1 *The Coup*

Li Keqiang, China's premier and second-ranking member of its Communist Party, stares in horror at the Reuters Chinese-language feed on his computer screen. He is reading a press release by the US Securities and Exchange Commission (SEC) announcing the imminent suspension of trading on all US exchanges of the securities issued by five of the Chinese companies with the highest capital valuations in the American markets. The reason given is that the SEC lacks confidence in the veracity of the financial information those companies supply to investors. The suspension will last from 9:30 a.m. Eastern Standard Time on Monday, 28 March, to 11:59 p.m. EST on Friday, 8 April.

Since the first China-registered company was admitted to listing on the New York Stock Exchange in 1992, nearly two hundred more have been listed on major US exchanges, raising tens of billions of dollars each year. For investors, a US listing carries with it the assumption that US rules and regulatory oversight apply, but when it comes to Chinese companies, that simply is not true. Beijing routinely blocks the efforts of the US Public Company Accounting Oversight Board (PCAOB) to gain access to the accounts of these companies held in China and the right to inspect their assets, so that it can verify the information they supply. Chinese law requires that financial records remain in China, and Beijing restricts access to accounting information, citing national security and state secrecy.

The US Congress has long been indignant that Chinese companies should be permitted to access the US capital markets, and apparently mislead American investors, while obstructing the legitimate demands of the SEC. The indignation is all the greater because US competitors of these companies have been subjected to discrimination or outright bans in China.

When US President Barack Obama urged President Xi Jinping to change Chinese law to allow disclosure, he refused and used a joint press conference with the US president to make clear how strongly he resented the pressure. On this issue, he has overridden the advice of Li and others, because he believes that China is now strong enough to defy attempts by the United States to influence Chinese law making.

Li has no illusions about Chinese financial and reporting standards. The scandals are legendary. He remembers the case of Sino Forest, which overstated the value of its forests in Yunnan by US$900 million, and Luckin Coffee, whose share price lost $5.5 billion when it was revealed that 40 percent of its sales had been fabricated in one quarter.[1] Over the years, US regulators have acted against Chinese companies for problems of financial information, and dozens have been delisted, but never companies of such size as those now suspended for noncompliance, whose total capitalization is well over one trillion US dollars. They have been out of compliance for three years, so their time is up.

Li is all too aware that three weeks ago an international consortium of news media, consisting of the *New York Times,* the *Asahi*

Shimbun in Tokyo, *The Guardian* in London, and the *Süddeutsche Zeitung* in Munich, featured front-page reports based on leaked documents that show that the accounts of two of the five, ChinaPay and JieChu, contained "material inaccuracies." These companies are both leaders in China's financial services. They are highly innovative and have achieved phenomenal growth for a decade by financing China's private sector corporate borrowers, which are ill served by the state-owned banks, and depositors, who are denied a proper rate of return by those banks. They harness fintech brilliantly, but have engaged in shadow banking, taking risks they have concealed from the financial regulators, except for those whose complicity they have bought with large bribes. Naturally, the companies have denied the accusations just published, denouncing the documents as forgeries. The SEC has responded by saying that if they will grant the PCAOB full access to their books, the truth or falsehood of the allegations can be established.

Legislation was passed in 2020 designed to ensure that all companies on American stock exchanges, whether registered in the United States or abroad, that fail to comply with US disclosure requirements for three consecutive years are liable to be delisted from US stock exchanges.[2] Since the revelations about ChinaPay, JieChu and the other three Chinese companies, the SEC and the White House have come under renewed pressure from congressional leaders to enforce this law, starting with these cases.

As Sino-American relations have deteriorated, pressure has mounted for the United States to adopt other measures to harden its stance towards China in the financial field. Leading members of Congress such as Senator Marco Rubio of Florida have for some years been pointing out that pension plans of everyday Americans are heavily invested in companies that serve the Chinese Communist

Party and, they argue, are furthering the regime's efforts to undermine the United States. In 2019, former Chinese Finance Minister Lou Jiwei warned of a "financial war" between China and the United States using "long-arm jurisdiction," and his prediction was validated a few months later, when President Trump ordered the main pension fund of the US government to stop investing in Chinese equities.[3] In June 2020, the President went further when he ordered his Working Group on Financial Markets to make "recommendations for additional actions the SEC or any other Federal agency or department should take as a means to protect investors in Chinese companies, or companies from other countries that do not comply with United States securities laws and investor protections." This raised the specter of far wider sanctions, including a ban on *all* American pension funds investing in Chinese corporations.[4]

The deeper background is that American enthusiasm for trade and investment in China has waned, and hopes that economic reform would lead to political change in China have collapsed. According to current assessments, economic reform has stalled because China's leaders fear it will undermine their grip on power. American enthusiasm has turned to hostility due to a growing recognition that China is:

- forcing US companies to hand over intellectual property to joint-venture partners,
- engaging in state-directed cyber theft of American intellectual property on a scale unprecedented in history,
- imprisoning over a million Uighurs for "thought reform" in Xinjiang,
- abolishing freedom and the rule of law in Hong Kong,

- building and militarizing islands in the South China Sea in order to turn this key international trade route into "a Chinese lake," in defiance of international law.[5]

The initial coverup of the outbreak of coronavirus in Wuhan has convinced Americans that the Communist leaders of China cannot be trusted.

All this has caused a profound sea change in American opinion towards China. This is evident not just in the executive branch of government but across the Republican-Democrat divide in Congress, in the media, in large corporations,[6] and in universities. Increasingly public opinion leaders take the view that the Chinese Communist regime—as distinct from the Chinese people—has been using weapons of economic warfare and regional military power in pursuit of political supremacy on the world stage.

In this highly charged climate, the SEC has decided to suspend, initially for the standard period of ten business days, ChinaPay and JieChu and the other three big companies that have failed to comply with its demands for access. It further puts on notice *all* Chinese companies whose securities are being traded on US exchanges: *provide assurances within ten business days that you too will grant the SEC immediate access to your accounts held in China, or you too will face suspension.*

Shaken, Li summons Wang Yang by phone to discuss the ominous announcement. Wang ranks fourth in the Party hierarchy. He is Li's closest political ally. Before Xi made clear his opposition to radical economic reform and political liberalization, Wang had worked daringly for both, as Party chief in China's richest and most populous province, Guangdong. Soon after Xi Jinping had assumed office, Li and Wang became convinced that Xi's policies were causing the

Party to overreach at home, and China to overreach abroad. They shared their misgivings with each other but concealed them from others, prudently thinking one thing and saying another. As time passed their misgivings turned to alarm, and eventually they understood that some other members of the Politburo shared that alarm. But Xi had centralized decision making in his own hands and was deaf to all voices of caution.

Waiting for Wang, Li ponders the wider context of the confrontation with the SEC in its wider context. He knows well that over the past decade, the China strategy of successive US presidents has rotated 180 degrees, from benign engagement to hostility. Obama's mostly symbolic "Pivot to Asia" in 2010 was succeeded by the very real trade war launched by Trump. After a clumsy start, the United States assembled a team with a sophisticated understanding of geoeconomic warfare. In response to "Made in China 2025," a blueprint to upgrade the manufacturing capabilities of Chinese industries, the Americans began systematically blocking China's acquisition of technologies needed to catch up and overtake them in the fields of artificial intelligence and quantum computing. More fundamentally, their strategy is based on recognition of where the true fighting strength of the US and other liberal economies lies, above all in the markets for capital and currencies, and where their defenses are weak, as in the field of cyber warfare, the supply of rare earth minerals, and the manufacture of active ingredients for generic medicines.

The SEC suspension of Chinese companies on US exchanges is an initiative by an autonomous agency, but what neither the SEC nor China's premier knows is that the documents published in the international press have been "acquired" by US intelligence agencies and fed to the press through an independent-seeming third party. Taking its lead from the White House and a Congress united on this issue, the US government is escalating the Sino-American economic war from trade and investment in goods and technology to action against China in the field of capital markets.

For years now, Li and Wang have recognized that China is on a collision course with what is still, by a wide margin, the world's most powerful nation. Trump's catalog of mistakes in dealing with allies and rivals alike has diminished America's standing around the world, again and again playing into the hands of its detractors, but Li and Wang are well aware of the factors that have produced the sea change in American attitudes towards China and caused even Europeans to question their readiness to subordinate political values to supposed economic advantage in dealing with China. Besides, Li and Wang understand very well that economically, militarily, and politically the United States still far outweighs China. A radical rethink of strategy has long been essential. But Xi is in thrall to a vision of himself as the strong man who would resist the calls for political reform at home and confront the United States and its allies abroad. At home, he has put his faith in the Social Credit System, which will soon be ready for nationwide application, to strengthen "the dictatorship of the people," oblivious to its impotence to defend the Chinese financial system from its fatal weaknesses. In Sino-American relations, Xi, in Li's view, is autistic: he is unable to grasp that across the political spectrum US attitudes have undergone a sea change, and China must adjust its strategy in response.

When Wang joins Li, the two men sit side by side on a sofa, with notepads on the low table in front of them, on which they can silently communicate their more controversial thoughts. They present a contrast with the man who dominates their thoughts, Xi Jinping. Xi is a "princeling," the son of a leader of the first generation of revolutionaries; his career was jump-started by his family connections. Li and Wang had to rely on their own talents: Li's father was a mid-level official and Wang's a manual laborer. Xi stands almost six feet tall. His jowls are heavy, and he is overweight; a photograph of Xi walking beside President Obama juxtaposed with a Disney image of Winnie the Pooh walking with his friend Tigger went viral in China, until banned by censors.[7] During a three-nation tour of Europe in 2019, he walked with a slight limp and seemed to be suffering from a back problem. Li is 5 feet 9 inches in height, slim and agile. The eyes behind his rimless spectacles are always alert, and his mobile face breaks easily into a smile. Wang is about the same height as Li, with a relaxed, urbane manner. He avoids the stilted language of many of his peers and has the self-confidence to joke with foreign journalists; his eyes are shrewd and his black hair elegantly grey at the temples.

Li and Wang were both born in 1955 and Xi in 1953, so all three were young adults in the heady, hope-fueled years of the early 1980s, when, to the young at least, China's future, political as well as economic, seemed open. Li was a brilliant student, an outstanding member of the renowned "class of 1982." This class had passed one of the most competitive exams in the history of China and would produce some of the nation's most talented people in a wide array of fields. For the first time since 1949, students were free to read and absorb ideas and knowledge from around the world. Li seized the opportunities to study the laws and institutions of liberal democracy,[8] and his PhD in economics covered privatization and capital markets, highly controversial subjects at the time.[9] Xi's academic record was undistinguished, his undergraduate studies were in the politically neutral field of chemical engineering, and he has been credibly accused of having plagiarized his PhD thesis.[10]

Li leads the discussion with Wang: "If Comrade Jinping wants to defuse this confrontation, he can use his authority as president to waive the law that prohibits our companies from granting this access. As general secretary he can instruct the Party cells in the companies to ensure they comply with the SEC's demand. Responsibility for compliance or failure to do so lies fairly and squarely with him. But he won't, will he?"

"No," Wang agrees, "he will see this as a contest of wills, and it will reinforce his conviction that he is the strong man defending our regime against all its enemies, at home and abroad. Of course, in the short term the suspension is going to disrupt American markets and hit international investors. But in the longer term it will strike a far harder blow on our companies. Until the SEC is satisfied, US exchanges won't trade their existing securities, or admit new ones, and our companies need access to the US capital markets to finance their international operations. If they they move to Hong Kong, the long arm of American finance and law will reach them there too." What Wang and Li know, but Wang does not say, is that the rich and powerful of China benefit hugely from these operations. By listing their companies overseas and in Hong Kong, China's business elites, and by extension their political associates, have effectively put billions of dollars of assets beyond the country's capital controls. Apart from their legitimate business expenses, they can use some of the dollars they raise to reward their political friends for past favors or buy future ones; they can finance their children's education overseas; they can create a store of wealth safe from domestic political risks and beyond the reach of anticorruption investigators and their enemies within China's borders.

"Yes," says Li, "and this is just the latest step in the long-term American offensive against us. If this confrontation is not resolved, the Americans will escalate. You and I have studied their options. We have discussed this at length. We know that if they block us from their markets in capital and currencies, and from their banking system, it will be devastating for us."

"When trading opens on Monday," says Wang, "there will be heavy selling on our stock markets. The kind of intervention we organized in 2015 will not stabilize the market for long because the trigger for the crisis now is not domestic but international; and it is not only a matter of market sentiment but of legal sanctions."[11]

"You and I know," responds Li, "that this drama on the market is not going to play out in isolation. On Monday, a collapse of stock market prices will trigger a chain reaction that will turn a bad situation into a full-scale crisis. You and I have anticipated such a crisis for years, without knowing what would trigger it. Now we do know. The rice is almost cooked."

That homely phrase, spoken in a low voice, crashes like thunder in Wang's ear.

"Indeed," responds Wang. It is all he needs to say. The seemingly innocuous phrase "the rice is cooked" is a code agreed between them for implementing an audacious contingency plan they have worked out over the past few years. These men recognized that China's economic slowdown was taking place in an environment poisoned by an array of deep-seated problems, political, social, and moral, which would interact at some point to cause a crisis. They have long resolved to be ready to seize that moment to move against Xi Jinping himself. Nothing less offers an escape from the dead end in which his policies have trapped China. His China Dream is a waking nightmare.

Their objective is not a simple change of leaders. They have come to the conclusion that many of China's problems have arisen