China’s Rectification of Tech (and much more)

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# Dizzying Array of Party/Government Initiatives

<table>
<thead>
<tr>
<th>Platform Companies</th>
<th>Finance</th>
<th>Internet Content/Ideology</th>
<th>Inequality/Common Prosperity</th>
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<tbody>
<tr>
<td>• Cancel Ant Group IPO</td>
<td>• Real estate credit contraction</td>
<td>• Regulations on algorithms</td>
<td>• Eliminate for-profit tutoring sector</td>
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<td>• Didi cyber crackdown/overseas listings</td>
<td>• Cryptocurrency ban</td>
<td>• Restricting games and celebrity fan culture</td>
<td>• Involuntary philanthropy</td>
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<td>• Antitrust push</td>
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<td>• Heteronormative rules</td>
<td>• Tax evasion crackdown</td>
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<td>• Privacy law</td>
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<td>• Labor rules for tech workers and gig economy</td>
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<td>• Tech CEO departures</td>
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Making Sense of the Storm

• Pressure long building inside China to end “Wild West under an authoritarian regime.”
• Progress slow until Jack Ma speech breaks the dam in October 2020
  • Changes political cost/benefit of tech regulations
  • Most rules are result of years of debate and careful thinking
• Many specific goals and policies would be welcomed in US/Europe
  • Consider major tech platforms as essential
  • Rules on “accumulation of data”
  • “Barring unfair methods of competition on Internet marketplaces”
• Represents major break, a new regime with more party control of the economy and online space
Politics in the Driver’s Seat

- Length of campaign and extent are unknown. Doubt there is a master plan in Zhongnanhai with clear sector list
  - Politburo: “Prevent the disorderly expansion of capital” and take on monopolies (December 2020)
  - Common Prosperity (August 2021) focus on inequality
- Bureaucracy dynamically formulates specifics to implement high level guidance
- Consistent with longstanding patterns in Chinese political economy
  - Campaign-style crackdowns after lax regulation, shift in regime (Ang)
  - Big moves before major Party Congresses (Naughton and Blanchette)
  - Shift towards more granular industrial policy, “grand steerage” (Naughton)
- Still early innings: one year until the 20th Party Congress
Impact on Private Sector and Economy

• China needs to rely more on productivity for future growth. Returns on capital, working age population are in decline
• Decline in big tech market value is ambiguous signal
  • Too little data so far to see impact on investment or innovation
  • Campaign’s public perception is generally positive
• Not seen measures rebalancing economy towards SOEs
• Potential growth-boosting factors
  • Party thinks anti-monopoly push will increase innovation and LT growth through better capital allocation and competition
  • Smaller firms and “hard tech” may benefit
More concerning direction detrimental to growth?

• Government actions with negative growth consequences
  • Taking direct board seats/stakes in companies
  • Forced contributions instead of productive investment
  • Nationalizing tech firm data
  • Real estate credit crunch
  • Environmental policy
  • Rapidity and scope of campaign raise risk of unintended consequences
  • Shrinking space for criticism cuts off feedback mechanism

• Similar further actions may signal a more aggressive and damaging campaign is coming
Current Narrative Overstates Economic Hit

• Base case:
  • Short-term moderate hit to growth until uncertainty subsides
  • Significant downside risk in the medium term

• What impact on rest of the world?
  • Reduced access to China’s market as it doubles down on self-reliance
  • Chinese market slowdown would negatively impact supplier countries and global economy
  • If campaign slows CN innovation, gives US and allies more time to maintain technology capability gap
  • Increased tension with trading partners, especially US