



The Rise of China

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"Let China sleep, for when she wakes, she will shake the whole world," a statement given by the French emperor Napoleon Bonaparte around 200 years ago. Who knew these words would sound increasingly more prescient, in the current times and would result in a prophecy that nobody saw coming.

On 21 May 2020, the US Senate passed a bill that can potentially bring down Chinese companies listed on the U.S stock exchange. The bill is titled as 'Holding foreign companies Accountable act' which requires a foreign company to comply with PCAOB audits for consecutively 3 years and also requires to disclose whether they are owned or controlled by foreign governments. So who exactly is this bill for, is it just directed at china, is it a response of the US govt. amidst the ongoing trade war, or is it the response to make sure that china pays for its mistakes for mishandling and not alarming the world about the coronavirus in its due course of time. Let's find out. As the world was recovering from the global financial crisis of 2008, a new fraud was being engineered, the centre of which was based in China. The investment firms in the US were trying to find new avenues to get higher returns for their clients while earning money for themselves. During this time, China was booming, it was an exploding market with a lot of confidence, it was going to be the largest economy in the world in near future and it was the perfect time to invest in it. Investment firms in the US started to define it as the gold rush and started selling opportunities to Americans by making them participate in what they termed as the "China Growth Story".

However, foreigners could not invest in Chinese markets directly, and this is where the investment firms came in and played a huge role. They started to list the Chinese companies on US stock exchanges allowing domestic investors to take a piece of the China growth story. A listing of a company on the exchange required audits and public

vetting, however, the investment firms found a loophole called a reverse merger. So any Chinese company who wanted to get on US stock exchange merges with a shell company in the US that no longer operates but still legally exists and have a listing on the exchange. Once the merger is done, the Chinese company simply takes the place of Shell Company in the market and now investors like you and me can simply buy it. Between 2006 and 2012 around 400 Chinese companies were listed on US exchange, 80% of which was reverse mergers. Everything was going well, investors were making money, investment banks would make huge money in brokerage, until a group of investors decided to investigate these Chinese companies before putting their money. One of the companies they investigated was Orient paper, they went out to their main manufacturing facility in China only to realise that the company was a fraud. There was no activity done in their units, no trucks, no raw materials, it was a complete disaster. On further investigation they realised, they had claimed a 100-million-dollar revenue which was almost 40 times more than what they were making. Although, orient paper was not alone, there were other companies too, one after the other.

Soon they realised that it is an enormous fraud, the Chinese companies were fabricating their financial statement in the filings with SEC. Typically they would be making only 1/10th of revenue they claimed to US investors which was revealed after comparing it with their filings with the Chinese government. When this news started to come out, these stocks would crash, and eventually would get delisted from the US stock exchange. US investors would be left with a large amount of worthless stock resulting in losses of billions of dollars. Very recently, around a month back, Luckin coffee a Chinese company came into light due to their accounting fraud and their shares plummeted by 80%.

Humans generally tend to learn from their past mistakes and experiences, however, even a global financial crisis could not make them realize that, where thousands of people lost their lifetimes savings, their homes, faced bankruptcy, even death and eventually they found themselves in the same hole once again. America lost to an estimated \$14,000,000,000 to reverse merger frauds, mind that this is just after the global financial crisis. Who should be held responsible for this, is it the Chinese companies, the governments or the gatekeepers in America who are driven by greed and money? Well, this is a drawback of capitalism which we all have to live with.

Even after years of fraud, the US govt. didn't do anything until now. Well, one of the largest economies could also not save itself from this animal called bureaucracy. It took a trade war and a global pandemic for them to realise to protect the American investors, their household savings, their pensions from these fraud Chinese companies listed on US stock exchange and hence the law. The rise of China is not just limited to take head-on with America but going against everyone in their efforts to become the next superpower. China is at war with everybody.

While the world was fighting with the Covid-19 pandemic, China started to give troubles to their neighbours. China has increased its activities in the South China Sea by creating lands and runways for themselves. To give a perspective, South China Sea is surrounded by 8 countries, China & Taiwan (North), Indonesia & Brunei (South), Vietnam, Malaysia & Singapore (West) and Philippines (East) and all of them claim a right over it, although in different proportions. So why is China so interested in South China Sea? The answer is very simple, to gain world dominance and achieve economic superiority. You might ask how exactly a sea will help gain dominance. There are particularly 3 reasons for it. First, the South China Sea has a large amount of reserves of crude oil (12,500 Cr barrel), and natural gas (500 Lakh Cr cubic feet).

Second, more than 3 trillion dollars' worth of trade passes through the South China Sea, to give context, India's GDP is ~2.8 Trillion Dollars, 30% of global crude oil and 40% of global Natural gas passes through the South China Sea. Third, is the fishing industry, 10% of the global consumption of fish is sourced through this sea.

China claims more than 80% of this sea and is dominating the surrounding countries through its bullying power. The reasons for this claim by China attributes to 73-year-old map which shows 9 lines around the South China sea popularly known as the Nine-Dash line (Most of these reserves are within the Nine dash line) and all the area within these lines is claimed to be owned by them (China) although the remaining the countries don't agree to this and this is the main reason for dispute in South China sea. China claims to the extent of owning all the islands within the sea and even flights passing through South China should take permission from them which is against the International law's.

The actions of China do not end here. China has overwhelmingly approved a plan that allows it to impose new laws on Hong Kong. The controversial National security law will bypass the Hong Kong legislature as a result of which protesters & police, have already started clashing in Hong Kong, as thousands took to the streets to push back against this law. Critics say this could erode Hong Kong's autonomy, remove right to free speech and violates the freedoms promised under Hong Kong's special 'one country, two systems' status. Hong Kong with its consistent efforts, has refused to be in the grip of the communist party and are trying to make sure democracy lives on their land.

However, it's the first time too, we are seeing a global backlash against China. Countries are getting hesitant working with the Chinese companies; countries are calling out for inquiries and investigation regarding the origin of the virus. Everybody is seeking to punish China and believes the country owe reparations. Even after the criticism faced, china has not been receptive and rather fierce in their public relations. Let's see for how long this backlash against china builds and to what extent the People's Republic of China will go to make sure its supremacy. Only time will tell.



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