technologies. That may lead to chip smuggling becoming even more important to the PRC ([Nikkei Asia](#), December 3).

Though the US Commerce Department expressed optimism that the December 2 amendments will leave US controls stronger than ever, some industry analysts took exception. Gregory Allen of the thinktank CSIS pointed out that export restrictions will only become effective on December 31, giving PRC end-users time to stock up. He also asserted that not all of Huawei's entities were included in the new target list ([Wall Street Journal](#), December 2).

### **Conclusion**

The PRC's acquisition of foreign technology takes various forms, both licit and illicit. Today, smuggling technology into the country—something that the CCP has proven adept at over many decades—is returning

to prominence, complementing advanced efforts in cyberspace. Once these technologies are acquired, Beijing must rely on people who know what to do with them, which is why attracting talent remains a core part of its acquisition strategy.

The West frequently debates export controls, as instances of smuggling and diversion make them look porous and ineffective. However, Beijing's constant complaints, coupled with the historical record of their use in the past, indicate that they are a useful tool for slowing the PRC's access to technologies that can be channeled into the PLA's military buildup. Irrespective of how effective the recent US export controls will be, smuggling may be about to go into overdrive, with HBM technology from South Korea the likely next target.

*Matt Brazil is a Senior Analyst at BluePath Labs and a Senior Fellow at The Jamestown Foundation.*

## Notes

[1] T.A. Bisson, *Yenan in June 1937: Talks with Communist Leaders* (Berkeley: Center for Chinese Studies, University of California, Berkeley, 1973), p. 8, 16–17, 29. The Party's first attempt to acquire foreign technology may have come in 1937, when Mao Zedong asked a Swedish visitor named Effie Hill to take charge of Yan'an's small motor pool. (Hill politely declined.)

[2] For example, the American communists Steve and Margaret Nelson, a married couple, took separate ocean liner trips from France to Shanghai at about the same time in 1934 wearing money belts with hundreds of thousands of dollars. Steve Nelson, James R. Barrett, Rob Ruck, *Steve Nelson, American Radical* (Pittsburg: University of Pittsburg Press, 1981), p. 141–152.

[3] Chen Yung-fa, "The Blooming Poppy Under the Red Sun: The Yan'an Way and the Opium Trade" in Saich and Van de Ven (eds.), *New Perspectives on the Chinese Communist Revolution*, 273-275. Peter Vladimirov, *The Vladimirov Diaries* (New York: Doubleday and Co., 1975), 100.

[4] Moisés Silva Fernandes, *Macau na Política Externa Chinesa 1949–1979* (Lisboa: Imprensa de Ciências Sociais, 2006). Drug exports via Macau: 245, 259, 262–63. Gold: 267, 270–71.

[5] Moisés Silva Fernandes, "How to Relate with a Colonial Power on its Shore: Macau in Chinese Foreign Policy, 1949-1965," *Bulletin of Portuguese-Japanese Studies*, 1 December 2008.

[6] Author's interview with Macau Special Branch official, December 1989.

[7] Fernandes, *Macau na Política Externa Chinesa 1949-1979*, p. 274–76.

[8] Tai Ming Cheung, *Innovate to Dominate, the Rise of the Chinese Techno-Security State* (Cornell: Cornell University Press, 2022), p. 8.

- [9] John Wilson Lewis and Xue Litai, *China Builds the Bomb*, (Palo Alto: Stanford University Press, 1988), p. 36.
- [10] Author's personal observation during a visit to the Qian Xuesen Library (钱学森图书馆), 2015. <https://www.qianxslib.sjtu.edu.cn/en/index.php>. A sympathetic but fair account of Qian's life is Iris Chang, *Thread of the Silkworm* (New York: Basic Books, 1996).
- [11] Michael J. Sulick, *American Spies: Espionage Against the United States from the Cold War to the Present* (Washington, DC: Georgetown University Press, 2013), p. 257–260. Peter Mattis and Matthew Brazil, *Chinese Communist Espionage, an Intelligence Primer* (Annapolis: Naval Institute Press, 2019), p. 152, 238–239.
- [12] Mattis and Brazil, *Chinese Communist Espionage*, p. 145–194.
- [13] Mattis and Brazil, *Chinese Communist Espionage*, p. 164–165.
- [14] James Mulvenon, "Economic Espionage and Trade Secret Theft Cases in the US" in William C. Hannas and Didi Kirsten Tatlow, eds., *China's Quest for Foreign Technology: Beyond Espionage* (New York: Routledge, 2021), p. 297.
- [15] Lei Liu, "China's Large-Scale Importation of Western Technology and the U.S. Response, 1972–1976." *Diplomatic History*, Vol. 45, No. 4, September 2021, p. 794–820, <https://doi.org/10.1093/dh/dhab036>.
- [16] Aaron Friedberg, *Getting China Wrong* (New York: Polity, 2022)
- [17] Bates Gill, Taeho Kim, "China's Arms Acquisitions from Abroad: A Secret Quest for 'Superb Secret Weapons.'" SIPRI Research Report No. 11 (New York: Oxford University Press, 1995), p. 41–43, 71–74.
- [18] Dahlia Peterson, "Foreign Technology and the Surveillance State," in Hannas and Tatlow, eds., *China's Quest for Foreign Technology*, p. 246.
- [19] Jeffrey Stoff, "China's Talent Programs," in Hannas and Tatlow, eds., *China's Quest for Foreign Technology*, p. 42.
- [20] Ibid.
- [21] Mattis and Brazil, *Chinese Communist Espionage*, p. 176.
- [22] Cheung, *Innovate to Dominate*, p. 214–215.
- [23] Ibid., p. 286.

## Generally Unacceptable Accounting Principles: Lessons From PwC and AstraZeneca's Contrasting Fates

*By Martin Purbrick*



The front entrance of the China Securities Regulatory Commission. (Source: [Wikipedia](#))

### Executive Summary:

- The contrasting fates of foreign companies in two recent fraud cases suggest that the People's Republic of China (PRC) treats firms differently depending on their political utility.
- AstraZeneca has been guilty of widespread medical insurance fraud but has probably been treated leniently by authorities because it is seen as critical to the PRC's pharmaceutical sector—a strategic priority.
- The local branch of auditing giant PwC has been banned from operating for six months following its fraudulent audits of companies including the real estate giant Evergrande. The outsized impact of the real estate crisis and the realization that Beijing cannot trust audit reports of state-owned companies is likely behind the response.
- The divergence in punishments could also relate to the replacement value of the firms, as well as to the potential impact on foreign investor sentiment.



The pharmaceutical company AstraZeneca had good news from the People's Republic of China (PRC) at the end of November, with the National Healthcare Security Administration (国家医疗保障局) pre-approving its cancer drug Enhertu for the national health insurance reimbursement list ([SCMP](#), November 29). This news will be welcomed, as the company recently has navigated a major fraud case involving falsification of test results for lung cancer patients in eight provinces in the PRC to boost drug sales. Despite the scale of fraud and corruption involved in the case, AstraZeneca has been treated leniently by authorities, most likely because Beijing is keen to develop its domestic pharmaceutical industry in the PRC.

Foreign companies in other sectors operating in the PRC involved in fraud and corruption have faced much harsher treatment. PricewaterhouseCoopers Zhong Tian (普华永道中天), the local auditing arm in the People's Republic of China (PRC) of global accounting firm PwC, has been fined renminbi (RMB) 325 million (\$45 million) by authorities for a major violation of audit standards, and suspended from operating for six months ([China Securities Regulatory Commission \[CSRC\]](#), September 13). The fines relate to real estate giant China Evergrande Group (中国恒大集团) falsely reporting revenue and profits by tens of billions of dollars. In total, Evergrande has been fined over \$500 million.

The scale of the Evergrande fraud and the related audit failures by PwC call into question the overall effectiveness of “generally acceptable accounting principles” in the PRC, even if audit fraud is not necessarily unusual given endemic corruption within the PRC system. Accounting and audit standards differ in every national jurisdiction based on how local laws on the subject have developed historically. In the United States, generally accepted accounting principles are regulated by the Securities and Exchange Commission (SEC) and are the default for companies in the country. The SEC's former chair has articulated the importance of such principles succinctly, arguing that the strength of US capital markets “depends on investors knowing that they can rely on the financial information that is available to them when they make investment decisions,” and that high-quality accounting standards “are the foundation upon which this reliance is built” ([SEC](#), January 5, 2017).

According to PwC's own materials, “The auditor is responsible for expressing an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and that they are fairly presented in accordance with the relevant accounting standards (e.g., International Financial Reporting Standards)” ([PwC](#), May, 2017). This independent role requires the auditor to be both professional and honest when reporting findings, even when management of the company is dishonest.

In the PRC, the Ministry of Finance (MOF; 财政部) is responsible for formulating and organizing the implementation of the national accounting system, as well as for guiding and supervising the work of certified public accountants, accounting firms, and accounting agencies, such as PwC ([Ministry of Finance](#), accessed November 26). The ministry has worked since 1992 on the gradual implementation of the Chinese Generally Accepted Accounting Principles (“China GAAP”), also known as the Chinese Accounting Standards. Despite some technical differences, there is broad convergence between these and international accounting standards ([Swiss Chinese Chamber of Commerce Shanghai](#), December 21, 2020). The extent of fraud and

corruption in the PRC economy, and especially in state-owned enterprises (SOEs), remains high, even though the country's regulatory regime has rapidly expanded over the last three decades. Nevertheless, this problem is not identified in the independent audits conducted by accounting firms such as PwC.

Beijing has been signaling that fraud must be better addressed in state-owned enterprises (SOEs). The extent of fraud and corruption in the PRC economy, and especially in SOEs, remains high, even though the country's regulatory regime has rapidly expanded over the last three decades. Nevertheless, this problem is not identified in the independent audits conducted by accounting firms such as PwC. In June, the Supreme People's Court issued a set of five case studies of corporate fraud that the court described as commonplace and a high priority for regulators to investigate and prosecute. That same month, the State Council issued a notice from CSRC and other departments, titled "On Further Improving the Comprehensive Punishment and Prevention of Financial Fraud in the Capital Market (关于进一步做好资本市场财务造假综合惩防工作的意见)" ([STCN](#), June 27; [China Brief](#), August 23). These concerns are also conspicuously absent from annual audits of private companies and SOEs, despite apparently being taken seriously by PRC regulators.

### **The Evergrande Fraud**

At its height, Evergrande was a sprawling conglomerate that owned around 1,300 real estate projects across 280 cities, as well as a range of other businesses in sectors as diverse as sports, healthcare, electric vehicles, and entertainment. By 2018, the company was reportedly the most valuable real estate brand in the world ([China Daily](#), September 6, 2018). Over the last three years, this has all come crashing down. By January 2024, Evergrande was ordered by the High Court in Hong Kong to be wound up after the company's assets were found to be insufficient to cover its debts ([China Daily](#), January 30).

The CSRC's announcement of fines on PwC details the extent of fraud at Evergrande that its accounting firm covered up. Evergrande Real Estate falsely inflated its revenue in 2019 by RMB 214 billion (\$30 billion), equivalent to just over half of its operating income. It also falsely inflated profits by over RMB 40 billion (\$5.7 billion), equivalent to more than 63 percent of total profits. The following year saw even more egregious misreporting, with revenue inflated by nearly 80 percent and profits by almost 90 percent. In addition, Evergrande issued bonds worth over RMB 20bn (\$2.8bn), which were fraudulent as they were based on the falsified data from its annual reports ([CSRC](#), May 21).

In June, the CSRC fined Hengda Real Estate Group Co. Ltd., Evergrande's principal subsidiary, RMB 4.2 billion (\$580 million) for financial misconduct. The group's founder, Hui Ka Yan (许家印; Xu Jiayin), was fined RMB 47 million (\$6.5 million) and banned for life from participating in the securities market ([Caixin](#), June 1). The fraud was the largest in the PRC's history. But it is almost certainly not the last, given certain key features of the PRC's audit system.

### **The PwC Audit Failures**

PwC is a global network of member companies that are separate legal entities but operate under the PwC brand. The firm claims to have 370,000 employees in 149 countries and reported revenues of more than \$55

billion for the last financial year ([PwC](#), October 31). [1] In the PRC, PwC has offices in 28 different cities, [2] and employs over 18,000 people ([PwC](#), accessed November 26). For a while, PwC was the largest accounting firm in the country ([Acuity](#), October 5, 2018).

The CSRC's announcement in September roundly condemned PwC's conduct, writing that the firm "failed to maintain due professional skepticism, failed to make correct professional judgments, and failed to discover Evergrande Real Estate's large-scale and high-proportion financial fraud (未保持应有的职业怀疑, 未作出正确的职业判断, 未发现恒大地产大金额、高比例财务造假)." It goes on to state that "about 88 percent of the records were inconsistent with actual implementation (约 88% 的记录与实际执行情况不一致) ... most of the real estate projects that were considered to meet the delivery conditions during the on-site visits were not actually completed and delivered (现场走访认为符合交楼条件的楼盘大部分实际未竣工交付) ... [and] reviewers issued conclusions based on their 'trust' in the visiting personnel (复核人员基于对走访人员的“信任”出具复核结论)" ([CSRC](#), September 13).

The penalties imposed on PwC by the CSRC under the 2020 *Securities Law of the PRC* (中华人民共和国证券法) have been compounded in the last few months. A number of SOEs, including PetroChina (中国石化), China Railway Group (CREC; 中国中铁), the People's Insurance Company of China (PICC; 中国人保), and China Merchants Bank (CMB; 招商银行) announced the termination of their contracts in May ([Caixin](#), June 3). Then, on the same day the CSRC announced its penalties, the MOF also penalized the firm, finding that PwC and its Guangzhou branch knew that there were major misstatements in Evergrande's financial statements but nevertheless ignored them when issuing its audit reports ([MOF](#), September 13).

The MOF's imposed its administrative penalty decision on PwC under the *Accounting Law* (会计法) and the *Administrative Punishments Law* (行政处罚法) ([MOF](#), August 14; [NPC Observer](#), accessed November 26). It also imposed an additional fine of RMB 116 million, suspended PwC's business for 6 months, and revoked the operating license of the Guangzhou branch. The ministry also revoked the Certified Public Accountant certificates of four accountants who wrote the audit reports on the financial statements of Evergrande Real Estate from 2018–2020 and fined a further seven.

The case has had an impact on how regulation is conducted across the PRC. The MOF has committed to actively coordinating the cross-border audit supervision cooperation mechanism with the Hong Kong accounting and finance authorities to investigate illegality, indicating how the Hong Kong Special Administrative Region is seen by the central government as a necessary part of national financial law and regulatory policies ([China Brief](#), October 20, 2023; [China Brief Notes](#), December 3).

### **AstraZeneca**

AstraZeneca (阿斯利康), the UK pharmaceutical company, in the PRC, has also been found guilty of fraud in recent weeks ([Caixin](#), November 4). The fraud involved AstraZeneca sales representatives collaborating

with genetic testing companies in the PRC to alter patient test results so that they could qualify for the prescription of a lung cancer treatment drug.

The AstraZeneca fraud is far more widespread than the PwC failures with Evergrande. Employees have been found to have been involved in insurance fraud since 2021 in eight provinces and municipalities including Guangdong, Fujian, Sichuan, Chongqing, and Shanghai, with over 50 regional managers and sales representatives implicated and some already convicted. The case started in 2021 with some employees in Shenzhen reportedly altering patient test reports to falsely claim medical insurance, which AstraZeneca reported to local authorities, leading to 14 members of the sales team being convicted of criminal charges in 2023. In 2022, the case spread to Fujian province with ten more sales reps arrested ([Caixin](#), November 4).

In the ordinary course of events, a scandal of this magnitude would be a business-ending event for an international company operating in the PRC. However, AstraZeneca appears to hardly be affected. “AstraZeneca ‘operating normally,’” ran one headline in state-run newspaper *China Daily*, quoting a spokesman for the Ministry of Foreign Affairs as stating that “the Chinese government welcomes foreign companies to invest and operate in China, and will protect their legitimate rights and interests.”

There are two conclusions to draw from this official response. First, the lack of regulatory action suggests political imperatives to avoid further damage international business confidence are overriding significant violations of the law. Second, it reflects the importance the PRC government places on the pharmaceutical industry, which it sees as critical for the country’s development, not least because of the deficiencies exposed by the COVID-19 pandemic ([China Daily](#), November 1).

International companies operating in the PRC cannot afford to ignore endemic fraud and corruption risks. No company is immune to fraud and corruption among their own employees, though well-managed international firms such as PwC can easily fail to detect lower level employees in the PRC who diverge from company policies and culture—this usually occurs out of self-interest driven by either financial gain, advancement, or both.

## **Conclusion**

AstraZeneca has been allowed to continue operating as normal, despite widespread fraud, for which employees have been handed severe prison sentences. This might be good news for the company, but it underscores the extent to which politics is in command in the PRC, despite efforts to institutionalize “China GAAP” and related legal frameworks. The contrast with PwC’s case demonstrates that, for international companies investing in or operating in the PRC, enforcement actions can be selective and may vary in impact.

A company’s criticality could be key to its political fortunes. If it has a high replacement value—such as AstraZeneca—then it may receive more clemency from authorities. If other alternatives are on offer—such as other Big Four accounting firms, or perhaps indigenous competitors—then political lessons can more readily be meted out through suspensions of operations.

The nature of the crime may also play a role. Medical insurance fraud, while no doubt serious, has limited impact on the country's political economy in the aggregate. Pervasive accounting fraud that fails to communicate to officials the health of some of the country's largest and most important companies, has the potential to be much more destabilizing.

PwC's fate begs the question of whether similar misconduct is being perpetrated by other auditors. Such deficiencies will have corollary effects on future investors in PRC companies, who will be highly skeptical of company balance sheets and will likely request fresh independent financial reviews in addition to annual audits before investing. But it will also concern regulators scrambling to stabilize an economy and who rely on sound financial data.

*Martin Purbrick is a writer, analyst, and consultant. He spent over 32 years in Asia working in the Royal Hong Kong Police serving in Special Branch and the Criminal Intelligence Bureau, followed by senior leadership roles managing financial crime risk with several major companies. Martin is an Honorary Fellow at the Keele Policing Academic Collaboration (KPAC) of the Keele University focused on public order and criminology in Asia.*

### **Notes**

[1] Because of laws and regulations in some countries that require accounting firms to be locally owned and independent, PwC (like other large multinational accounting firm networks) is not a global partnership, a single firm, or a multinational corporation.

[2] These are Beijing, Changsha, Chengdu, Chongqing, Dalian, Guangzhou, Guiyang, Haikou, Hangzhou, Hefei, Hong Kong, Jinan, Kunming, Macau, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan, Wuxi, Xiamen, Xi'an, Zhengzhou, and Zhuhai.



**From Ambition to Anxiety: The Unraveling of Xi Jinping’s Vocational Education Policy**

*By Aynur Kerimu and Shijie Wang*



Students at a middle school, at 7:30 a.m. (Source: Sina News)

**Executive Summary:**

- Xi Jinping’s vocational education reforms, designed to address a skills gap, have been distorted at the local level, with uneven implementation and coercive measures intensifying stress on students.
- The centralized power structure of the People’s Republic of China (PRC) incentivizes local officials to prioritize compliance over effective reform, resulting in rigid enforcement and negative societal impacts.
- The reforms have exacerbated an emerging mental health crisis among students, deepening dissatisfaction and exposing systemic flaws in the PRC’s governance model.

“Fight on, students of Dazhu Middle School, oppose authoritarian rule (战斗起来，竹中学子们，反对专制统治).” This protest slogan appeared on a sign written by students at Dazhu Middle School (大竹中学) in Sichuan in early November. The students were speaking out against strict school regulations, such as only having a 40-minute lunch break and an afternoon campus lockdown. Some even waved Chinese Communist Party (CCP) flags in protest ([X.com/@whyoutouzhele](https://x.com/@whyoutouzhele), November 11). School protests are not uncommon. In September, a ban on female students having long hair sparked widespread discussion. In one case, a school that had previously enforced this rule relaxed its policy to allow long hair, but only in one very specific style. Rules remain strict otherwise, with no “strange (怪异)” hairstyles allowed ([Netease News](#), 19 September).

Student protests and debates over school rules highlight a stark contrast between the central government’s policy intentions and the harsh realities of policy implementation at the grassroots level. Seemingly well-intentioned policies are often distorted upon execution, as local officials, incentivized by the CCP’s rigid performance metrics, prioritize compliance and measurable outcomes over the nuanced needs of those impacted. This dysfunction is a feature, not a bug, of the political structure under CCP General Secretary Xi Jinping’s leadership, where the space for honest feedback is suppressed, and alternative perspectives are often sidelined. In such a system, meaningful policy discourse and adjustments become virtually impossible.

Xi’s reforms to vocational education (职业教育), initially designed to address a national skills gap, exemplify this dynamic. These policies, intended to create a skilled workforce for emerging industries, have instead led to coercive measures and overly rigid implementation that disregard the needs and experiences of students, parents, and educators. The lack of genuine feedback has transformed what should have been an empowering reform into a source of widespread anxiety and social tension. Rather than alleviating stress, the vocational education reforms have magnified it, reflecting deeper structural issues embedded in the governance of the People’s Republic of China (PRC).

### **Xi’s Vision for Vocational Education**

In recent years, Xi has underscored the critical role of vocational education in his modernization agenda. In his view, “Chinese-style modernization (中国式现代化)” is the basic means for achieving national rejuvenation—the CCP’s primary centenary goal ([China Brief](#), May 10). This in turn relies on cultivating high-quality technical talent, of which vocational education is a cornerstone. At the Two Sessions (两会) in March, Xi reiterated that “great craftsmen are the cornerstone and backbone of our nation’s edifice (大国工匠是我们中华民族大厦的基石、栋梁),” arguing for vocational education’s centrality to the national project: “If you don’t have a diamond drill, then you can’t handle porcelain (没有金刚钻，揽不了瓷器活).” In other words, if you don’t have the correct capabilities, you will not be able to achieve your goals ([CCTV News](#), March 8).

Xi’s commitment to vocational education has been consistent but has only come into focus more recently. During the National Vocational Education Conference (全国职业教育大会) in 2021, Xi highlighted the pivotal role of vocational education in the country’s development, stating that it has “a bright future and great

potential (前途广阔、大有可为)” and emphasizing the growing need for skilled labor in the PRC’s evolving economy ([China Vocation](#), March 13, 2021). Building on this foundation, 2022 became known as the “Year of Vocational Education (2022 年职业教育).” The government focused on improving the quality and prestige of vocational education to transform it into a respected, mainstream educational pathway. Policies aimed at integrating vocational training with the needs of industry were introduced, laying the groundwork for more inclusive and higher quality vocational education ([EOL Vocational Education China](#), December 27, 2022).

A landmark achievement was the passing of a revision to the *Vocational Education Law* (职教法) ([NPC Observer](#), April 20, 2022). Passed in response to Xi’s 2021 directives, this revision elevated the status of vocational education, aiming to remove the historical stigma that relegated vocational tracks compared to a traditional academic education. According to an official explainer, the update was due to ongoing changes in the “new era (新时代),” which required a rethinking of how vocational education needs to be adapted to support development, cultivate high-quality technical-skilled laborers, meet the needs of enterprises, and promote high-quality employment for laborers ([MOHRSS](#), June 10, 2022).

This reflects a change in calculus regarding the construction of the workforce to meet the demands of the emerging industries on which the PRC leadership believes the prospect of rejuvenation hinges. It is also rooted in assessments of national power and the PRC’s competitiveness. As the government has stated, “From the perspective of winning the competition among major powers, the strategic value of vocational education becomes even more prominent, and the need to cultivate high-quality technical and skilled talent is increasingly urgent (站在赢得大国竞逐的视角来看，职业教育的战略价值更加凸显，高素质技术技能人才的培养问题更为紧迫)” ([MOE](#), March 3).

### Quota System Leads to Local Distortions

Early indications from on the ground suggest that significant obstacles remain to achieving Xi’s grand vision. The most intractable is likely cultural. Chinese society has, for centuries, placed unusually high value on academic education as a means of social mobility. [1]

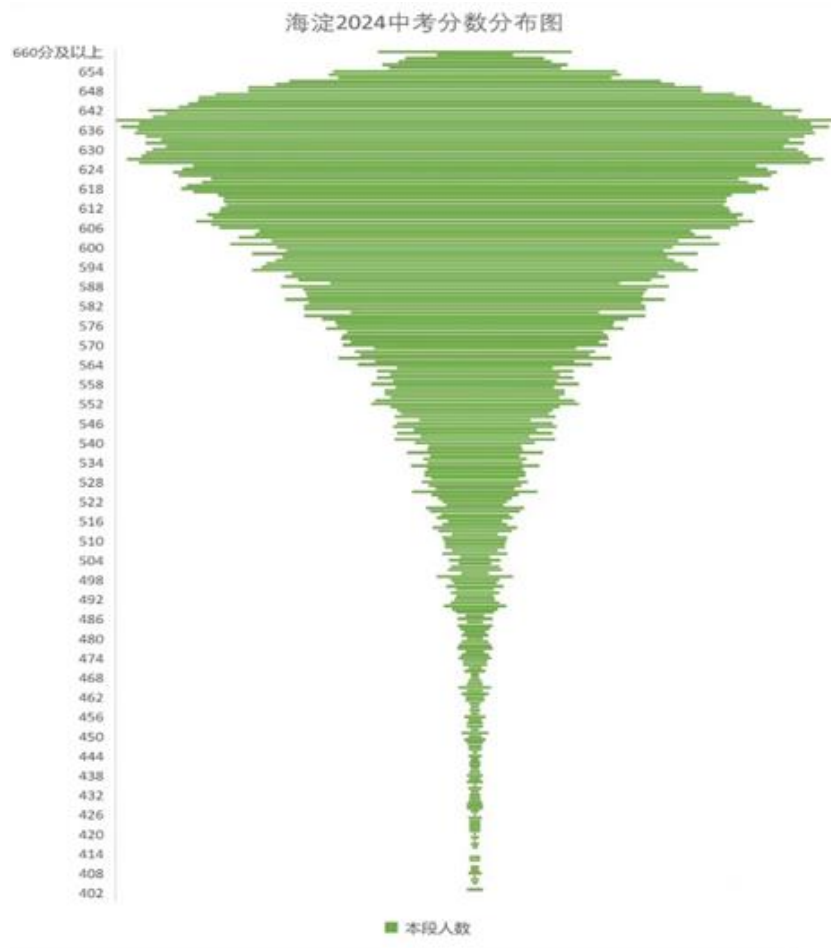
One key approach from provincial governments has been to adopt a quota system, mandating that approximately half of all middle school graduates transition to vocational schools rather than traditional high schools. This approach, often referred to as the “50-50 distribution (五五分流),” was intended to maintain an equal balance between academic and vocational tracks. However, in practice, this distribution varies significantly across regions. For instance, in cities like Beijing and Shanghai, the split is closer to 70-30 or 60-40 in favor of academic high schools, reflecting local adjustments based on socioeconomic and educational priorities ([EOL News](#), July 2023). The system operates on the basis of students’ results in the high school entrance examination, the *zhongkao* (中考), with higher-scoring students generally assigned to academic high schools and lower-scoring ones directed to vocational schools.

An unintended second-order effect of this system has been to instigate a culture of competition and anxiety among students, reminiscent of that usually associated with the high-stakes university entrance exam, the *gaokao* (高考). Under the quota system, many provinces have imposed stringent eligibility requirements on those who wish to retake the high school entrance exam, such as higher benchmarks. This effectively has forced students into vocational schools. Not only do these students perceive this as a failure to secure a place in high school—a sentiment echoed by their parents—but it also limits their choices and potential pathways ([Shenzhen Education Bureau](#), April 14, 2022). On social media, the buzzword “involution (内卷)” crops up repeatedly in discussions of students’ predicament. [2]

### **Zhongkao Pressures Lead to Mental Health Epidemic**

Discord between policy intentions and practical outcomes has sparked a resurgence of debates concerning the efficacy of vocational education reforms and their impact on the well-being of youth. The public is yet to embrace the idea behind the “50-50 distribution,” six years after the policy was announced. Persistent discrimination against vocational education has led to widespread dissatisfaction.

**Figure 1: High school entrance examination score distribution of Haidian District, Beijing**



(Source: A parents-school Wechat group in Haidian District, Beijing)

In response, local actors have found ways to game the system. Since the reform, the distribution of high school entrance exam scores across the country has exhibited an anomalous “mushroom cloud” pattern. For instance, over 90 percent of students scored above 536/670 (80 percent) in Beijing’s Haidian District, with the median score at 606 (90 percent). (See Figure 1.) Instead of a normal distribution, the scores were artificially skewed to circumvent the “50-50 distribution” policy, ensuring that almost everybody’s results put them in the top half. As this indicates, high scores in the *zhongkao* do not automatically mean avoiding being forced into vocational high schools. This in turn exacerbates the status anxiety of children and their parents.

Students under pressure from their parents have come to be referred to as “chicken babies (鸡娃).” This is a reference to a folk remedy popular in parts of rural China during the Cultural Revolution, whereby people were injected with chicken blood, which was seen as a panacea. Today, the phrase refers to frantic striving to achieve success ([Initium Media](#), July 10, 2021). Each day, students attend at least 7–8 classes, followed by “self-study (自学)” sessions that can last until 9 p.m. Some schools attempt to focus students on the *zhongkao* by controlling non-academic aspects of their lifestyles. For instance, students from the “Four Provinces of Mountains and Rivers (山河四省)—Henan, Hebei, Shandong, and Shanxi—are known for having to abide by especially strict school regulations, which can include bathing only once a week or not interacting with the opposite sex during breaks or at lunch ([Douyin](#), [Jan 20](#), [Apr 12](#)).

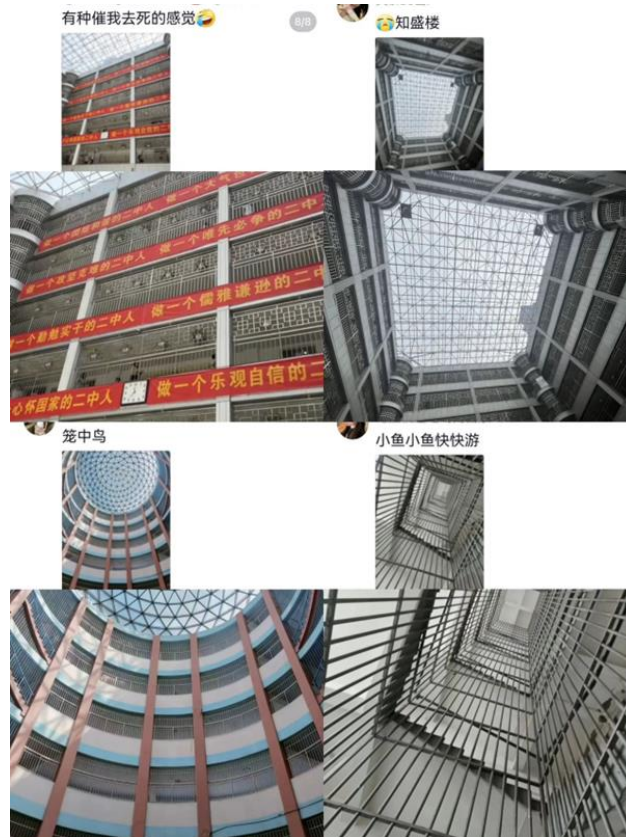
Under such an environment, depression is now the most common mental health issue among teenagers. According to the blue book *China’s Mental Health in 2023* (2023 年度中国精神心理健康), mental health problems are increasing in the country’s youth. Among middle school students, 30 percent suffer from depression, though only 10 percent of these cases receive interventions ([The Paper](#), October 24). This mirrors similar problems among high school students. According to research published in the *Chinese Journal of Public Health* (中国公共卫生) based on a 2021 survey, nearly one in four students surveyed across five provinces had engaged in suicidal behavior, with over 10 percent having had suicidal thoughts, 8 percent having made a suicide plan, and 5 percent having attempted suicide in the previous year ([Chinese Journal of Public Health](#), 2023). Also in 2023, the Chinese Center for Disease Control and Prevention (中国疾病预防控制中心) expressed concern over the increasing suicide rate among adolescents ([Tencent News](#), April 17).

In response to these concerns the Ministry of Education (MOE) and 17 other departments released a “Special Action Plan for Comprehensive Strengthening and Improvement of Mental Health Work for Students in the New Era (2023-2025) (全面加强和改进新时代学生心理健康工作专项行动计划 [2023—2025 年]).” This required schools to offer mental health courses and enhance monitoring, and mandated cooperation between schools and local governments to provide psychological interventions for students ([MOE](#), May 11, 2023). Local educational authorities demanded schools address their students’ mental health issues to meet the central government’s requirements. However, given the need to prioritize academic attainment, many schools—especially those in inland provinces and rural areas—have already allocated their limited resources to academic endeavors and are ill-equipped to deal with this additional burden.



Measures taken by schools appear to be making the situation worse. This summer, news outlet The Paper (澎湃新闻) published a report titled “Can Wire Netting in Schools Stop Children Falling? (校园铁丝网, 能托住下坠的孩子吗?)” about the MOE’s three-year plan. The reporters found that mental health education was largely superficial. In Hubei, some middle school students reported that their school’s counseling room was always closed; in Guangdong, students mentioned that the school counselor only gave one lecture per semester; and at one school in Sichuan, teachers randomly selected one or two students to attend the counseling lecture as students’ schedules were otherwise too occupied with classwork (The Paper, July 26). This implies that school administrators could only reduce suicide rates by preventing them from occurring on campus—under the PRC’s shared responsibility system, school principals or party secretaries are held partially liable if a student dies on campus (The Paper, August 7, 2020).

**Figure 2. Under a social media post, students from all over the country share pictures of their schools’ steel bar for preventing jumping suicide**



(Source: Little Red Book)

In recent years, numerous cases of students jumping to their deaths on school grounds have been reported. Administrators have attempted to resolve this by making it difficult for students to do so by sealing windows and balconies with steel bars (see Figure 5). However, one unintended side effect of this is that many schools now resemble prisons—a tightening of restrictive measures that will exacerbate conditions for students suffering from mental health problems. To make matters worse, this particular policy also now conflicts with a

separate directive issued by the National Fire and Rescue Administration (NFRA; 国家消防救援局) requiring crowded places to remove bars from windows. This led to schools removing steel bars that they had only just installed. These were then replaced by safety nets on lower floors. Since administrators could no longer stop students from jumping, they aimed to at least prevent them from falling to their deaths ([NFRA](#), February 1).

**Figure 3: A parent in Beijing posted a short video on Douyin showing the newly installed safety net at their child's school, designed to prevent suicide by jumping (screenshot).**



(Source: Douyin)

### **Reforms Failing Due to Quality, Cultural Issues**

Local authorities in the PRC are incentivized to employ coercive measures to implement central policy objectives, a practice that has become a defining feature of governance at the grassroots level. But another problem is with the vocational education system itself. Part of the strong antipathy of students and parents is that the quality of vocational education falls short of that found in academic high schools. The long-standing neglect of vocational schools has led to mismanagement, insufficient funding, and outdated curricula that fail to meet the demands of a modern workforce. Many institutions lack qualified teachers and resources, leaving students inadequately prepared for employment. Without significant investments in improving the quality of education, vocational schools risk becoming holding areas for students marginalized by the mainstream education system. This, along with cultural norms, has led to the pervasive and systematic discrimination against vocational education, regarded as a second-tier option reserved for “losers” ([People.cn](#), Feb 23, 2016).

### **Conclusion**

Xi Jinping's vision for vocational education has inadvertently fueled a high-pressure environment that impacts not only educational outcomes but also the health and wellbeing of the country's youth. A rigid quota system has led to unnecessarily harsh downstream policies, indicating a disconnect between the central government's aspirations and the lived experiences of students and families. Without meaningful reforms to vocational education, this is unlikely to change. However, given the current straitened fiscal circumstances, the prospects for significant spending on the sector are slight.

The Party faces a recurring challenge in which seemingly well-intentioned policies like this reform are poorly implemented. The burden that these distortions create are borne disproportionately by ordinary citizens, who endure the social and economic costs of these forceful and often indiscriminate policies. Without addressing these systemic flaws, the cycle of ineffective governance and public discontent is likely to persist.

*Shijie Wang is an editorial assistant for China Brief. He is also currently a Master's candidate at Georgetown University.*

*Aynur Kerimu is an analyst at The Jamestown Foundation.*

### **Notes**

[1] For a recent exposition of this thesis, see Huang Yasheng, *The Rise and Fall of the EAST: How Exams, Autocracy, Stability, and Technology Brought China Success, and Why They Might Lead to Its Decline*, (New Haven, CT: Yale University Press, 2023).

[2] This term originally comes from anthropologist Clifford Geertz, who used the term to describe agricultural practices in Indonesia. He noted that the rice cultivation system had reached a point of diminishing returns, whereby an increase in labor input did not lead to a proportional rise in productivity but instead resulted in declining labor efficiency ([The New Yorker](#), May 14, 2021; [Asia Society](#), November 9, 2022).