US moves to delist Chinese companies from stock exchanges

By Nick Beams
8 August 2020

The economic conflict between the US and China began as a trade war, then extended to a technology war, and has now escalated into a capital war, with moves by the Trump administration to delist Chinese companies from American stock markets.

The presidential working group (PWG) on financial markets, instructed by Trump in June to undertake an investigation, brought down recommendations on Thursday that would see companies already trading on US stock exchanges delisted from the beginning of 2022, unless US regulators gain access to their audits.

Companies seeking new listings on US markets would have to comply by the end of this year.

The move has been couched in terms of protecting investors in the face of bans by the Chinese government that prevent reviews of listed Chinese companies by the US Public Company Accounting Oversight Board. But the real reason for the move has nothing to do with investor safety. The dispute has been going on for more than two decades, and the move has been brought forward now as part of the widening economic offensive against China.

The sudden concern for investor safety rings somewhat hollow under conditions where the arcane and secretive dealings on Wall Street, beyond regulatory oversight, have the capacity to plunge US and global markets into turmoil virtually overnight.

The PWG, which includes representatives from the US Treasury, the Federal Reserve, the Securities and Exchange Commission (SEC) and the Commodity Futures Exchange Commission, started its deliberations in June. The new offensive came in the wake of a decision in May by the main US federal government retirement fund to scrap plans to move some of its investments into Chinese companies, following criticism by Trump.

Members of the administration said the retirement funds would be exposed to “significant and unnecessary risk” by investing in companies that posed national security and humanitarian concerns and violated US sanctions.

A letter signed by National Security Adviser Robert O’Brien and White House economic adviser Larry Kudlow warned against investments because there was a “possibility that future sanctions will result from the culpable actions of the Chinese government with respect to the global spread of the COVID-19 pandemic.”

Announcing the PWG investigation two months ago, Trump said that “while China reaps advantages from American markets,” the actions of its government to “thwart our transparency laws raise significant risks for investors.” The time had come, he wrote, to “put an end to the practice that has tacitly permitted companies with significant Chinese operations to flout protections United States law requires for investors in United States markets.”

Accordingly, the PWG decided unanimously to recommend that the SEC take steps to “enhance the listing standards on US exchanges” by demanding access to audit working papers. Treasury Secretary Steven Mnuchin took the high ground of financial rectitude as he outlined the findings.

“The recommendations outlined in the report,” he said, “will increase investor protection and level the playing field for all companies listed on US exchanges. The United States is the premier jurisdiction in the world for raising capital, and we will not compromise on the core principles that underpin investor confidence in our capital markets.”

But the fact that it has taken two decades for these “core principles” to be invoked makes clear that there are other motivations at work.

One need only recall the findings in 2011 of a Senate committee investigation into the 2008 financial crash, which found that “the crisis was not a natural disaster, but the result of high-risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.”

According to the committee chairman, Carl Levin, the investigation discovered “a financial snake pit rife with greed, conflicts of interest, and wrongdoing.”

But no one was jailed, and the speculation that led to the crash has escalated in the 12 years since then, fueled by the endless supplies of money pumped in by the Fed.

The PWG said continued listing on US exchanges would require Chinese companies to provide access by the Public Company Oversight Board to the working papers of the firms carrying out audits, or failing that, due to Chinese government restrictions, a co-audit would have to be carried out by a firm the Public Company Oversight Board determined was able to undertake such work.

Given the interconnections between Chinese firms and Wall Street investors, the PWG said that to “reduce market disruption” there would be a transition period extending to the start of 2022 to allow currently listed companies to comply.

It will also take some time for the SEC to draft new rules and regulations to cover the new stipulations.

The real significance of the latest moves and their underlying motivations can be grasped only when placed within their broader context. They form part of the escalation of the economic and technology warfare being waged by the US against China, which both the Republicans and Democrats are placing front and center of their presidential election campaigns.

This war has been further escalated with the bans imposed by Trump on the very popular Chinese-owned social media app TikTok and the social media platform WeChat.

It remains to be seen whether there will be any push back from Wall Street over the moves to delist Chinese companies, because of the impact it may have on significant US financial interests. But if there is, the administration has a response already prepared.

In major speech last month, Attorney General William Barr issued a broadside against American corporations seeking to curry favor with Beijing and warned they would be subject to foreign interference laws if they became pawns in China’s supposed plans to take over the global economy and dominate the world.