Written by **Alex Newman** on September 14, 2015

Communist China Battles Stock Market Plunge With Tyranny, Terror

In the face of the dramatic collapse of its stock market in recent months, the communist dictatorship ruling mainland China responded as it does to most perceived problems: with outright tyranny and terror. From detaining and terrorizing stock traders to censoring and manipulating press coverage of the markets, Beijing is again revealing its true colors: red and redder. The consequences of the regime's response will likely be felt for years to come, with one expert comparing China's stock market today to a "roach motel."

Whether the autocratic strategy will work to stem the market volatility — even in the short-term, to say nothing of over the long-term — remains to be seen. Chinese stocks are still cratering despite the heavy-handed response. In less than a month between mid-June and early July, Communist China's two primary markets crashed by about 30 percent, losing over $2 trillion in value. In August, the sell-off was brutal as well. On September 14, shares continued their downward trajectory. Just in the last few months, Chinese stock markets have lost close to 40 percent of their value, and experts say there is plenty of room left to keep falling.

"We're certainly not out of the woods," Fraser Howie, co-author of *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise*, was quoted as saying by the *Los Angeles Times* in July. "The index is no longer falling, but that's only part of the story. The real story is the government response, and the integrity of the market." Stocks continued to dive after that, but analysts appear divided on whether the regime's measures helped stem the market bloodbath.

One thing is certain, though: The demonstrably false myth of Communist China becoming some sort of free-market utopia through "economic reforms" in recent decades has been shattered in the public consciousness. Unfortunately for the Chinese economy, more than a few analysts have now suggested that the regime's totalitarian response to the plunge — censorship, intimidation, arbitrary rules imposed on investors and companies, detaining traders, and more — is likely to further spook economic actors around the world into staying out of Chinese markets, probably for a long time.

All of that, of course, means bad news for China as it struggles to prop up its economy and its strictly controlled currency using a bizarre combination of Federal Reserve-style market manipulation and outright coercion. Confusion is reportedly running rampant, too, with traders and firms unsure about what actions exactly the regime has criminalized or allowed when it comes to the stock market. The extent of Beijing's intervention in China's opaque markets also remains unclear, but it is massive, without question.

Among the radical measures taken in recent months to battle market forces have been drastic restrictions on the ability to sell stocks. In early July, for instance, Beijing's securities regulator announced a six-month ban on selling shares by shareholders holding stakes of more than five percent in a company. The ban applies to foreigners as well. And the shadowy China Securities Regulatory Commission (CSRC) vowed to vigorously enforce the ban and deal harshly with violators. For some companies — about half of those traded on China's two main exchanges — trading was stopped completely.

Similar to the failed strategies employed by Western central banks, which also seek to centrally plan vast swaths of the economy, the Chinese regime tried to reinflate the stock bubble by pumping funny money into the system. According to media reports, the dictatorship slashed interest rates to a record low, at less than five percent. A regime-controlled finance "company" and other organs of Beijing also pumped hundreds of billions of dollars into the markets in an effort to prop up stock prices.

Propaganda has also been a key tool used by Beijing to manipulate the 1.3 billion people it misrules, and its efforts to dampen the market chaos by pumping out false narratives were no exception. Among other tactics, the regime ordered its mouthpieces to put a happy face on it all while reducing coverage of the rout. Regime-controlled media also lambasted imaginary "hostile" foreigners and other alleged market manipulators allegedly conspiring against the glorious communist-controlled Chinese economy with actions such as "malicious short-selling," despite the fact that only about one percent of the value of China's domestic market value is owned by foreigners. Even social media was targeted by China's Orwellian thought police, who worked frantically to make negative comments disappear down the memory hole.

All the while, the regime was trying to put a positive spin on everything, and the regime's propaganda organs were dutifully parroting the party line, literally. "Positive signs have been increasing in the last two months and structural readjustment has been accelerated," the regime's State Council said in a widely quoted but totally ridiculous July statement. "China's fiscal and monetary policies have been taking effect, while both development momentum and risk prevention capabilities have been strengthened." Apparently oblivious to the false narrative peddled by China's ruling class, markets continued to decline.

More recently, Beijing has deployed swarms of "security" officials to terrorize market participants. "The police have been dropping in on investment firms and downloading their transaction records," the *New York Times* reported on September 9. "Senior executives at China's biggest investment bank have been arrested on suspicion of illegal trading. A business journalist has been detained and shown apologizing on national television for writing an article that could have hurt the market."

The regime's draconian restrictions on selling stocks, the *Times* reported, are being backed up "with the full weight of a security apparatus usually more focused on political dissent than equity trades." Meanwhile, some 200 people have been arrested in China for "spreading rumors" — some of those merely for discussing the stock market — as part of a "special police campaign" waging war on "rumors," according to the paper.

Various experts quoted by the *Times* explained what this all might mean for the future of Chinese markets. "What's happening in China is definitively spooking people," Dawn Fitzpatrick, chief investment officer for the UBS-owned hedge fund O'Connor, was quoted as saying. In terms of attracting foreign investment, "they've set themselves back a couple of years," Fitzpatrick continued.

It may be even worse than that, according to Anne Stevenson-Yang, a co-founder of investment analysis firm J Capital Research. The restrictions on selling, Stevenson-Yang said, have turned the Chinese stock market into “a roach motel for capital.” “You can enter,” she told the *Times*, “but if you want to leave, you have to be really fleet about it because you’re mostly not going to get out.” How many foreign investors will be willing to risk their capital in a “roach motel”-style “market” in future years remains to be seen.

In a mid-July piece for *Foreign Policy* headlined “China Destroyed Its Stock Market in Order to Save It,” Patrick Chovanec went even further. He notes that the “enormously invasive measures Beijing used to stem trading losses may have damaged the Shanghai and Shenzhen exchanges for years to come.” “China’s temporary success at manipulating a share-price rebound has come at a terrible longer-term cost,” he continued. “China may have arrested the stock market’s fall by threatening to arrest sellers. But when it did that, it destroyed the town it was trying to save.”

Without question, part of the forceful yet panicked response from Beijing was aimed at more than just propping up over-valued stock prices. Perhaps more importantly, it was aimed at protecting the Communist Party’s brutal rule, with “economic growth” serving as just about its only *raison d’etre* among the Chinese public. Just last year, the party used its propaganda organs to prod everyday Chinese into investing in the stock market, promising them riches and an opportunity to partake in the “Chinese Dream.” As the bubble-market reached dramatic and clearly unsustainable highs, the dictatorship’s official mouthpieces were celebrating the beginning of a “bull market.”

Then it all came crashing down, with tens of millions of struggling Chinese having much of their savings evaporate. Many duped Chinese had even borrowed money to invest in stocks. The Chinese Communist Party, already uber-paranoid about the slightest sign of unrest or even negative comments posted online, fears that economic turmoil could produce social unrest, which could threaten its continued monopoly on power over the long-suffering Chinese people.

But ironically, it was the exact same statist philosophy underpinning Beijing’s current efforts to distort the market that produced the crash in the first place: doomed attempts at central planning, broad regime control over all aspects of the economy, manipulation of interest rates by the central bank, state-owned “companies” doing the bidding of communist officials instead of consumers, propaganda and political concerns rather than fundamentals guiding investment decisions, and much more. The notion that stepping up the anti-market scheming will somehow produce prosperity or mask reality this time is as fatally flawed as it was when it helped inflate the real-estate and stock bubbles to begin with.

Of course, some of the radical schemes taken by the dictatorship — especially when it comes to manipulating the market using central-banking gimmicks — are remarkably similar to actions taken by Western governments and central banks during the 2008 financial crisis. And while those measures may have prolonged the inevitable by inflating new bubbles and propping up various asset prices, economic laws and reality can be kept at bay for only so long. Eventually, the whole house of cards is likely to come crashing down, transferring vast amounts of wealth from the poor and middle class to the ruling establishment while setting the stage for even more tyranny and monetary lunacy.

The solutions to the ongoing market turmoil in China are the same as what is needed to restore economic health to the United States and Europe: genuine free markets, limited government, and sound money. Unfortunately, as the economic crises continue to appear and grow, the very forces responsible for the debacles — central bankers, central planners, and politicians — will almost certainly blame what little remains of the free market for the chaos. In the meantime, Americans should educate themselves and others so that if and when a cataclysmic economic collapse comes, false solutions can be avoided and perpetrators can be held accountable.

Alex Newman, a foreign correspondent for The New American*, is normally based in Europe. He can be reached at anewman@thenewamerican.com. Follow him on Twitter @ALEXNEWMAN_JOU.*

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