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Radical reforms in China

Who would have thought that a government could impose a ban on online games for children during weekdays? Or that schools and tutoring services could be mandated to become non-profit? Who would think that celebrities who do not espouse the same political beliefs can be blacklisted or removed from their shows? These extreme changes may have been previously unimaginable in modern society, yet we are seeing these unfold in present-day China.

China restricts gaming for kids

In a draconian move, China banned people under the age of 18 from playing online video games during weekdays. Further, the government restricted the allowable playtime for children to three hours per week, or one hour per day on Fridays, Saturdays, and Sundays. China has also frozen the approvals for new online games. To ensure compliance, the government summoned representatives of Tencent and Netease. China's restrictions on online video games go in tandem with its reforms on the education sector. This campaign is aimed at directing children to spend their time in more productive activities.

Crackdown continues

China's regulatory overhaul has evolved into a sweeping crackdown that is targeting different sectors and numerous companies. Below, we enumerate some of the Chinese government's far-reaching actions.

1. After Jack Ma's critical statements on financial regulators, the Ant Group's blockbuster IPO was suspended. The company was flagged for improper competitive behavior and data monopoly. It is forced to implement a restructuring plan that would end improper linkages between its payments and consumer lending businesses.
2. Big companies such as Alibaba, Tencent Holdings, and other tech giants were fined and investigated for breaches of antimonopoly practices.
3. Tencent Music Entertainment Group was required to give up its exclusive music rights with labels.
4. Popular ride-hailing company Didi became the target of a cybersecurity review only days after its IPO. Regulators raised concerns that voluminous consumer data collected by big tech companies such as Didi may be accessed and utilized by foreign parties or criminal organizations.
5. China mandated that private after-school tutoring services be converted into non-profit entities. This practically killed the business model of some companies. This consequently caused many private education stocks to drop by 70-80% from their previous levels.
6. The government recently announced a ban on online games for children during weekdays, and a limit of three hours per week during weekends. This resulted in the sharp drop of many gaming stocks listed in Hong Kong, China, and the US.
7. Tencent and Netease slumped as company representatives were summoned by regulators to ensure their compliance to the government's latest restrictions on video games. Moreover, both companies will be hampered by the freeze on the approval for new video games.
8. State media announced that it will blacklist celebrities such as actors, movie stars, and singers who display 'incorrect' politics and are critical of the government.

9. China is implementing a major overhaul to discourage speculative flows into the property market and make housing affordable to more citizens. The government adheres to the mantra that "housing is for living, and not for speculation."
10. Government regulators intend to increase oversight of private equity and venture capital funds, focusing on those that illicitly take money from the general public and engage in illegal practices.
11. Food delivery giant Meituan came under regulatory scrutiny for suspected monopolistic behavior and improper treatment of delivery workers. Among the key goals of common prosperity is to increase wages, improve labor conditions, and enhance worker protection.
12. The government required wealthy corporations to share their income with their employees and the community. It likewise mandated high-income individuals and giant companies to undertake philanthropy. Tencent and Alibaba recently pledged to donate billions in support of the government's programs.

'Disorderly expansion of capital'

Aside from 'common prosperity', Xi Jinping has frequently used the phrase 'disorderly expansion of capital' in his statements. This is a concept that explains the rationale behind the ongoing regulatory crackdown. In a recent speech, Xi was quoted as saying, "In light of the platform economy's barbaric growth and disorderly expansion, we intensified anti-monopoly supervision, investigated and dealt with the monopoly and unfair competition behaviors of relevant platform companies in accordance with the law." Xi aims to stop disorderly capital growth by reining in the antitrust practices of giant tech companies, encouraging fair competition, disallowing graft, and preventing the overconcentration of wealth and income among a few.

A headway in the US-China trade war

Last week, US President Joe Biden called Xi to discuss key issues regarding the relationship of US and China. Biden urged for more cooperation on major issues such as climate change and human rights. For his part, Xi said that he is willing to work with other countries on global issues, but it has to be done with respect to China's core concerns. The conversation between Biden and Xi appeared cordial, and this may serve as a headway for potential improvement in the protracted US-China trade war.

Drastic changes, long-term reforms

Notwithstanding the ongoing trade war with the US, the Chinese government appears steadfast in continuing with its radical reforms. Though investors and tycoons may acutely feel the impact of these draconian measures, Xi Jinping is willing to endure short-term pain to achieve his long-term goal of turning China into a more balanced society. China commentaries call Xi's crackdown a 'profound revolution'. Thus, investing in China necessitates an understanding of the country's long-term goals in order to properly navigate the market turbulence that is caused by its policies.

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