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SPOTLIGHT SERIES

What's Happening in China And What It Means to Investors

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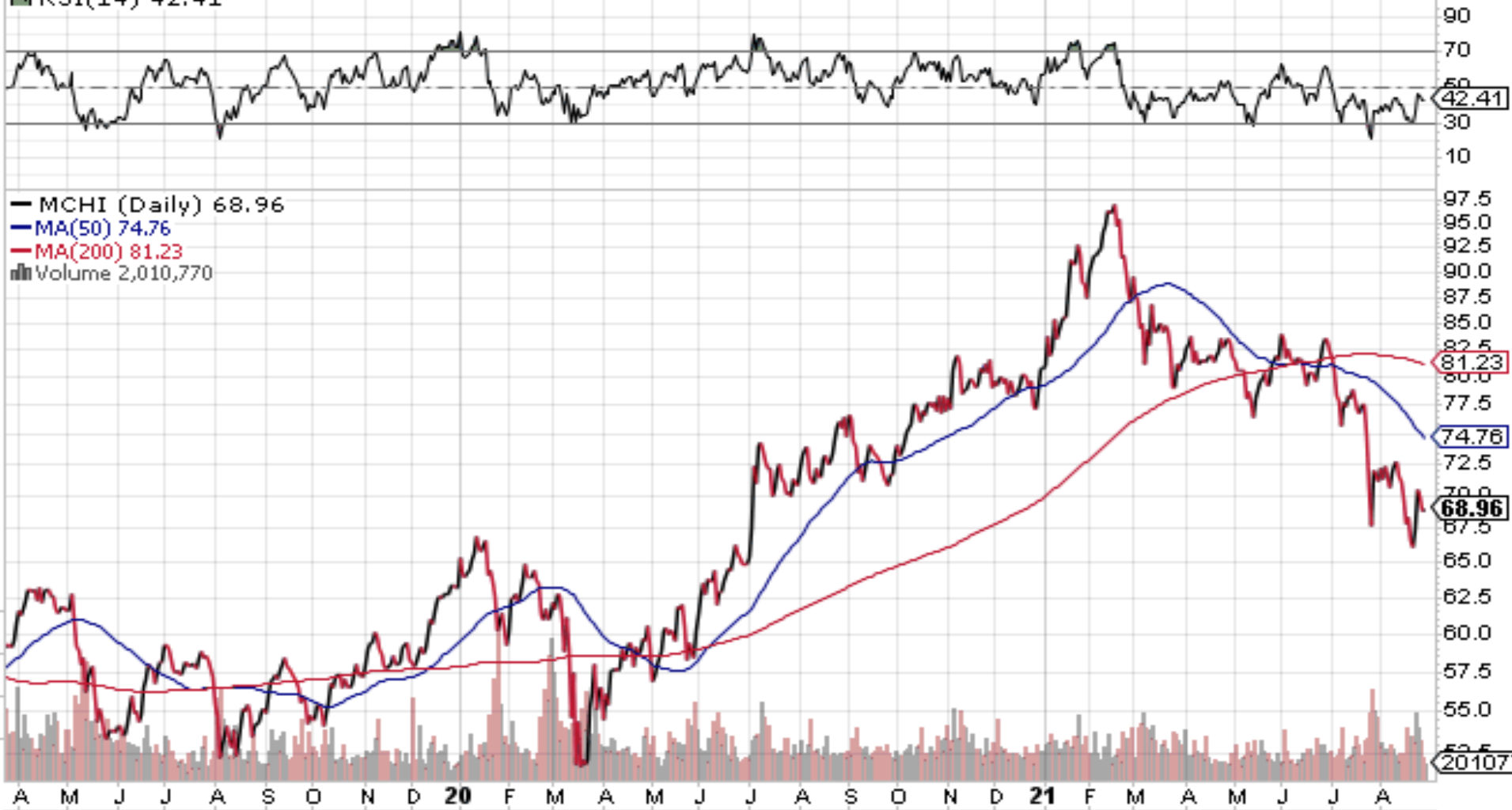
MCHI iShares MSCI China ETF Nasdaq GM + BATS

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27-Aug-2021 3:25pm

Open 69.13 **High** 69.23 **Low** 68.65 **Last** 68.96 **Volume** 2.0M **Chg** +0.05 (+0.07%) ▲

▲ RSI(14) 42.41



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What's Bothering Investors

- **DiDi IPO in U.S. withdrawn**
- **Others IPOs in U.S. discouraged**
- **For-profit education mostly eliminated**
- **Large tech companies restricted, fined**
- **Jack Ma disappears from public**
- **Strict privacy law imposed on tech**



Not-So-Benign Explanations

- **China reverting to past:**
 - **Anti-business**
 - **Anti-private enterprise**
 - **Anti-large companies**
- **Closing economy, markets**
- **Anti-U.S.**



Issues That Concern China

- **Competition**
- **Privacy**
- **Consumer rights**
- **Small business viability**
- **Data security**
- **Inequality – Common prosperity**



Regulators Surprise Markets

- **China can act quickly**
- **Often communicates poorly**
- **Surprise causes volatility**
- **Misunderstandings from poor communication**
- **Solutions similar to West?**



For-Profit Education Crackdown

- **University space limited**
- **A lot of private tutoring companies**
- **Education difficult for non-wealthy**
- **Bureaucracy says private sector gets best teachers**
- **Mandates all education be non-profit**



Jack Ma, Big Tech Crackdown

- **Mixed politics and business**
- **Crossed red line**
- **Party comes first**
- **Party reasserting its role**
- **Getting rich still okay**



The IPO Crackdown

- **Partly tit-for-tat**
- **Concern about data**
- **U.S. PBAOB requires detailed audits**
- **China afraid company data will leak**
- **Not closing own markets**
- **Wants to limit IPOs outside China**



China Still Opening Markets

- **Recently expanded bond ratings**
- **Slowly opening to more stock investors**
- **Regulators admitting mistakes**
- **Not restricting foreign investment**
- **Believe Chinese companies trade at discounts**



Long-Term Issues

- **Shift from export-led economy**
- **Excess housing, debt**
- **40% of economy is state-owned**
- **Encourage private entrepreneurs**
- **Corruption**
- **Globalizing the currency**
- **Aging population**



China Takes the Long View

- **Endure short-term economic pain**
- **Expects 30-year conflict with U.S.**
- **Seeking higher international profile**
- **Wants more self-reliance**
- **Globalize the currency**