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China's Rectification of Tech (and much more)

Martin Chorzempa

October 4, 2021

Presented at Fall 2021 Global Economic Prospects

1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

Dizzying Array of Party/Government Initiatives

Platform Companies

- Cancel Ant Group IPO
- Didi cyber crackdown/overseas listings
- Antitrust push
- Privacy law
- Labor rules for tech workers and gig economy
- Tech CEO departures

Finance

- Real estate credit contraction
- Cryptocurrency ban

Internet Content/Ideology

- Regulations on algorithms
- Restricting games and celebrity fan culture
- Heteronormative rules

Inequality/Common Prosperity

- Eliminate for-profit tutoring sector
- Involuntary philanthropy
- Tax evasion crackdown

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



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Thank you!

Martin Chorzempa

mchorzempa@piie.com

@ChorzempaMartin

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