Chinese government blocks Jack Ma's major IPO

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The world of global finance capital has been delivered something of a shock by the sudden and unexpected decision of Chinese government regulators to block the initial public offering (IPO) of the financial firm Ant, a spinoff from the Alibaba firm controlled by one of the country's richest oligarchs, Jack Ma.

The Ant IPO, which was to have been launched today, was aimed at raising around $37 billion. As such, it was set to be the largest such launch in history, beating the previous record set by the IPO of the Saudi Arabian oil giant Aramco last year which raised $29.4 billion.

The floating of the company, set up six years ago as the means Alibaba used to handle digital payments, was halted on Tuesday when the Shanghai Stock Exchange, which together with Hong Kong was to organise launch, said it would not go ahead.

The decision came after four Chinese regulatory agencies summoned Ma to a meeting on Monday. Following the meeting, Ant issued a statement that Ma and regulators had exchanged views regarding the "health and stability of the financial sector" and that the company was committed to implementing regulations.

But it was not enough to halt the suspension of the IPO. In its statement, the Shanghai Exchange said Ma had been called in for "supervisory interviews" and there had been "other major issues," including changes in "the financial technology regulatory environment."

Those changes, it said, "may cause your company to fail to meet the issuance and listing disclosure requirements. Our exchange has decided to postpone the listing of your company."

The decision to block the IPO was clearly taken at the highest levels of the Chinese government.

As Eswar Prasad, a professor of trade policy and economics at Cornell University and an expert on China, told the *Wall Street Journal*: "The fact that [Chinese regulators] waited so close to the listing to pull it is very striking. This sort of thing doesn't happen without everybody in the top echelon of the political realm coming on board."

The underwriters for the IPO included Goldman Sachs, JP Morgan and China International Capital Corp. Investors, including China's national pension fund and US firms such as BlackRock and Fidelity Investments, were in line to reap what the *Wall Street Journal* described as "windfalls" from Ant's market debut.

Wall Street banks, including Citigroup, JP Morgan and Morgan Stanley were set to share in at least $300 million in fees as a result of the IPO—a payout described by the director of a Hong Kong-based financial recruitment firm, cited by the *Financial Times,* as "humungous."

There appear to be two interconnected issues involved in decision to block the IPO at this stage—one financial and the other political.

The financial issue centres on the operations of Ant and the influence it has on the Chinese financial system which have been of concern for Chinese regulators for some time. It has organised a vast amount of consumer transactions. It also sells insurance and mutual funds to millions of people. Significantly, Ant has designated itself as a technology company and not a financial firm in order to try to avoid the regulations to which banks are subject.

In a comment published by the official Chinese newsagency Xinhua on Monday, the head of the consumer protection bureau at China's central bank, Guo Wuping, criticised "fintech companies [for] abusing their hegemonic position" and rather than "taking from the people their data to benefit the people, [they use] it to further some company interests."

Guo said fintech companies charged higher fees for their lending products than the credit cards issued by banks and they often lured people into overspending so that "some people in low income groups and young people fall deep into debt traps."

An unnamed senior executive at a major international bank in Hong Kong told the *Financial Times* that the move was a signal that Beijing "wants to put Ant on a leash before the monster becomes uncontrollable."

The political conflict came into public view at a financial conference held in Shanghai on October 24. The keynote speaker was China's vice-president Wang Qishan. Wang is close to China's president Xi Jinping, and functioned as the head of the president's so-called anti-corruption drive from 2012 to 2017—the means used by Xi to consolidate his power.

Making his first public appearance in almost a year, Wang told the conference there had to be an emphasis on financial stability. "There should be a fine balance between encouraging financial innovation, invigorating the market, and building regulatory capacity," he said. "Safety always comes first."

In his address to the conference Ma directly took issue with Chinese regulators in comments that challenged the positions advanced by the vice-president.

The Chinese leadership has been attempting to present itself as the upholders of the international and financial order as it seeks to win global support to counter the economic warfare being waged against it by the United States.

Ma directly took issue with one of the central foundations of the international banking order—the Basel accords under which banks are required to maintain sufficient liquid assets to cover financial risks.

"The Basel accords are like an old people's club," Ma told the conference. "We can't use yesterday's methods to regulate the future. There's no systemic financial risk in China because there's no financial system in China. The risks are a lack of systems."

He attacked the major Chinese state-owned banks for having a "pawnshop" mentality, meaning they demanded collateral for loans. Ant's business model is based on doing away with such constraints.

Ma told the conference "many of the world's problems" flowed from "only talking about risk control, not talking about development, not thinking about young people's or developing countries' opportunities."

As Martin Chorzempa, a research fellow at the Washington-based Peterson Institute for International Economics, commented to the *Wall Street Journal*, Ma's remarks "looked like a direct contradiction to the lines being proposed by one of the most powerful people of China. This looks like a huge violation of the norms of relations between the government and the private companies."

Ma was speaking in support of his own immediate interests as he sought to increase the power of his financial conglomerate. But he would not have done so without the belief that his views had support in key sections of the Chinese economic and financial oligarchy which has come into conflict with at least some of the constraints imposed by the Communist party leadership.

No doubt that was the conclusion drawn in ruling circles in Beijing. As the *Financial Times* noted: "The dramatic turn of events is a reminder to Chinese businesses and their investors that they still answer to the Communist party—no matter their pedigree."