

## China's Recent Tech Regulatory Measures

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### Abstract

China's recent regulatory measures related to large technology-led companies have raised questions about its future economic growth trajectory and relations between the Government and the private sector. The measures pertain to diverse industry sectors, aiming at different objectives such as national security, data protection, changing undesired consumer behaviours, and curbing monopolies, among others. Over the longer run, the Chinese measures are aimed in part at reforming and strengthening the tech sector which would have a salutary impact on business operations, corporate governance and customer confidence accompanied by a deleterious impact on innovation and normal entrepreneurial activity. With more sectors coming under the purview of stricter state regulatory actions, the goal of 'common prosperity' assumes overtones of curtailing unbridled wealth growth rather than raising incomes to achieve inclusivity. The implications for Indian industry – both positive and negative - would play out in equity and financial markets as well as its startup sector, and the global ripples might impact its economic resilience.

### Keywords

China, technology, China Regulatory Changes, Common Prosperity

*In association with Confederation of Indian Industry*



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In recent months, China has imposed a series of regulatory strictures on its massive consumer-facing internet companies that has taken analysts by surprise and roiled equity markets across the world. The clampdown has extended across key sectors such as fintech and edtech through measures imposed by different regulatory agencies, all converging to indicate the Chinese government's new thinking and strategy in dealing with its business sector.

Over the last months, the pervasive actions regarding China's US\$ 4 trillion tech industry have resulted in over 50 regulatory actions against tech firms for anti-trust violations, data issues and so on. Investors have lost as much as US\$ 1 trillion through plunging share prices of Chinese tech companies.<sup>1</sup> The calculated measures taken together represent a marked shift in strategy relating to the relationship between the political and economic systems, which is evident in the increasingly frequent use of the term 'common prosperity'.

In terms of the tech sector in particular, China's aim appears to be to enforce anti-trust measures, avert market dominance and curb unfair trade practices.

The increasing escalation in stringent measures to regulate large online businesses are believed to have their origins in China's geopolitical and national security strategy, its desire for more equitable growth, and aspirations to improve labour productivity in a broader sense. The redefinition of state-business relations, with the primacy of the state being emphatically consolidated, threatens to broaden from the tech sector to business in general.

In terms of the tech sector in particular, China's aim appears to be to enforce anti-trust measures, avert market dominance and curb unfair trade practices. While a range of motives are being ascribed to the new measures, the implications for the global digital economy and the Indian tech sector are expected to be wide-ranging.

Apart from the obvious gain to India from possible shift of foreign venture capital into its startup sector, other ripple impact should also be studied to gauge the outcomes for Indian businesses. As the overall picture unspools, the changing relationship of state and business in China would be felt in India as well.

### **Actions Taken**

The first sign of China's new stance towards tech companies was seen in the suspension of the initial public offering of Jack Ma promoted Ant Group on the Shanghai and Hong Kong's stock exchanges in November 2020. This would

<sup>1</sup> The Economist, August 14<sup>th</sup>, 2021 'Xi Jinping's assault on tech will change China's trajectory'

<https://www.economist.com/leaders/2021/08/14/xi-jinpings-assault-on-tech-will-change-chinas-trajectory>

have been the world's largest ever IPO at a potential US\$ 37 billion in size, with a valuation of US\$ 300 billion or so. The Group was also hit with a fine of US\$ 2.8 billion for violating regulations and later forced to restructure as a financial holding company.

In July, the Cyberspace Administration of China (CAC) suspended downloads of the ride-hailing app Didi by new users for breach of data security regulations.

The timeline of companies being hauled up for various reasons accelerated this year.

- In March, the State Administration of Market Regulation (SAMR), which deals with anti-trust matters, identified 12 companies to be taken to task for merger procedures.
- In April, 34 tech firms were asked to clean up anti-trust practices, rectify excesses and pledge to function within the bounds of law. These included the giant companies of Meituan, ByteDance, Pinduoduo, Baidu, Sina Weibo and JD.com. The identified practices included improper pricing, forced exclusivity by e-commerce companies, compliance management,

abuse of market power and unlawful mergers and acquisitions, among many others.

- Food delivery app Meituan was also investigated for poor working conditions and exclusive contracts. The biggest food delivery platform in China with millions of restaurants onboarded, Meituan is also likely to be imposed a fine of around US\$ 1 billion for abusing monopolistic practices.<sup>2</sup>
- Later in the same month, SAMR fined ten companies, including Tencent and Didi Chuxing, for not disclosing mergers.
- In May, the measures were widened to include edtech companies Yuanfudao and Zuoyebang which were fined almost US\$ 400,000 for their marketing practices. The after-school tutoring sector was targeted with new tuition guidelines.
- In July, the impact of the stringent measures was seen in earnest when the Cyberspace Administration of China (CAC) suspended downloads of the ride-hailing app Didi by new users for breach of data security regulations, a mere week after it was listed on the New York Stock Exchange and two days after

<sup>2</sup> The Wall Street Journal, August 6, 2021, 'China's Antitrust Regulator Planning to Fine Meituan About \$1 Billion' <https://www.wsj.com/articles/chinas-antitrust->

[regulator-planning-to-fine-meituan-about-1-billion-11628238951](https://www.wsj.com/articles/chinas-antitrust-regulator-planning-to-fine-meituan-about-1-billion-11628238951)

cybersecurity investigations were launched against it.

- Two days later, apps of two other transport companies listed in the US were asked to halt new registrations. The saga of fining companies for violations of merger regulations continued over July, with further orders for Meituan and Tencent to rectify irregularities, including minor issues such as popup windows.
- In August, the gaming industry came within the purview of various measures, while edtech companies continued to be hit with new regulatory policies prohibiting for-profit companies.
- Alipay was asked to separate its micro-loan business in September.
- Regulators demanded large platform operators to review safety and labour conditions for gig workers and safeguard their rights.

A statement issued by the Communist Party's Central Committee and State Council makes it clear the Government would continue to introduce tougher regulations and stricter enforcements for many sectors including insurance, real estate, food and drugs<sup>3</sup>.

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<sup>3</sup> Lucas Niewenhuis, SupChina, August 12, 2021, 'China affirms tech crackdown will continue with more regulations rolling out through 2025'  
<https://supchina.com/2021/08/12/china-affirms-tech->

The new guidelines were issued in February 2021, addressing areas such as price fixing, exclusivity, and use of data and algorithms to control consumer behaviour.

### **What Policies are being Instituted**

The policies applicable to the tech companies are coming from different regulatory authorities, including some new ones. While the powerful State Council and ministries in charge of education and information technology have introduced new or amended rules, regulators include the State Administration for Market Regulation (SAMR) and the Cyberspace Administration of China (CAC).

- The SAMR was set up in 2018 and brought out draft rules on anti-competitive practices for internet platforms to protect consumer interests in November 2020. The new guidelines were issued in February 2021, addressing areas such as price fixing, exclusivity, and use of data and algorithms to control consumer behavior. The aim was to “stop monopolistic behaviors in the platform economy and protect fair competition in the market.”<sup>4</sup>

[crackdown-will-continue-with-more-regulations-rolling-out-through-2025/](#)

<sup>4</sup> Reuters, February 7, 2021, 'China issues new anti-monopoly rules targeting its tech giants'

- The online tutoring and video game sectors were taken up by President Xi Jinping at the National People's Congress in March. This was followed by additional rules issued by the Ministry of Education to limit online education and gaming for minors. With children's sleep as the stated priority, time limits for offering classes and games at night were imposed, followed by a rather intrusive diktat in August to limit gaming for children under the age of 18 to three hours a week<sup>5</sup>.
- Further tuition guidelines issued in May for the US\$ 120 billion online tutoring sector set limits on pricing and other practices.
- In April, the National Information Security Standardisation Committee introduced draft rules on data security for connected vehicles, forcing Tesla to announce domestic data storage.
- The Data Security Law was legislated in July and came into force on 1 September 2021<sup>6</sup>. The law covers issues such as

cross border data transfer, storage of data generated domestically, security measures for such transfers and compliance for data intermediary services providers, among others.<sup>7</sup>

- The CAC also issued draft rules for review of companies aiming to be listed overseas if they had over 1 million users.
- The case of delivery workers was taken up in July with measures announced to ensure that they received the minimum wage, insurance and better working conditions.
- In August, a five-year blueprint was released that stated that the government would take up issues such as national security, technology and monopolies, with the aim to promote the construction of a government under the rule of law for a better life for its people. The document would cover areas such as public health, biosecurity, risk prevention and foreign-related issues. Good laws and good governance for the digital economy and new technologies are to be ensured.<sup>8</sup>

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<https://www.reuters.com/world/china/china-issues-new-anti-monopoly-rules-targeting-its-tech-giants-2021-02-07/>

<sup>5</sup> VOA Learning English, September 01, 2021, 'China Limits Children's Video Game Playing to 3 Hours a Week' <https://learningenglish.voanews.com/a/china-limits-children-s-video-game-playing-to-3-hours-a-week/6080716.html>

<sup>6</sup> Fortune, September 1, 2021, 'Here's what Beijing's sweeping new data rules will mean for companies' <https://fortune.com/2021/09/01/china-data-security-law-beijing-management-regulation-internet/>

<sup>7</sup> Dezan Shira & Associates China Briefing, July 14, 2021 'A Close Reading of China's Data Security Law, in Effect Sept. 1, 2021' <https://www.china-briefing.com/news/a-close-reading-of-chinas-data-security-law-in-effect-sept-1-2021/>

<sup>8</sup> Fortune, August 12, 2021, 'A newly-released blueprint lays out the next steps in China's tech crackdown' <https://fortune.com/2021/08/12/china-tech-crackdown-blueprint-next-steps-security-monopolies/>

- SAMR also brought out draft rules to ban unfair competition through practices such as false advertising, fake online reviews, cash incentives for reviews and so on. It barred use of data or algorithms to influence consumer choices or use other platforms' data.<sup>9</sup>

According to another estimate, China's rich list went up by 239 billionaires and their wealth increased by US\$ 1.3 trillion between March 2020 and March 2021

### Possible Reasons for the Crackdown

The widely-held view by external analysts is that the sheer size and influence of the large internet companies, growing in outreach and valuations, was seen askance by the Chinese government and the recent actions are aimed at asserting and reiterating the Communist Party's unchallenged hold on the affairs of the country's economy and businesses.<sup>10</sup>

<sup>9</sup> Reuters, August 17, 2021, 'China steps up tech scrutiny with rules over unfair competition, critical data' <https://www.reuters.com/business/media-telecom/china-issues-draft-rules-banning-unfair-competition-internet-sector-2021-08-17/>

<sup>10</sup> The Guardian, 21 Aug 2021, 'The party's over: China clamps down on its tech billionaires' <https://www.theguardian.com/business/2021/aug/21/the-party-s-over-china-clamps-down-on-its-tech-billionaires>

<sup>11</sup> James Kynge, Financial Times, August 20, 2021 'Xi Jinping takes aim at the gross inequalities of China's

The tech crackdown has several other dimensions, both at a macro level and at the enterprise level.

At the macro level, the reasons put forward by authorities include national security, a more egalitarian development path, public interest and cybersecurity.

*Common prosperity:* Reducing inequalities is a stated aim of the Chinese authorities to improve the quality of people's lives.<sup>11</sup> The growth in the number of billionaires in China in recent years accentuates the income divide. China has over 1000 billionaires, compared to about 700 in the US, which has about 6 times China's per capita income<sup>12</sup>. According to another estimate, China's rich list went up by 239 billionaires and their wealth increased by US\$ 1.3 trillion between March 2020 and March 2021<sup>13</sup>. At the same time, 600 million Chinese have a monthly income of RMB 1000 only.

The recent measures seem designed to achieve the objectives of 'common prosperity' and are slated to be taken forward by other reform

'gilded age' <https://www.ft.com/content/8761f611-5619-4c2d-8627-577ba9359cd4>

<sup>12</sup> Hurun Global Rich List, 2 March 2021 <https://www.hurun.net/en-US/Info/Detail?num=LWAS8B997XUP>

<sup>13</sup> Forbes, April 6, 2021, 'The Countries With The Most Billionaires 2021' <https://www.forbes.com/sites/giacomotognini/2021/04/06/the-countries-with-the-most-billionaires-2021/?sh=3db5a8a379b2>

policies that would dethrone tech firms from their favored pedestal. The term is increasingly visible in government parlance and may translate into actions such as wealth tax and property tax in a bid for redistributing incomes, according to analysts.<sup>14</sup>

In a speech on 17 August, Chinese President Xi Jinping talked about the need to ‘regulate excessively high-income groups’ and called for greater participation of businesses in society. Such messages have been translated by the large tech companies into earmarking funds for social purposes. The day after the speech, Tencent pledged RMB 50 billion to social programmes, taking its total commitment to RMB 100 billion. Pinduoduo announced that it would donate US\$ 1.5 billion towards agricultural development.<sup>15</sup> Alibaba has also committed to spend US\$ 15.5 billion by 2025 on common prosperity<sup>16</sup>.

This reset of the relationship with profit making businesses comes at the cost of a steep drop in wealth as share prices fall, but this appears to be a price that the Chinese government is willing to pay to consolidate its position in the polity. The question is how far this new strategy would be

taken and what would be the impact on the Chinese private sector, especially the giant firms.

It is also a notable departure from the earlier principle of ‘let some people get rich first’ espoused by Deng Xiaoping, who initiated China’s reform process in 1978.

Further, this could have ramifications for the future of China’s economic growth. Having vanquished poverty<sup>17</sup>, the objective appears to have shifted to reducing inequality - not by raising incomes of the lower-income groups, but by inhibiting the income-earning and wealth-generating propensity of firms. It is also a notable departure from the earlier principle of ‘let some people get rich first’ espoused by Deng Xiaoping, who initiated China’s reform process in 1978.

*CCP control:* In January 2020, Chinese state-owned enterprises (SOE) were mandated to include the Chinese Communist Party (CCP) in corporate roles. It is believed that this may be

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<sup>14</sup> Bloomberg, August 23, 2021, Xi Doubles Mentions of ‘Common Prosperity,’ Warning China’s Rich’ <https://www.bloomberquint.com/china/xi-doubles-mentions-of-common-prosperity-warning-china-s-rich>

<sup>15</sup> Forbes, August 26, 2021, ‘China’s Tech Giants Are Giving Away Their Money To Avoid Beijing’s Wrath’ <https://www.forbes.com/sites/ywang/2021/08/26/china-tech-giants-are-giving-away-their-money-to-avoid-beijings-wrath/?sh=6d2cc8aa3485>

<sup>16</sup> The Guardian, 3 September 2021, ‘China’s Alibaba to invest billions by 2025 for ‘common prosperity’ <https://www.theguardian.com/business/2021/sep/03/china-alibaba-to-invest-billions-by-2025-for-common-prosperity>

<sup>17</sup> The Wall Street Journal, Nov 23, 2020, ‘China Says It Has Met Its Deadline of Eliminating Poverty’ <https://www.wsj.com/articles/china-says-it-has-met-its-deadline-of-eliminating-poverty-11606164540>

extended to private companies as well, to enable the CCP to influence businesses in line with strategic goals<sup>18</sup>. As an example, the CCP acquired 1% stake in ByteDance and took one of the three seats on its board, as per reports.<sup>19</sup>

*Technology objectives:* Concerns related to trade disruptions with the US may have instigated China to consider self-reliance in technology. China wishes to reorient its tech industry to strengthen its domestic capabilities in areas such as semiconductors, artificial intelligence, etc. and fears that its skilled manpower and funds are getting into consumer industries where strategic value addition is low.<sup>20</sup>

The after-school tutoring industry is said to be an extra expenditure by families, while also being infructuous in terms of time spent.

*Public backlash:* Public resentment over practices of the tech companies is also highlighted as one of the causes for the

regulatory actions. Business measures such as false reviews have led users to mistrust platform companies and feel exploited. Workers also do not receive due benefits, while smaller firms are unable to compete with the giant companies.<sup>21</sup>

*Household savings:* Another rationale is that some of the apps are causing household savings to be channelled into non-productive uses. For example, the after-school tutoring industry is said to be an extra expenditure by families, while also being infructuous in terms of time spent. The gaming industry would affect productivity of workers as well, at a time when the number of people in the working age group is set to decline.

*Anti-trust:* Reducing monopoly power is one of the stated reasons for the clampdown and the antitrust law of 2008 is now being enforced strictly to regulate the large tech companies for a level playing field.<sup>22</sup>

*Overseas listings:* The Chinese authorities also appear wary of the overseas listing of Chinese

<sup>18</sup> Center for Strategic & International Studies (CSIS), October 8, 2020, 'The Chinese Community Party Targets the Private Sector' <https://www.csis.org/analysis/chinese-communist-party-targets-private-sector>

<sup>19</sup> Reuters, August 17, 2021, 'Beijing took stake and board seat in key ByteDance domestic entity this year' <https://www.reuters.com/world/china/beijing-owns-stakes-bytedance-weibo-domestic-entities-records-show-2021-08-17/>

<sup>20</sup> Forbes, August 15, 2021, 'The Bigger Picture Behind China's Tech Crackdown: Ambition To Achieve Tech Supremacy'

<https://www.forbes.com/sites/rickkarlgaard/2021/08/15/the-bigger-picture-behind-chinas-tech-crackdown-ambition-to-achieve-tech-supremacy/?sh=1577ecfdee77>

<sup>21</sup> The Economist, Aug 14, 2021, Xi Jinping's assault on tech will change China's trajectory' <https://www.economist.com/leaders/2021/08/14/xi-jinpings-assault-on-tech-will-change-chinas-trajectory>

<sup>22</sup> Chang Che and Jeremy Goldkorn, SupChina, August 2, 2021, 'China's 'Big Tech crackdown': A guide' <https://supchina.com/2021/08/02/chinas-big-tech-crackdown-a-guide/>



tech firms. As of May 2021, there were 248 Chinese companies listed on the three largest US stock exchanges with a market capitalization of US\$ 2.1 trillion.<sup>23</sup>

While Ant's IPO was suspended, actions with respect to Didi took place within a week of its listing. It is feared that overseas listing would place Chinese firms within the purview of foreign country regulators and also compel them to share data. With data privacy and cybersecurity as an important consideration, this may not be acceptable to the government. The announcement in July on regulation of firms with overseas listing included warnings on data security and greater oversight and was followed up with draft rules on companies with over 1 million users to undergo security review from the Chinese cybersecurity regulator CAC before seeking listing<sup>24</sup>. The actions have led to a loss of 53% in the Nasdaq Golden Dragon Index of large US-listed Chinese companies since the peak in February, but the index is still considerably higher than it was in early 2020.<sup>25</sup> Hence, while the purpose of restricting unfair trade practices by platforms is one aim of the crackdown, the larger purposes of inclusive growth and building domestic technology and

manufacturing strengths in the face of global backlash are also being addressed by the regulatory measures.<sup>26</sup>

Data security is cited as the reason in official state media for restrictions on overseas listings.

A point to note is that the rationale for the regulatory actions varies across sectors and across companies. The US\$ 100 billion edtech sector is sought to be reformed to reduce costs for households and encourage them to have more children. Data security is cited as the reason in official state media for restrictions on overseas listings. The gaming industry represents loss of productivity. Such regulatory uncertainty by different regulators for different purposes vitiates the business climate, as the next sector, large company or wealthy business leader to be targeted is not known and this is likely to discourage investments across sectors. Further, while the current regulations are directed at domestic companies, recent policies relating to foreign investments such as the Foreign Investment Law, Unreliable Entity List, Export Control Law, and Blocking Regulations

<sup>23</sup> US-China Economic and Security Review Commission, May 13, 2021, Chinese Companies listed on Major U.S. Stock Exchanges' <https://www.uscc.gov/research/chinese-companies-listed-major-us-stock-exchanges>

<sup>24</sup> The Economic Times, August 23, 2021, 'China eyes pushing US IPO-bound firms over data control: Sources' <https://economictimes.indiatimes.com/markets/ipos/fpos/china-eyes-pushing-us-ipo-bound-firms-to-hand-over-data-control-sources/articleshow/85552275.cms>

<sup>25</sup> Financial Times, August 20, 2021, 'Tech sell-off pushes Hong Kong stocks into bear market' <https://www.ft.com/content/c5572f5a-d086-4ca2-995a-7b559f4e1d32>

<sup>26</sup> Noah Smith, Noahpionion, Jul 25, 2021, 'Why is China smashing its tech industry?' <https://noahpionion.substack.com/p/why-is-china-smashing-its-tech-industry>

authorize the Chinese government to take actions against foreign businesses in response to what may be perceived as actions harming China's security or its normal business activities.

The developments in China would need to be seen in conjunction with the IPOs contemplated by Indian startups, which have revved up the Indian markets and attracted global investors.

These are essentially countermeasures to US and EU actions regarding companies such as Huawei. The Law on Countering Foreign Sanctions was enacted in June 2021, enabling wide-ranging response actions in the event of Chinese companies being affected by foreign sanctions, interference and long-arm jurisdiction.<sup>27</sup>

### **What this Could Mean for India**

Implications for India could be positive as well as thought-provoking, requiring a holistic view in terms of policy and business strategy responses.

One, India's consumer focused tech space of e-commerce, fintech, edtech and other areas has never been so resurgent and vibrant as it is in

2021. India's venture capital inflows for startups have witnessed a sharp rise from 1 January to 20 August 2021 at US\$ 20.76 billion as compared to US\$ 11.1 billion in the whole of 2020. The year thus far has had 25 Indian startups leap into the unicorn space of companies with over US\$ 1 billion valuation, more than double that of the previous year.<sup>28</sup>

While the rise in capital inflows for Indian tech firms may not be ascribed to developments in China without further evidence, the likelihood of a strong connection definitely stands as one of the outcomes for India.

Two, with India's rebound strongly entrenched - barring the possibility of a third wave of the coronavirus pandemic - the anxieties of global investors in China could prompt them to explore the Indian investment space and leverage the convergence of growing digital market and economic reforms. The cut in corporate tax rates, boost to startups through various measures, and retraction of the retrospective tax could instil confidence among global investors. Three, the developments in China would need to be seen in conjunction with the IPOs contemplated by Indian startups, which have revved up the Indian markets and attracted global investors.

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<sup>27</sup> Inputs from Santosh Pai

<sup>28</sup> The Economic Times, Aug 23, 2021, 'More fuel for Indian startups as global capital shifts from China' [https://economictimes.indiatimes.com/tech/startups/m](https://economictimes.indiatimes.com/tech/startups/more-fuel-for-indian-startups-as-global-capital-shifts-from-china/articleshow/85547173.cms?utm_source=content_ofinterest&utm_medium=text&utm_campaign=cppst)

[ore-fuel-for-indian-startups-as-global-capital-shifts-from-china/articleshow/85547173.cms?utm\\_source=content\\_ofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/tech/startups/more-fuel-for-indian-startups-as-global-capital-shifts-from-china/articleshow/85547173.cms?utm_source=content_ofinterest&utm_medium=text&utm_campaign=cppst)

On the other hand, India also needs to explore the strategic implications of China's changed tech drive. With consumer facing internet companies being considered as a drag away from advanced manufacturing and continued encouragement through incentives and subsidies to Chinese companies engaged in high-technology manufacturing, China could gain a strategic advantage over time in the critical sectors of semiconductors, artificial intelligence and military R&D. China's growing strength in these areas is already of concern to India and with diversion of investible funds to these sectors in China, India could see itself further lagging behind China in years to come.

The recent Chinese regulatory measures such as the Foreign Investment Law and Law on Countering Foreign Sanctions accord the Chinese government the power to seize assets of Indian companies

With China's regulatory onslaught on its tech firms continuing, a great deal of uncertainty arises among global investors, who could consider other sectors or other geographies for their investments. Instead of diversion from China to India, a possible trend could be diversion of funds to other services or to countries with large emerging digital markets

such as Indonesia and Vietnam. India would need to guard against this possibility by ensuring a welcoming climate for investors.

Another impact could be on uncertainties in the equity markets arising from China's tech crackdown. A huge loss has been experienced over the year by investors, including Chinese tycoons and overseas investors. Volatility has already been seen in global equities as a result of some of the Chinese measures. The Hang Seng Tech Index has dropped more than 40% since February. This has the potential to erode global investor wealth and have a ripple impact on ability to invest as well as a similar impact for Indian shareholders due to fall in global and domestic indices.

The recent Chinese regulatory measures such as the Foreign Investment Law and Law on Countering Foreign Sanctions accord the Chinese government the power to seize assets of Indian companies operating in China, in case of any Indian steps to restrict Chinese business operations in India, as has for example taken place over 2020. These laws may also inhibit Chinese suppliers from completing their contractual obligations, and ultimately make Indian companies more vulnerable to supply chain risks.<sup>29</sup> Both the Indian Government and Indian firms doing business with China would do well to factor in these new modalities in their future actions.

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<sup>29</sup> Inputs from Santosh Pai

Over the longer run, the Chinese measures are aimed in part at reforming and strengthening the tech sector which would have a salutary impact on business operations, corporate governance and customer confidence accompanied by a deleterious impact on innovation and normal entrepreneurial activity. It also remains to be seen if, and when, such a policy would be extended to foreign firms which still contribute substantially to the Chinese economy and which have high dependency on China for many goods and services.

While the tech companies find themselves in the crosshairs as of now, the issues go deeper and are likely to keep extending not only to other sectors but also to different aspects of doing business.

The China manner of sharp and sudden crackdowns is not a model to emulate, and it is important that India's national security and data privacy needs are met without constricting the present wave of tech startups riding on the telecom and digital boom.

## Conclusion

The underlying theme of the unfolding China tech narrative extends across multiple domains, from power play and political contradictions to

economic reboot and social objectives. While the tech companies find themselves in the crosshairs as of now, the issues go deeper and are likely to keep extending not only to other sectors but also to different aspects of doing business. The tenet of 'common prosperity' appears to rest on curbing growth of large companies and wealth of the rich and bringing about redistribution of wealth, rather than raising incomes of the poor. For China watchers, analysis is moving from the realm of speculation regarding regulatory measures to studying their larger political implications. What once seemed to be an inexplicable crackdown on tech giants has morphed into a new template for corporates' relations with the state and party that would guide their future strategies.

The spate of regulatory measures, which are also reflected in the attempt at driving behavioural changes, appears as a manifestation of the larger intent of reasserting Communist party supremacy in China's polity. The massive influence that the large tech and other companies enjoy, along with the prominence of business titans, can be expected to wane, with the dominance of the state firmly established. The intentions of the government regarding the direction of economic growth, incomes and wealth and the link with the crackdown are evolving, and possibly the earlier programs on corruption that were taken up by President Xi soon after coming to office in 2012 are being taken to the next level towards achieving the 'Chinese dream'.

This is a space that will need continued vigil as China recalibrates the economic-social-political compact that has driven its swift rise to the top economic echelons of the world over the last three decades.

### **Further Readings:**

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<b>Issue No/ Month</b>	<b>Title</b>	<b>Author</b>
No.136 September	Decoding the Myanmar Crisis: Domestic Factors Behind Coup, External Players Help Sustain it	Jelvin Jose
No.135 August	Beijing Thinks India is the ‘Weakling’ in Quad	Hemant Adlakha
No.134 July	Taiwan: The First and Oldest ‘Thorn’ between China and the West	Hemant Adlakha
No.133  June	Rising Xenophobia and Anti-Asian Racism amid COVID-19: A Theoretical Lens	Shamim Ahmed Khan, Masnun Mahi and Mohammad Zainuddin
No.132  May	China’s Rise and the Future of Sino-US Relations: How Countervailing Strategies like the Quad are Defining Sino-US Competition in Asia	Biren Nanda
No. 131  March	China and Denuclearization of North Korea	Sudarshan Gupta
No. 130  February	What Explains the Enduring Alliance between China and North Korea?	Pritish Gupta
No. 129  February	Strategic Stability between China and the US in the Age of Artificial Intelligence	Megha Shrivastava
No. 128  February	US-China Relations in the post-Trump Phase	Arun K Singh
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