

China is Changing the Rules of Capitalism

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The Chinese are a smug bunch. Everywhere else in the world, invasions led the local population to become more like their overlords. Even today, European languages are spoken in former colonies. And their systems of government resemble who conquered them.

But in China, invaders became like the Chinese instead. They're absorbed into China's superior culture, the Chinese like to claim.

The Mongols are the prime example. Although that's not a surprise given the Mongol life at the time of invasion. But the medieval Japanese shoguns had ambitions to rule China in the image of a Chinese emperor too.

A few years ago I met the granddaughter of an owner of the Shanghai Stock Exchange – the version the Communists took away after World War 2. She tried to explain why capitalism wouldn't work in China. At least not the original version of it. The ideology of the West would have to adapt its teachings to China, she told me in her Mercedes. I didn't want to mention Taiwan.

Her argument was that [China is simply too different](#). It won't change to suit the West. The West's institutions will have to adapt to China, not vice versa.

Well the Chinese have been proven right once again

The current standard bearer of the Western ideology of Capitalism – index investing – has bent its iron back to the bamboo way. 222 Chinese shares made it into the MSCI indices on their fourth attempt. MSCI decided to overlook some concerning aspects of the Chinese stockmarket. But it ain't over yet.

Bloomberg quoted an investment strategist on the culture shock that awaits Western firms. He said [international](#) investors would be tamed like the ancient Han Chinese tamed the Mongol warriors who conquered them. Any Westerners who want in on the Chinese stock exchange will have to go local.

And tamed they will be if they do. China's version of a stockmarket is a little odd. Stocks can't go up or down more than 10%. During the crash of 2015, more than 40% of stocks were suspended from trading. And when it comes time to get your money out of China, well you'll have to ask nicely.

The Chinese are of course wrong about capitalism. It isn't culture dependent and any attempt to twist it has bad consequences. [Crashes happen for a reason](#) and covering them up doesn't make that reason disappear. More importantly, capitalism doesn't lend itself well to the sort of PR stunts that a totalitarian regime needs to survive. It's a system of accountability.

Even at the height of Communism in China, undercover capitalism kept people from starving. The Chinese understand capitalism better than anyone.

What's going on in France?

The German newspaper Der Spiegel is celebrating French president Emmanuel Macron's new ministerial appointments. The British Financial Times puts it differently by pointing out that the Macron government has lost four ministers to resignation since Monday. That has to be a record.

It turns out that Macron's brand spanking new government is in fact a dodgy coalition with a dodgy party led by dodgy people who are being investigated over dodgy practices in the dodgy EU Parliament. The investigations are over misuse of payments for assistants, which is French for... never mind.

Why isn't the British media all over this? So far the French have made Theresa May's government look stable and Donald Trump's consistent. But Macron is the poster boy of a [rejuvenated EU](#)!?

Isn't it strange how normal it seems for politicians to resign thanks to investigations of their expenses. We're no longer surprised by it at all.

The electric car paradox

Analysts at the investment bank Morgan Stanley are on the record: 70% of European car sales will be electric by 2050.

This doesn't seem like much of a punt given the German states voted to ban new fossil fuel cars by 2030.

Over in the bicycle land of Denmark, just one border away, they have other ideas. Sales of electric cars and plug-in hybrids fell 60%, including a 94% drop in Tesla sales. Oops.

You won't be called a genius for figuring out what happened. Imported cars in Denmark are taxed at not 10%, not 20% but 180%. Electric vehicles were spared this absurd duty until the first quarter of 2017. On the newly-level playing field described by the Danish prime minister, electric cars can't compete.

But that doesn't mean Morgan Stanley will be wrong. The question is whether the Europeans can afford to subsidise their way to electric cars. Or will battery power compete on its own by then?

And who is going to build another Germany's worth of power plants in 30 years? What sort of power will they be with nuclear off the list?

One thing's for sure

Investors are taking an awful punt with Tesla shares. The company is now worth more than BMW, General Motors and Ford. But it's entirely reliant on vast subsidies in a world where governments are overindebted. Not to mention that the old guard of car companies have their own electric car fleets in the pipeline.

[But there might be even bigger changes on the horizon.](#) Why own a car at all? The one you do own is too big or too small most of the time. Sometimes an electrically charged car will get you there and back without a problem, but other times it could run out of "gas" less than halfway through your driving holiday. Worst of all, your car spends most of its time in the garage, often costing you parking fees. It could be earning you money by driving tourists around the city.

Cars aren't the only thing set to change by 2050. How we use them could change even more.

Until next time,

Nick Hubble
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