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Chinese stocks and regulators: basic facts and even more basic truths

Summary:
Question: Can investors trust shares, which are regulated by the dictates of the Chinese communist party and, hence, are under other pressures rather than just the market?
Answer: Welcome to the real world, which, outside China, is equally packed with examples where politics rather than pure economics and market forces impact shares, their regulations and their prices. The Chinese regulators could have been more diplomatic and their timing needs a lot of recalibrating.
The real truth about the sell-off: Markets got spooked not by the Chinese stocks, by the further realization that cyclical recoveries, V-shaped or otherwise, zero rates or not, etc will continue to be made nonsense by Covid 19 infection rates. We will return to this in a separate note.
The China regulatory issue was a nice excuse, especially as it was triggered by the cack-handed control over the para-education sector in China. For the latter best ask any Greek who will tell you in minute and sordid detail that the para-education sector is a symptom and not the cause of educational malaise. Actually you can also ask any S.Korean, Japanese and Indian who also have similar detailed experiences. If the state creates a university sector which is highly elitist and with high bar of admittances, and couples that with a poorly resourced state school system, then the private sector ("the rich") will step in to provide the remedies. These will be in the form of private schools for the really wealthy, and cheaper substitutes in the form of "cramming or preparatory and tutoring schools" for the poor masses that have to attend state schools.
Equally para-educational institutes are not the cause of income inequality but the symptom.
Remember the exchange between Ernest Hemingway and Scott Fitzgerald?
" You know Ernest, the rich are different from us...."
"Yes, Scott, they have more money..."

Basic facts
Fact 1.
Over the last few months Chinese regulators have descended on major Chinese tech firms such as Alibaba, Tencent, Wechat, Ant and others such Didi, on various regulatory issues varying from IPO permission irregularities, unfair competition practices, data handling and national security plus others. The recent spurt of activity was likely triggered by three factors:
(a) A true need to reset China's fragmented regulatory practices, which allows major Chinese firms to be quoted in the US and in Hong Kong and raise money there with little reference to the existing capital controls in China. This is not to approve of controls, but to realize that controls not implemented and evaded may cause more damage than if implement.

(b) A collateral reaction to the toughening posture of the US to the operation of Chinese companies in Wall Street with the impending, and perfectly sensible requirement, that if Chinese companies are quoted in NY then their accounting practices and accounts must comply with US standards and relevant information be available to the authorities. The latter part, if applicable to data, collided with the avowed aim of Chinese regulators to maintain control over "Chinese " data. Hence more control of Chinese companies overseas was counteracted by more controls at home.
(c) A desire by the Communist party to re-impress, paraphrasing Mao, "that power does **not** grow out of big bank deposits and growing market caps". This might be obvious to western observers but puts Chinese regulators in an awkward spot as they can hardly say that tighter regulations are tighter party control.

Fact 2

Politics either of a pure visceral and personal level or of a more socially minded kind, determining economic and financial decisions is extremely common in the west. The best recent example is **Brexit** where an overwhelmingly economic decision was turned on its head and became a sovereign control issue backed mostly by fake economic news, as its main architect Dominic Cummings just revealed. On a more microeconomic level consider ex-president **Trump** war on **Amazon**, mostly because of the Amazon-owned Washington Post criticisms, war which included urging the federal postal services to charge Amazon more for deliveries. Then there is the long-standing initiative to **charge globally more taxes** on big multinationals, especially US tech companies, now espoused and promoted by president **Biden** not only on the basis of tax fairness but also on implicit mistrust of the power of size. Which brings us to the **EU Antitrust** commission, which among others has Amazon and Google under its scope, for economic reasons of course, but frequently accused of an anti-big business, and especially American businesses, prejudice and stance.

Fact 3

Comparing political and economic decision-making in the west and in China should keep firmly in sight the profound differences of the political systems. But in both cases if confronted with a decision, which smacks a lot more of, subjective and ideological rather than objective motives, both systems will immediately point to the objective reason. Reflecting back to a famous 1960s scandal case in the UK, when a peer of the realm accused of relations with a call girl denied he even knew her, thus eliciting the now famous repost by her " He would say that, wouldn't he?"