

As China tightens regulations for businesses, there are concerns about the future of digital policies

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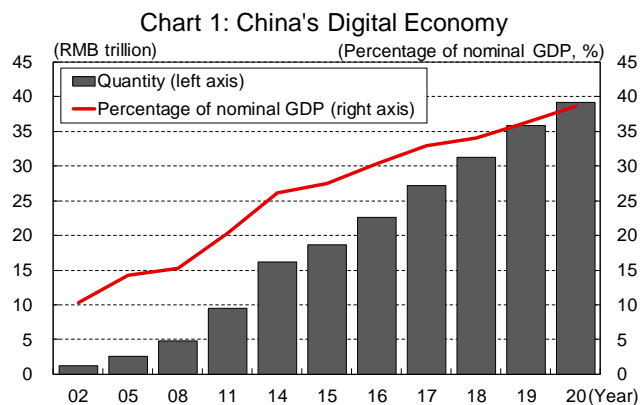
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In recent years, one of the factors supporting China's economic growth has been digitalisation. According to the China Academy of Information and Communications Technology, the size of the "digital economy" increased to RMB 39.2 trillion in 2020: around 40% of nominal GDP (Chart 1). Looking ahead, further digitalisation is expected. The Chinese government said it will use digital technology to stimulate "internal circulation", which is a cycle of technological innovation, production and consumption, in its "Dual Circulation Strategy" – the new development model that it announced at the National People's Congress in March.

At the same time, there are concerns that the government is further tightening restrictions on platform businesses. In the past, platform businesses had been the driving force behind China's rapid digitalisation, but there has been a growing realisation in recent years, including within the government, about the harmful impacts this has had, such as a loss of benefits for consumers as companies grow in size. Meanwhile, the government enacted its Antitrust Guidelines for the Platform Economy and imposed fines and other punishments on a number of large private companies based on its Antimonopoly Law (Table 1). Furthermore, after announcing it would punish major US-listed private companies for illegally collecting and using personal information in their data management, the government said it would tighten restrictions on Chinese companies listed on overseas markets. It will review regulations such as confidentiality related to listing on overseas markets and will strengthen its governance of cross-border data flow. The reason behind this appears to be the government's desire to manage various information more closely, such as customer information held by companies. The US market was considered by Chinese companies to be advantageous in terms of the amount of funding raised and several platform businesses are listed on it. However, there is an undeniable possibility that this tightening of regulations will go against the growth of platform businesses.

Although some may think this will play a part in the overall conflict between China and the US, there is a compelling view that it is in fact a change in domestic policy. While it has been free innovation by platform businesses that has driven digitalisation so far, regulations are now likely to be tightened further, especially given the amendments to the Antimonopoly Law that are scheduled before the end of the year. The Shanghai Composite Index has taken a large fall recently, which signifies the presence of a growing sense of caution about stricter regulations among investors. Therefore, special attention should be paid to the question of

how the Chinese government will balance fostering businesses' innovation and tightening regulations.



Note: "Digital economy" refers to a series of economic actions to promote improved efficiency and optimise the economic structure by using data resources productively and modern information networks as a medium
 Source: China Academy of Information and Communications Technology, MUFG Bank Economic Research Office

Table 1: China's Tightening of its Regulations for Platform Businesses

Date	Item
Dec 2020	With large platform businesses in mind, the government raised "preventing a disorderly expansion of monopolies and capital" as a major issue in 2021 at its Central Economic Work Conference
Feb 2021	Antitrust Guidelines for the Platform Economy enacted
Mar	The government said it will revise its Antimonopoly Law in its Report on the Work of the Standing Committee, delivered at the 13th National People's Congress
*	Orders 12 companies to pay fines for illegal business acquisitions related to internet companies under the Antimonopoly Law
Apr	Fined a large Chinese e-commerce company RMB18.2 billion under the Antimonopoly Law (the largest fine under this Law)
*	The State Administration for Market Regulation held an administrative guidance meeting with 34 Chinese platform businesses
Jun	General Office of the State Council released its detailed Legislative Work Plan for this year which includes revisions to the Antimonopoly Law
Jul	The State Administration for Market Regulation announced it will impose fines on 22 foreign and Chinese businesses for illegal mergers and acquisitions under the Antimonopoly Law
*	The Chinese government orders a major US-listed Chinese ride-hailing service business to suspend app downloads due to the illegal collection of private information in accordance with the Network Security Law
*	China's State Council cabinet and the Communist Party's General Secretary released Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law. It plans to strengthen management for confidentiality related to listing on overseas markets

Source: Various, MUFG Bank Economic Research Office

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