VOLUME XVII No. 146 **T H U R S D A Y** **July 9, 2015**

OPINION

YOU ARE WRONG, PRESIDENT XI JIN PING

The Government of the People's Republic of China (PRC) is wrong to think that it has the right, or a duty de jure, to interfere in the workings of a free-market economy.

It is wrong for a government of a free-market economy to make determinations that the activities of a well-regulated, equity market, the forces of which are driven by investors' activities in the purchases and sales of stocks and shares, should be, directly or indirectly, controlled, partially or entirely, by departments of that government.

Proclamations, issued by PRC Government departments, that, in essence, regulate dividend returns (or other returns) to bone fide, equity investors and, by so doing, become interference in the affairs of private corporate entities, listed on equity markets of the PRC, are counterproductive and should be considered as being diametrically opposed to the philosophy and operations of a free-market economy.

That which the PRC Government is attempting, today, is contrary to the concept of an economy that is supposed to be embracing the underlying concept of laissez faire, the foundation column of a market-driven, financial system.

PRC Governmental policies and controls on equity investors' returns should not, and must not, be used in an attempt to control the affairs of the country's equity markets, operating in a free-market, economic environment – as the PRC makes the claim that that it is the best direction for its economy.

With the best intentions in the world, interference in the workings of a free-market economy by a government is reprehensible.

That which is true of equity markets is, also, true of other markets where other driving forces are at work, namely supply-demand factors.

The PRC Government, by its present actions in its interference in the ebbs and flows of the prices of equities on its stock markets, is indicative of amateurism by people who should have been schooled, merely by observations of the activities of much-older equity markets in other parts of the world and how those markets deal with difficult situations as they arise from time to time.

Controls of the driving forces of an equity market cannot be dictated by authority from on high in a governmental hierarchy.

The failed economy of the former East Germany, called The **G**erman **D**emocratic **R**epublic (**GDR**), following the secession of World War II, should have been proof positive to any and all right-minded people that governmental interference in the workings of an economy cannot be fruitful in the long term.

One would be unwise to obtain short-term loans at high interest rates in order to help to finance the purchase of assets, held for a relatively long-term period of time, knowing fully well that the expected returns from the utilisation of those assets have been calculated to be insufficient to cover the debt burden, imposed by the lenders of the short-term loans.

The above, to some extent, is that which the PRC Government is attempting to do, today.

Its actions, today, are quite likely, in due course, to come back to haunt the government of the second-largest economy of the world.

The PRC Government's actions are akin to trying to stop the bleeding of a deep laceration of the carotid artery by use of a small band-aid.

An equity market is, simply put, an avenue to a capital market: It is a venue whereby corporate entities have the ability to tap into the market in order to obtain financing in exchange for non-negotiable, corporate '*paper*'– both the corporate entities, obtaining the financing, and the lender(s), supplying the financing arrangements, working interdependently in the knowledge that the loans, afforded to the corporate entities, will never have to be repaid.

At the same time, it is accepted that the corporate entities, tapping into the capital market, have a duty of fidelity to those parties, investing in the entities by virtue of supplying the financing that could be likened to oiling the wheels of a motor vehicle.

In order to share in the wealth of an economy, investors purchase minority positions in the equities of publicly listed companies in the expectation that, in time, they will benefit from their investments as the value of the scrip, that they have obtained, increase, hopefully proportional to their investment, at least.

The government of a state does not – at least, it should not – enter into the sphere of investors' determinations as to which company would best serve their requirements and, on making their choices, purchase equities in the company so selected.

The actions of investors in purchases of stocks and shares on an equity market cannot, and should not, be controlled or modified by governmental edicts – at any time.

Such governmental actions and direct interference, as are being witnessed in the PRC, today, are unsustainable, long-term, because the imposition of governmental edicts, aimed at attempts to regulate stock-and-share prices, are artificial, in and of themselves, and, most important, they are contrary to the good-workings of a well-regulated, equity market.

The world must be watching the PRC Government and its dabbling as it views the gyrations of the key indices of its equity markets; and, people in the know, round the world, are taking careful note of the intercessions of a supposed, well-meaning government that, sadly, is flirting with matters about which, clearly, it is terribly ignorant.

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