Chinese regime reins in billionaire tech tycoons

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Since November, the Chinese regime has taken several steps to restrict the operations of some of the country's largest private tech companies, such as Alibaba and Tencent, hitting the fortunes of the multi-billionaire magnates that control them.

Last week, China's State Council and the Chinese Communist Party's (CCP) Central Committee issued a joint policy statement calling for legislation to codify the measures. It declared there was an "urgent need" for additional laws to regulate the digital economy and internet finance to ensure "new business models develop in a healthy manner."

The measures have provoked growing concern in the Western press because of plunges in share values of tech companies, in which global managed funds and other foreign companies have heavily invested.

Bloomberg calculated that the combined share values of the giant tech corporations at the beginning of July had fallen by a massive $US823 billion since their February peaks. According to the *Financial Times*, since the start of July, Beijing's "regulatory assault on China's technology industry" had lopped $87 billion off the net worth of the sector's wealthiest tycoons.

Moves against the tech giants began when the Chinese regulators cancelled what was set to be the worlds' largest-ever Initial Public Offering (IPO), for Alibaba's financial services subsidiary Ant Group on the Shanghai and Hong Kong stock exchanges in November. The IPO was about to raise $34 billion, eclipsing the $29.4 billion listing of the energy giant Saudi Aramco in 2019. At the same time, an anti-monopoly cause was launched against Alibaba that resulted in a $2.8 billion fine in April. Its founder Jack Ma, at the time China's richest billionaire, who had made remarks critical of Chinese financial regulation, went to ground for weeks.

It has become clear this year that the government was not just engaged in a vendetta against Ma. The online food delivery company Meituan lost $40 billion of its market value after the state regulators opened an investigation into its "suspected monopolistic practices," alleging that it was forcing restaurants to use its app exclusively, to the detriment of its rivals. Last month its shares plunged further after authorities instituted rules to provide limited protection to the notoriously exploited delivery workers.

The internet ride-hailing company Didi, China's equivalent to Uber, proceeded with its IPO in New York in June despite a request by Chinese regulators to call it off. Days later, authorities ordered a security review of the firm amid concerns that the US listing could provide foreign access to its vast store of personal data. It was banned from taking new customers and mobile phone stores were ordered to remove its apps.

The regulatory targets have not been just tech companies. The Chinese government announced new regulations on July 23 for the online education industry, banning IPOs and forcing companies to operate as non-profit bodies. Shares in the three largest US-listed Chinese companies—TAL Education, New Oriental and Gaotu Techedu—fell precipitously.

In late July, Chinese anti-trust authorities ordered the giant internet corporation Tencent to give up its exclusive music licencing rights and fined it over its acquisition of China Music in 2016. The purchase gave Tencent exclusive control of more than 80 percent of music library resources, placing rivals at unfair advantage, according to regulators.

The response in the financial media has been increasingly frantic. An article this month in the *New York Magazine* declared: "The CCP's brand of capitalism had never been Milton Friedman's. But it had been decades since the party had displayed such communist characteristics." An opinion piece by financial speculator George Soros in the *Wall Street Journal* last Friday denounced Chinese President Xi Jinping as a dictator whose regulatory campaign "threatens to destroy the geese that lay the golden eggs."

Xi is not about to overturn Chinese capitalism, nor is the regime implementing "communist" measure. It is not out to destroy the super-wealthy oligarchs such as Jack Ma and Tencent's Pony Ma, whom it helped to create, and with whom it has had close relations. Rather the regulatory efforts to rein in the sprawling tech empires reflect fears in ruling circles in Beijing about the country's extreme social tensions and mounting economic and financial crisis.

These concerns found expression late last year when Xi announced that 2021 would mark the beginning of a "new development phase" that would prioritise "common prosperity," national security and social stability over unrestrained growth.

Fears in Beijing over social stability stem from the widening gulf between rich and poor that has resulted from decades of capitalist restoration. At one extreme are the billionaires and multi-billionaires who in some cases are members of the CCP or have been delegates to the annual National People's Congress. At the other extreme are large sections of working people struggling to survive. Last year, Premier Li Keqiang told a press conference that some 600 million people exist on a monthly income of just 1,000 yuan ($154), which is not enough to rent a home in a mid-sized city, let alone cover other expenses.

Social distress, which has been compounded by the measures necessary to control the COVID-19 pandemic, is among the factors fuelling a political radicalisation, particularly among young people.

In a comment last month hailing to mark the centenary of the CCP's founding, Chinese academic and venture capitalist Eric Li noted that, unlike his generation that focussed on getting rich, China's youth today are increasingly critical of capitalism.

Li wrote: "Significant signs show that Chinese young people's perception of capital and market have turned negative, and their support for socialism and communism have increased markedly. For example, on Bilibili, China's leading video social media for young people, content with communism, Marxism, capital, and labor became most popular in 2020, with increases greater than any other content. Even in the extraordinarily entrepreneurial tech sector, calls by young people for stopping excessive exploitations, both of lowly paid delivery workers and more highly compensated but overworked technical and professional workforces, are becoming louder."

Li, who is an enthusiastic supporter of the CCP, maintained that the party was capable of responding to these concerns. No doubt, the targeting of high-profile billionaires is calculated to appeal to widespread hostility to widening social inequality, as are the moves to limit the gross exploitation of casual delivery workers. The transformation of the giant private education corporations into non-profit organisations is likely to be popular among parents concerned to ensure the best for their children in the highly competitive education system.

The CCP regime, however, is not reining in the thousand or so Chinese billionaires spawned by capitalist restoration across the board. Manufacturers have increased in value. The richest man in China is Zhong Shanshan, who controls the bottled-water company Nongfu Spring and whose wealth stands at more than $70 billion, up by $5 billion since June. The country's nine richest auto magnates have increased their collective wealth by $22 billion since July, while the eight billionaires who dominate the renewable energy sector saw their collective riches rise by $13.6 billion during the same period.

Through their internet payment systems and provision of credit, the tech corporations, however, had become huge financial operations that function without the restraints maintained on the large state-owned banks. In 2020, Alibaba, Tencent and Ant had a combined market capitalisation of nearly $2 trillion, far greater that the state-owned banks such as the Industrial & Commercial Bank of China.

In his public criticisms last October at the Bund Summit in Shanghai, Jack Ma lashed out at the strong "pawnshop" mentality of Chinese banks that demanded collateral and guarantees before lending. He called for reform to create a new, inclusive and universal banking system for small businesses and individuals.

Through the various arms of Alibaba, Ma had created a massive financial empire and was effectively demanding a further removal of regulatory restraints. Alibaba established Alipay as an online payment platform in 2004. By 2018, it had an estimated 870 million users, accounted for about 60 percent of the third-party payment market in China and provided some $300 billion in credit for business and consumer loans. As well as Alipay, Alibaba's Ant Financial Services provided micro-financial services at high interest rates through various operations such as Yu'ebao, Ant Credit Pay, Ant Cash Now and Sesame Credit, in some cases in league with provincial governments seeking ways to circumvent central financial controls.

Amid fears about the already high levels of debt and the potential for financial instability, the CCP apparatus took action against Alibaba and Ma. The moves were also driven by political concerns that Ma and other tech magnates were closely associated with foreign capital and could use their resources, including their vast accumulations of data, to undermine or challenge CCP rule. According a list published late last year by the Chinese financial magazine *Caixin*, overseas shareholders in Ant held 52 percent of shares, of which financial groups on Wall Street and in London accounted for half. In March, Ma was ordered to divest himself of various media outlets, such as the *South China Morning Post*.

The unregulated financial operations of the tech corporations also threatened to generate social instability. In an essay entitled "China's Economic Reckoning—The Price of Failed Reforms" in *Foreign Affairs*, Daniel Rosen explained: "In the early 2010s, these firms were given a free hand by party technocrats who hoped that financial innovations would force ossified state-owned banks to become more productive. This succeeded, at least in fits and starts: the new firms made the financial system work for previously underserved customers.

"But innovation also came with new risks, such as peer-to-peer lending platforms that offered high rates to depositors and even higher rates to borrowers. When many of the borrowers defaulted, investors protested, believing erroneously that the platforms were guaranteed by the government. In August 2018, thousands of people showed up in the heart of Beijing's financial district to demand compensation. A regulatory crackdown on peer-to-peer lenders commenced, in a prelude to this year's scrutiny of Ant Group."

The CCP's attempt to rein in the free-wheeling operations of some of the country's largest corporations is not a sign of strength. Rather, it points to the extent of the economic, social and political crisis building up in China that will erupt in the not-too-distant future.