THE DREARY AND THE DRAMATIC: WHAT HAPPENED TO CHINA'S PLATFORM ECONOMY?

Rogier Creemers

It is no coincidence that Desmond Shum's *Red Roulette* has been one of the most popular books among China watchers to come out in recent years. For many of us, his lurid descriptions of the drama and debauchery taking place among the great and gilded in Beijing are as thrilling as *The Godfather*, a real-life version of *Downton Abbey* (or perhaps, more appropriately, *Crazy Rich Asians*)—a professionally justifiable guilty pleasure. Yet such depictions also often come with an almost conspiratorial tone, in which the *real* drivers of Chinese government decision-making are the personal interests of senior Party leaders and their cliques of hangers-on, and the backstabbery going on between them.

One of the most fertile grounds for such personalised speculation in recent years has been the regulatory offensive against the platform economy. Why, for instance, did Jack Ma 马云 disappear from public view for three months after the Ant Financial IPO—slated to be the largest in history—was cancelled?[1] Did Xi Jinping personally axe the deal because Jiang Zemin's grandson, Jiang Zhicheng 江志成, was a major investor through Boyu Capital, a private equity firm he co-founded, as one shot in a larger, internecine battle?[2] Did Tencent get into trouble, as an academic colleague attempted to convince me at a conference, because it had been prominently posting information favourable to Li Keqiang in the run-up to the 20th Party Congress? What happened to Bao Fan 包凡, the rainmaker for big tech investment deals, who resurfaced in early March 2023 after being reported as missing by his firm in late February? It was subsequently revealed that he is assisting authorities with an inquiry into Cong Lin, the former president of Renaissance Holdings, an investment company he founded.[3]

The standard story presented by foreign news media of what became known in the West as the 'tech crackdown' is as follows.[4] Xi Jinping got angry with Jack Ma after the latter gave a speech in October 2020 to the good and the great in China's financial sector at the Bund Summit of China Finance 40, a leading economic think tank. Ma belittled regulators and government banks as being behind the times, directly opposing the message of greater regulatory prudence delivered by Wang Qishan at the same meeting, that same morning. Seeing an opportunity not just to take an uppity Ma down a peg but also to take a swing at the interests of the Jiang family, Xi killed

off the Ant Financial IPO and, for good measure, fired off a barrage of rules to constrain other platform companies and ensure absolute Party control over the digital sector. Predictably, this crackdown has gone too far. Faced with catastrophic consequences in the platform economy,[5] and economic malaise across the board, the leadership is now seeking ways to roll it back and return to growth.[6]

Jack Ma disappeared from public view after the Ant Financial IPO
Source: Paul Kagame, Flickr

This common narrative attempts to provide an explanation for something Western observers have found difficult to fathom: why would China inflict so much damage on the most innovative sector of its economy? Moreover, it is an explanation that confirms our prior assumptions: authoritarian states are going to do authoritarian things, Xi Jinping is the puppet master of the entire Party apparat, Chinese policy decisions are primarily taken in view of top leaders' personal political interests, and as long as those decisions diverge from the dictates of neoliberal market economics, they are predictably misguided and incompetent.

The problem with that story, however, is that it is highly selective in many instances and plain incorrect in others. This regulatory wave was not a sudden whim of Xi Jinping's but had been in preparation for quite some time. The drafting of the Personal Information Protection Law 个人信息保护法, for instance, started in 2018.[7] In 2019, the State Council published a document outlining the problems and abuses it saw existing within the platform economy, and listing the regulatory tasks intended to be undertaken as well as the ministries to which those would be assigned.[8] In other words, anyone claiming that the regulatory offensive came from nowhere simply was not paying attention.

The problems identified in this 2019 document and elsewhere are real. For example, the success of platform companies depends on legions of immiserated delivery drivers and gig workers, as well as overworked programmers and software engineers.[9] Third-party merchants, reliant on platform firms for their businesses, suffer from onerous contract obligations and monopolistic practices.[10] Telecommunications fraud, enabled by platform firms' lax data protection practices, is rife.[11] Poor risk management practices in fintech (i.e. financial technology) had already caused the meltdown of the P2P (i.e. peer to peer) lending industry, evaporating the savings of millions of retail investors.[12] Stricter regulations on the fintech industry were already being drafted, and it is scarcely believable that Jack Ma and Ant's legal department did not have a fairly solid understanding of what the new requirements were, or how they would affect Ant's business operations. If that is the case, Jack Ma's speech was not the trigger for central authorities to embark on regulatory measures they otherwise would not have. Rather, it might have been an unsuccessful last-ditch effort to use his personal influence to stave off regulatory interventions that would damage Ant's profitability and Ma's wealth, and one that only slightly accelerated moves that would have happened in any case.

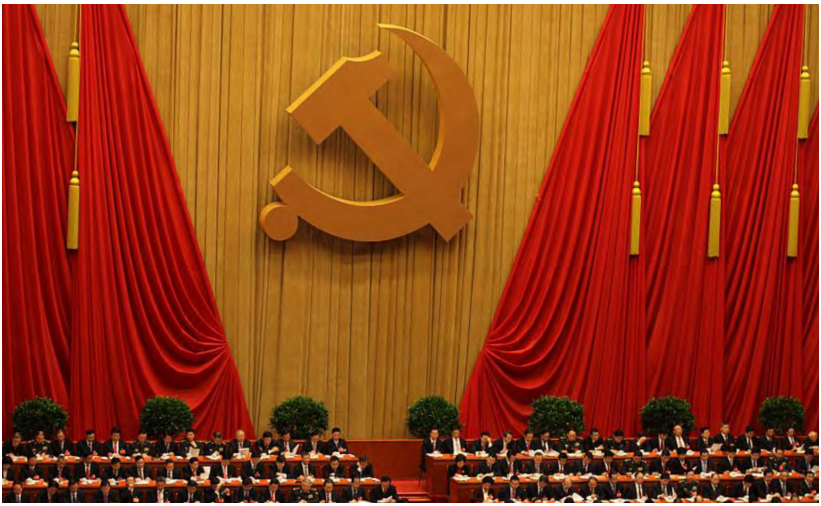
Those elements are, however, far less dramatic and eye-catching than the disappearance or detention of high-profile CEOs or gossip about palace intrigue. Moreover, to assess them requires consistent engagement with the drudgery of analysing Chinese policy and regulatory documents—a Calvary the great Belgian Sinologist Simon Leys (Pierre Ryckmans) memorably

described as 'akin to munching rhinoceros sausage, or to swallowing sawdust by the bucketful'.[13] Doing so reveals a stack of dozens of texts, issued by multiple Party and government organs, which paint a somewhat more complex picture, where there is no single discernible cause or motivation, nor even clear evidence of much interagency coordination. Regulations in fintech, for instance, have evolved nearly in parallel with interventions in the realm of competition, or protection for consumers and workers more generally.[14] Some of the fintech rules resemble market regulation initiatives undertaken elsewhere, most notably in the European Union. The Personal Information Protection Law, for instance, reproduces many of the General Data Protection Regulation's (GDPR) terms, concepts and mechanisms, defining largely similar legal grounds for personal information processing, introducing similar procedures for data transfer abroad, and imposing similar levels of punishment for violations.[15] New Chinese regulations on competition in the platform sector contain similar definitions for large-scale 'gatekeepers' to Europe's Digital Markets Act.[16]

Traversing the turgid prose of such documents is time-consuming. Journalists, think tank experts and even academics are rarely able to concentrate on tracing single policy areas across time, beholden as they are to the demands of their editors, to news cycles and to the demands of immediate hot takes. The Chinese written language, too, forms a layer of encryption: many non-native readers (myself included) simply process Chinese documents far more slowly than texts in English. In those circumstances, it is easier to reach for a standard narrative, spice it up with details of the latest scandal, and serve while it is piping hot. Deep engagement with the matter at hand does not necessarily carry a reward: 'Chinese regulators attempt incremental improvement of working conditions for gig workers' is a far less attractive headline than 'Xi Jinping assaults Jack Ma's empire'.

Doing the work requires taking Chinese policy thinking around certain questions seriously, and recognising that it might diverge from Western instincts for reasons other than the wielding of blunt authoritarian power. Consumer-oriented online services might be seen as the pinnacle of innovation in the United States, but policy-makers in Beijing disagree somewhat. Beijing recognises that big tech has contributed in no small way to enhancing the

convenience of Chinese citizens' daily lives but, at the same time, does not believe that it makes a durable contribution to the fundamental qualities of the Chinese economy. Instead, China's techno-industrial policy under the Fourteenth Five-Year Plan (2021–25) focuses on upgrading the efficiency and productivity of the manufacturing industry.[17] Platform firms are expected to support that effort, for instance, by providing innovative services in logistics and supply chain management. Cryptocurrencies, in the eyes of Chinese regulators, moreover, are mere vehicles for non-productive speculation and law-breaking, and consume vast amounts of electricity to boot.[18] No wonder they have now been banned completely.



Chinese authorities view the fintech sector as highly important and therefore in need of effective and strict regulation
Source: Dong Fang, Wikimedia

Beijing's willingness to damage the fintech sector, which has lost more than US$2 trillion in market capitalisation, for instance, becomes a lot more explicable when it is recognised that nearly all publicly traded Chinese fintech companies are listed on stock exchanges outside mainland China. The shareholders receiving a haircut are therefore far less Chinese than one might initially think. However, to admit that Chinese authorities might have

good reasons for acting in the way they do implies that the Western political and economic model is not universally applicable, and undermines an easy dismissal of Chinese policy solutions. The fact is that China acts in many ways similar to, say, the European Union, and the bureaucracy in Beijing is beset by the same pathologies that trouble Washington, Brussels, Canberra or any other capital.

A similar problem lies in discussions of the 'end of the crackdown'. This phrase seems to imply that the regulatory campaign was temporary and that the normal order of business will resume. This is incorrect: it is better to understand what happened as a 'rectification': the introduction of a new governance paradigm for a sector that Chinese authorities view as highly important and therefore in need of effective and strict regulation. Safety requirements in cars are not an effort to stop people driving but to ensure they are not killed or maimed so often while doing so. Not only are the new rules here to stay but so also are the structures designed to enforce them. The State Administration of Market Regulation, China's relatively new competition regulator, has established a new Anti-Monopoly Bureau and hired scores of new enforcement personnel.[19]

The definitive end of this rectification came in the northern summer of 2023. Regulators imposed fines of RMB 7 and 3 billion respectively on Ant Financial and Tencent for a series of regulatory infractions.[20] Ant was also ordered to shut down its mutual-aid insurance arm Xuxiangbao. In an accompanying statement, the People's Bank of China stated that 'most of the prominent problems in the financial business of platform enterprises have been corrected' and that it would now focus on everyday supervision rather than major regulatory overhauls. In the subsequent weeks, a series of events demonstrated that the platform economy was back in Beijing's good graces. Premier Li Qiang 李強 hosted a seminar on the sector's 'healthy and sustained development' attended by the CEOs of Meituan, Xiaohongshu, Huolala, Alibaba Cloud, Douyin, Pinduoduo and JD.com, among others. This was the first time the premier had directly met platform companies since 2019. The policy measure was, however, clear: in his speech, Li highlighted the sector's potential but also called on platform companies to invest more in research and development, particularly of 'core' technologies, to integrate

with manufacturing businesses and develop the industrial internet.[21] In return, government would increase investment, streamline bureaucratic procedures, and maintain regulatory predictability. This proposed *quid pro quo* was formalised in a Central Committee and State Council policy document on the development of the private economy published a week after this conference.[22] The Beijing municipal government subsequently published draft policies to support the platform economy, which included faster licensing procedures, relaxed codes of conduct for live-streamers, and the establishment of demonstration zones for best business practices.[23] Interestingly, the measures also announced a higher level of 'error tolerance', under which companies would be warned earlier and given more time to redress identified compliance issues. The State Administration of Market Regulation, too, has signalled that it will regularise oversight to avoid sudden actions that disrupt normal operations.[24]

However, none of these measures should be taken as evidence that Chinese authorities intend to roll back any of the measures that were introduced. If that results in the sector's profitability being permanently depressed, so be it: those profits would have come from unsustainable or undesirable practices anyway. Instead, the platform economy is encouraged to move towards practices that policy-makers are in greater favour of, particularly the industrial policies included in the Fourteenth Five-Year Plan, which focus on using digital capabilities to upgrade the manufacturing sector, and on supporting strategic and emerging technologies. One can reasonably disagree with that logic, but we need to recognise why it exists in the first place.

The inability or unwillingness of much Western commentary and analysis to engage with the drudgery of deep policy analysis relates both to our human fondness for a good yarn and to a predisposition for making sense of China in ways that are psychologically comfortable to those of us who closely identify with the Western liberal order. However, that comes at a cost: we are less able to make sense of the Communist Party of China's motivations and actions. This influences not only our direct engagement with China but also the broader world with which it is inextricably intertwined.

This text is taken from *China Story Yearbook: China's New Era*, edited by Annie Luman Ren and Ben Hillman, published 2024 by ANU Press, The Australian National University, Canberra, Australia.

doi.org/10.22459/CSY.2024.02A