

China tightens political control of internet giants

October 3 2021, by Joe McDonald and Zen Soo



Chinese President Xi Jinping, center, walks past a guard of honor while visiting the Monument to the People's Heroes during a ceremony to mark Martyr's Day at Tiananmen Square in Beijing, Thursday, Sept. 30, 2021. Xi paid respects at a solemn commemoration for those who died in the struggle to establish Communist Party rule, as he leads a national drive to reinforce patriotism and single-party authority. Credit: AP Photo/Andy Wong

The ruling Communist Party is tightening political control over China's internet giants and tapping their wealth to pay for its ambitions to reduce reliance on U.S. and European technology.

Anti-monopoly and data security crackdowns starting in late 2020 have shaken the industry, which flourished for two decades with little regulation. Investor jitters have knocked more than \$1.3 trillion off the total market value of e-commerce platform Alibaba, games and social media operator Tencent and other tech giants.

The party says anti-monopoly enforcement will be a priority through 2025. It says competition will help create jobs and raise living standards.

President Xi Jinping's government seems likely to stay the course even if [economic growth](#) suffers, say businesspeople, lawyers and economists. "These companies are [world leaders](#) in their sectors in innovation, and yet the leadership is willing to squash them all," said Mark Williams, chief Asia economist for Capital Economics.

The crackdown reflects Xi's public emphasis on reviving the party's "original mission" of leading economic and social development, said Steve Tsang, a Chinese politics specialist at the School of Oriental and African Studies in London. He said it could also help Xi politically if, as expected, he pursues a third five-year term as party leader.

Chinese leaders don't want to reimpose direct control of the economy but want private sector companies to align with ruling party plans, said Lester Ross, head of the Beijing office of law firm WilmerHale.

"What they are worried about is companies getting too big and too independent of the party," said Ross.



Chinese President Xi Jinping, center, with Premier Li Keqiang, right, walks past wreaths of flowers and a member of an honor guard after he paid respects to the Monument to the People's Heroes during a ceremony to mark Martyr's Day at Tiananmen Square in Beijing, Thursday, Sept. 30, 2021. Credit: AP Photo/Andy Wong

Chinese internet companies and their billionaire founders, including Alibaba Group's Jack Ma and Tencent Holdings' Pony Ma, are among the biggest global success stories of the past two decades. Alibaba is the biggest e-commerce company, while Tencent operates the popular WeChat messaging service.

But party plans emphasize robots, chips and other hardware, so these companies are rushing to show their loyalty by shifting billions of dollars

into those.

The ruling party's campaign is prompting warnings the world might decouple, or split into separate markets with incompatible technology. Products from China wouldn't function in the United States or Europe, and vice versa. Innovation and efficiency would suffer.

U.S. curbs on Chinese access to telecom and other technology haven't helped.

Alibaba said it will invest \$28 billion to develop operating system software, processor chips and network technology. The company has pledged \$1 billion to nurture 100,000 developers and tech startups over the next three years.

Last year, Tencent promised to invest \$70 billion in digital infrastructure. Meituan, an e-commerce, delivery and service platform, raised \$10 billion to develop self-driving vehicles and robots.

Chinese officials recognize the campaign imposes an economic cost but are unwilling to speak up, said Tsang. "Who is going to stand up and say to Xi Jinping, your policy is going to be harmful to China?"



A worker attends to a visitor at the Tencent booth during China International Fair for Trade in Services (CIFTIS) in Beijing, China on Monday, Sept. 6, 2021. Tencent Holdings Ltd., best known abroad for its WeChat messaging service, has a sprawling business empire that includes games, music and video. Credit: AP Photo/Ng Han Guan

Investors, many burned by the drop in technology shares, are keeping their money on the sidelines. Tencent's market capitalization of \$575 billion is down \$350 billion from its February peak, a decline equal to more than the total value of Nike Inc. or Pfizer Inc.

CEO Masayoshi Son of Japan's Softbank Group—an early investor in Alibaba—said on Aug. 11 he will put off new China deals. Softbank invested \$11 billion in ride-hailing service Didi Global, whose share

price has fallen by one-third since its U.S. stock market debut on July 30.

The crackdown began in November when Beijing ordered Ant Group, which grew out of Alibaba's Alipay online payments service, to postpone its stock market debut in Hong Kong and Shanghai. The company, which offers online savings and investment services, was told to scale back its plans and to install bank-style systems to vet borrowers and manage lending risks. Industry analysts cut forecasts of Ant's expected stock market value.

Meanwhile, Xi's government is tightening control over data gathered by private companies about the public—especially at Alibaba and Tencent, which have hundreds of millions of users. China's leaders see information about its 1.4 billion people as a tool for gaining insight into the public and economy—and a potential security risk in private hands.

A law that takes effect Nov. 1 establishes security standards, prohibits companies from disclosing information without customer permission and tells them to limit how much they collect. Unlike data protection laws in Western countries, the Chinese rules say nothing about limiting government or ruling party access to personal information.

Beijing also is accused of using its stockpile of data about the public in a campaign of repression against Uyghurs and other mostly Muslim minorities in China's northwestern region of Xinjiang.

"Very lax" until a few months ago, China has become "one of the most active and forceful jurisdictions in regulating the digital economy," wrote Angela Zhang, an anti-monopoly expert at the University of Hong Kong law school, in a paper this month.



A man passes by the logo for Alibaba outside the Beijing headquarters in Beijing, China, Tuesday, Aug. 24, 2021. In a statement issued late Monday, Sept. 6, 2021, Chinese prosecutors have dropped a case against a former Alibaba manager accused of sexual assault by an employee, weeks after the case caused a backlash against the e-commerce firm for the improper handling of alleged sexual misconduct. Credit: AP Photo/Ng Han Guan

In April, Alibaba was fined 18.3 billion yuan (\$2.8 billion) for offenses that included prohibiting vendors that wanted to use its platforms from dealing with Alibaba's competitors.

Units of Alibaba, Tencent, live-streaming site Kuaishou, microblogging platform Sina Weibo and social media site Xiaohongshu also have been fined for distributing sexually suggestive stickers or short videos of

children. Tencent's music service was ordered to end exclusive contracts with providers.

Beijing is also using the crackdown to narrow China's politically sensitive wealth gap by pushing tech giants to share their wealth with employees and consumers.

Didi, Meituan and other delivery and ride-hailing businesses were ordered in May to cut fees charged to drivers and improve their benefits and security. Meituan CEO Wang Xing promised to donate \$2.3 billion to environmental and social initiatives. Tencent's Ma pledged \$2 billion to charity.

Alibaba has promised to spend 100 billion yuan (\$15.5 billion) on job creation, rural development and other initiatives to support Xi's "common prosperity" campaign.

Such income redistribution plans are "reminiscent of the mass mobilization and populist strategies" of the 1950s and '60s under then-leader Mao Zedong, Zhang wrote.

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