China and the United States

The two capitalisms

The great geopolitical challenge between the United States and China also passes through the stock exchanges. Two economic-financial models are confronting each other in search of confirmation and dominance. In August, world stock exchanges recorded their seventh consecutive month of growth (MSCI World +2.1%), with the S&P rising by 2.6%, the Nasdaq by 3.4%, the Eurostoxx50 by 2.45% and the SMI by 2%. But in China the pace was different. Where there have been gains, as in Shanghai with a mighty +4.6%, it has been a rebound that does not cover the 5.6% loss in July. On average, since the beginning of the year, all the indices of the middle country have recorded negative or slightly positive performances. In contrast, the Western stock exchanges are hovering between +15 and +20%. The differences are determined by the performance of technology stocks. The Hong Kong index (Hang Seng) has lost 4% since the beginning of the year, but the technology sub-index has recorded a worrying -20%, with -2.7% also in August. Just while the Nasdaq, since the beginning of the year, gains 18%.

The cause of China's evil is Xi Jiinping's policy of capitalizing on his success in the internal Covid-19 challenge. The beginning of the fight against the virus had been confusing and mismanaged in China. It was local and regional governors who were responsible for early decisions and attempts to cover up the inescapable development. But then the Communist Party centralized the strategy and related counteracting decisions: tough, but effective.[1] And so, on April 8, 2020, as the world was reeling from the pandemic, Wuhan, the place (it seems) where it all started, was the last Chinese city to come out of lockdown. China gained a year of

[1] Filippo Santelli, *La Cina non è una sola, Tensioni e paradossi della superpotenza asiatica*, Mondadori, Collezione Strade Blu, Milano 2021, pp. 28-52.

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prosperity in relation to the rest of the world, also in terms of Gross Domestic Product (GDP) and stock market growth, without having to field the impressive financial interventions of the United States and the European Union. On the contrary, the choices made by the Federal Reserve and the European Central Bank to inflate their own balance sheets (increasing liquidity in circulation), have opened the banks to flows that have also poured into stock exchanges of the new emerging powers, in particular on new technology stocks (the specific Hong Kong index has practically doubled in 2020). But too much wealth concentrated on a few sectors and a few people ended up worrying the Communist Party, while a few rich Chinese entrepreneurs thought that the power of money was superior to that of politics.

Already in October last year, it was Jack Ma, the co-founder of Alibaba, one of the Communist Empire's most illustrious billionaires, who was the victim. Xi Jiinping crippled his plans to list Ant Group, the fintech arm of the online trading company. And Mr. Ma disappeared from the media scene. On July 2, it was the turn of Didi Global Inc, a company specializing in mobility platforms using Big Data and Artificial Intelligence, to be attacked (a few days after its listing in the United States): the party wants to protect the data of its citizens. Then, in the last days, the attention of the government has shifted to the online education industry, guilty of impoverishing families forced to spend to increase the competitiveness of their children. With the aim of increasing the spending power of the Chinese, the Party has also attacked the food delivery industry, which must now guarantee a minimum wage in line with those of other professions in the same region. As a result, the shares of delivery giant Meituan, already the subject of an investigation for alleged monopolistic behavior, have plummeted. [2]

In fact, Xi Jiinping has implemented what has long been discussed in the United States and what Joe Biden intends to accomplish in his term in office: empowering the middle class and reducing the power of large technology companies. But in China, state capitalism allows for immediate interventions, while

[2] Joshua Brustein, *Bloomberg Businessweek*, August 2 2021.

in the United States and Europe you have to go through long and laborious negotiations: it is not easy today to challenge Amazon, Apple, Facebook, Alphabet. Can Jeff Bezos be knocked out? Maybe. Xi Jiinping needed only a few words to downsize Jack Ma. Moreover, the economic system of the United States revolves around the performance of the stock market, which determines consumption. Hitting the main creators of the indexes' performance (Amazon, Apple, etc.) means risking a recession in the real economy.

Xi Jiinping therefore wanted (and was able) to anticipate those corrections that even the most industrialized economies are called upon to implement. But China's speed of action is not possible in democratic countries. The timing was probably well calculated. Global Quantitative Easing has also given Beijing tranquillity and it is therefore in a position to tackle the restructuring of its financial system. By taking total control of Hong Kong, the Communist Party hopes to create its own Goldman Sachs: a powerful global asset trading hub. By attacking cryptocurrencies, it wanted to eliminate the risks inherent in instruments that are now out of control. By taking on Jack Ma's plan to monopolize payments, it laid the groundwork for the introduction of the digital Yuan, which is now well underway, ready for implementation. By strengthening consumption capacity and competition, the pool of domestic demand is widened, thus increasing independence from international markets.

Even Joe Biden moves his strategy from the exit of the pandemic, through vaccines. But, the Delta variant and the No Vax delay the desired results. His economic recovery plan that foresaw 2,300 billion dollars of investments in roads, bridges, railways, water networks has been reduced to 1,200 billion, while the budget manoeuvre of 3,500 billion to finance the turnaround in economic and social policies is struggling to find the necessary consensus: it should be financed by increasing the tax burden on wealth (individual or large corporations) in order not to raise the debt ceiling.

To give time, in the United States, to find consensus on the next moves, the Federal Reserve is doing very well. In Jackson Hole, Jerome Powell confirmed that he will be very cautious in scaling back the purchase of bonds (an injection of 120 billion dollars per month). And even when that happens, interest rates will still remain under control. His concern is to keep alive a narrative that discourages inflation expectations. The stock markets believe this and are celebrating. In Europe, the problem is that inflation is not the same in all countries: in Germany it is close to 4%. But despite Teutonic fears it will be the Federal Reserve that will move first.

At the policy level, however, the timing of U.S. decisions could accelerate when there is a common understanding of Beijing's moves. While it may be too early to return to investing in China, it is time to re-evaluate it. The Chinese stock market is likely to be interesting next year. How interesting will depend on Washington's decision-making ability, which will also be expressed through the strength of the dollar.

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