Concerns over financial stability behind Beijing's moves against Alibaba

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Over the past year, the Xi Jinping regime has taken significant action against the Chinese high-tech giant Alibaba and its subsidiary, the Ant Group, as part of broader moves directed against high-tech companies.

Alibaba's founder Jack Ma has been under pressure from government authorities and disappeared from public view for two months at the end of last year, following the decision by financial regulators to suspend the Ant Group's $137 billion initial public offering (IPO) on Wall Street just as it was about to be launched in November. Had it been allowed to go ahead, the IPO would have been the largest ever.

This week, as initially reported in the *Financial Times* on Monday, the government moved to break up Alipay, the financial services firm run by Ant. It ordered Ant to separate the app Huabei, which operates like a consumer credit card, from the main group, along with Jiebei, which makes unsecured loans to small businesses.

These actions are part of increased state intervention into high-tech areas of the Chinese economy and its financial system.

Last month, China's State Council and the Chinese Communist Party's Central Committee issued a joint statement saying there was an "urgent need" for new laws to regulate the digital economy and internet finance to ensure that this new business model operated in a "healthy manner."

There have been various interpretations of the government's move to tighten control over the country's high-tech and financial giants. These include: The claim that it emanates from Xi's authoritarian proclivities; that, in the words of a *Financial Times* (FT) editorial, it is part of the CCP's authoritarian drive to bring about a wholesale transformation; and even the claim in an FT column that it is a step towards a second version of the Soviet Union's central economic planning agency, Gosplan.

There are undoubtedly political considerations in the moves against the high-tech and financial moguls, not the least being Xi's desire to clip the wings of some of the richest individuals in China, all of them multi-billionaires, in order that their wealth and international financial connections not become the basis for a political challenge to the ruling CCP.

But the more fundamental issue appears to be the implications of what is known as fin-tech for the increasingly fragile Chinese financial system.

An article in the *Diplomat* earlier this month pointed to these growing concerns. It noted that some observers had pointed to the strident criticism by Ma of Chinese financial authorities last October, just before the attempted Ant IPO, while others have said it is part of a general crackdown to ensure CCP control.

"However, very few have elaborated how exactly Alibaba and its mobile payment system, Alipay, might generate financial risks, and what specific problems they create for regulators… The tension between Alibaba and the monetary authority of China lies in the nature of a privately operated mobile payment system."

Over the past decade, Alipay has grown into the largest mobile payment platform in the world. People put money into their Alipay account and then use their smart phone to scan a QR code when making a transaction, without the need for cash or cards. Alipay QR codes can be seen everywhere in shopping complexes.

When people use Alipay, the *Diplomat* report said, they believe they are making transactions in renminbi (RMB), the Chinese currency controlled by the central bank. They are, in fact, using a currency issued by Alibaba with exchanges with RMB at the ratio of 1:1.

In the most extreme case, if Alibaba were to go bankrupt, then any Alipay account would be worthless.

There are other, more immediate, questions.

One problem is that Alibaba is not a commercial bank and is not covered by banking regulations, such as the regular reporting of its reserves. As a tech company, it is free from such supervision.

Another problem identified in the *Diplomat* article is that Alipay, a privately-run system, is massively used. The issue is how can the monetary authority maintain financial and economic stability "if the majority of grassroots transactions in China take place through a non-RMB currency?"

It pointed out that as the Alipay system continues to grow, "one day the central bank might need Alibaba's support or even the approval in order to achieve its monetary policy objectives," a possibility that it cannot tolerate.

The People's Bank of China (PBOC) cannot roll back the mobile payment system because it is so widespread that "reversing it would likely inflict substantial pain on the economy and cause unnecessary panic."

So the alternatives appear to be the introduction by the PBOC of its own mobile payment system or the imposition of greater state control over Alibaba and Alipay.

In many respects, the Chinese government is caught in problems of its own making. The development of high-tech firms such as Alibaba and its Alipay system was promoted by the regime in an earlier period as it stepped up the introduction of market mechanisms to facilitate increased dynamism in the Chinese economy and financial system.

The problems it is now encountering recall the remarks of Marx on the development of the credit system in the 19th century. In the first stages, he explained, it "furtively creeps in as the humble servant of accumulation," but then assumes a powerful and dominant position. Or, as he put it in the *Communist Manifesto*, the bourgeoisie is like the sorcerer's apprentice, who conjures up forces from the nether world which then escape his control.

The issues that have arisen in China, among them the private ownership of massive data sets of consumer transactions and the implications of high-tech developments for the stability of the financial system, are not confined to that country.

In an editorial on the moves to break up Alipay, the FT said worries over "how regulators should handle big financial data are not unique to China."

It pointed out that last year, before he became the head of the US Securities and Exchange Commission, Gary Gensler "published a paper warning that using artificial intelligence to make lending decisions could lead to financial instability."