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Original Paper

The Clash between China's High-Tech Industry versus the Chinese Government

Arthur S. Guarino[1]

[1] Associate Professor of Professional Practice in Finance at Rutgers University, Department of Finance and Economics, Newark, New Jersey, U.S.A.

Abstract

China is experiencing a severe clash between its central government, the Chinese Communist Party, and its high-tech industry. While the Chinese government needs to expand and diversify its economy, it is attempting to impose stifling controls on the industry that could bring this to fruition.

There are political, social, and economic reasons for this clash. But, most importantly, the clash between the Chinese government and the high-tech industry will most definitely affect the country's economic future at a time when such factors as its gross domestic product and employment situation cannot afford a serious contraction.

The aim and purpose of this article is to examine the numerous implications of China's clash between its government and its high-tech industry.

Keywords

Alibaba, BATX, Chinese Communist Party (CCP), EdTech, Gross Domestic Product (GDP), Jack Ma, Xi Jingping

1. Introduction

China is in desperate need of expanding its economy if it wants to compete in the global economy. But also, it must provide jobs, economic growth, and a higher standard of living for its people. The way things now stand in China, these are very difficult to achieve given its many problems such as a shrinking population, a residential real estate crisis, and stiff competition from other nations in the manufacturing sector. One area that China must advance is in the field of technology. But this has turned out to be a strange conundrum for China.

On the one hand, China must improve its technology base and make it a larger part of its economy. Countries such as the United States are making significant strides in the field of artificial intelligence as well as the design and manufacturing of computer chips. While China is considered the "Factory to the World," it must make the transition to technology since other nations in Asia and Africa can handle manufacturing at a cheaper cost. China must start to switch major sectors of its economy to the advancement of technology. This means investing significant amounts of financial and human capital into research and development, advanced manufacturing operations, and allowing entrepreneurs to venture into new technology.

But on the other hand, Chinese policymakers, starting with President Xi Jingping, are against making a shift to high technology and even going so far as to clash with and hold back the tech industry. This means withholding financial capital for research and development and for privately owned companies to borrow money so that they can expand and grow. This is line with President Xi's philosophy of promoting manufacturing and development in items that can be held and used immediately. This philosophy can hurt China in the long run from both an economic and financial perspective.

The aim and purpose of this paper is to examine why there is a clash between the Chinese government and its high technology sector, who are the parties involved, and what affect it will have on the Chinese economy, today and in the future. Also, what the implications are for the future of China and its people.

2. Why is this Clash Occurring

The clash occurring between the Chinese government and the nation's tech companies is a relatively recent event and there are key reasons behind it.

Political

One key reason for this clash is that the Chinese Communist Party (CCP) wants to keep rigid and demanding state, political, and governmental control over the function and set up of China's information and digital marketplace. This involves maintaining a big brother environment over China's tech companies and their management so that they function in line with the goals and objectives set forth by the Chinese government, its policymakers, and the CCP (Gray, 2022). The Chinese government wants to maintain a firm grip on its tech companies so that they will stay in line with the CCP's ideology of a political order that is managed, dictated, and controlled by the state. The Chinese government is deeply concerned that unless there are tough rules and regulations over the nation's digital industry, this will prove harmful to China and its people. President Xi stated in January 2022 that there must be stronger rules and administration of China's tech industry to avoid "unhealthy" progress in its economic and social development while preventing "platform monopoly and disorderly expansion of capital" (Gray, 2022). China's leaders realize they are in a race with the United States, Japan, and Europe to get ahead in the digital marketplace and grow its economy. But maintaining Chinese values, state control of the macroeconomy, and achieving CCP ideals have a higher degree of importance in the general scheme for the country.

This political control over China's tech industry is viewed by Chinese policymakers as a necessary means to wrest power from tech industry leaders, managers, and executives. The CCP and Chinese policymakers are deeply concerned that leaders, managers, and executives of the tech industry pose a powerful and direct challenge to the CCP and the state. As these tech leaders, managers, and executives increase their wealth and prestige in China, they will be able to increase their following among the

Chinese people and have significant influence over them. The CCP and Chinese policymakers feel that the use of data, which is now considered as a factor of production since April 2020 and an increasing source of power, prestige, and influence in the nation's economy, could be a vital and new commodity of the 21st century (Heeks, 2023).

Political control over the tech industry is regarded as vital in order to maintain respect for the CCP. If tech leaders, managers, and entrepreneurs become wealthier and more powerful, the CCP will view this as an erosion of respect and control over the Chinese people. President Xi does not want any type of disruption of the political control he has over the CCP, the nation or the Chinese people. This echoes back to the days of Chairman Mao in the 20th century and his ironclad grip on China. With the abolishment of term limits on the Chinese presidency, Xi can continue his rule without interruption and enforce his policies.

But what President Xi and the CCP are doing in the short-term by instituting its political control over the tech industry will hurt China in the future. Using political control will severely hurt and retard innovation, research, development, creative forces, and the growth of entrepreneurship that has helped China's economy grow in the 21st century. Xi and the CCP are the key reasons that companies, financial profits, and jobs are being destroyed and ultimately shrink its macroeconomy.

Social

Another reason for the clash between the Chinese government and the nation's tech companies is for social control of the Chinese people. The Chinese government is concerned about violations of core socialist values and that the growth of China's tech industry will steer its young people away from these ideals. The Chinese government feels that curbs and control of the tech industry is vital so it can protect its young people from such things as excessive playing of online games. Policymakers describe this as "spiritual opium" and that it is the role of the government to "create a good cyberspace environment for the healthy development of young people" (Chandran, 2021). Chinese policymakers view addiction to online games as a serious social problem that will hurt young people psychologically, but also wrest control over them from the CCP.

Another aspect of social control is the rise of EdTech. In China, if a student can gain admission to a first-rate university, the chances of future career success are greatly enhanced. Whether it is in the fields of science, engineering, computer programming, or finance, if a student can achieve high scores on admission exams to China's prestigious universities, then the exorbitant cost the parents must pay for test preparation is well worth it.

This has led to the growth of a new tech industry known as EdTech. Companies such as New Oriental Education and Technology Group Incorporated and TAL Education Group reap substantial fees and eventually profits from parents who are willing to pay huge amounts so that their children can obtain high scores by taking test preparation courses. The Chinese government feels that if parents spend huge amounts for test preparation it will create an uneven playing field for those parents who cannot afford such luxuries. Also, these parents will not be able to have more children and spend money on test preparation. The Chinese government wants to restore their control over the education system and on the nation's young people. But it also wants to reduce cost for overburdened parents and the pressure and anxiety students are facing in trying to gain admission to high-ranking Chinese universities.

The CCP and the Chinese government have made life difficult for New Oriental Education and Technology and TAL Education Group by forcing them to become non-profit entities. This dissuades investors such as private equity and venture capital funds from placing billions of yuan into such companies. Investors saw these companies as money making machines since they charge high fees to help students get great scores on admissions exams.

The problem with this approach by the Chinese government and the CCP is that it is discouraging competition among its best and brightest students. Rather than helping to defray the cost of test preparation, the Chinese government and the CCP see EdTech companies as direct competition for the control of the nation's young people. This could hurt China's economy by not allowing the cream of the crop of the nation's students to rise above the others just for the sake of social control.

Economic

Perhaps the most important reason for the clash between the Chinese government and the nation's tech companies is for economic control. China needs to have its economy grow substantially in this century if it wants to remain competitive on the world scene and help its people thrive. Also, China is at the crossroads as to whether it wants to remain the world's manufacturing center or take the next step and proceed fully into high technology. If China decides to stay in manufacturing it faces stiff competition from Vietnam, other nations in Asia, and even Africa. But if it fully moves into the technology sector, Chinese policymakers feel there are other problems they must deal with. Either way, China's economic future is at stake and so is its economic control over the nation.

President Xi fully realizes that China's tech industry has grown by leaps and bounds. Not just because of the financial capital poured into its tech industry from foreign and domestic investors, but because it has the human resources to help make such growth possible. With entrepreneurs such as Jack Ma at Alibaba, as well as tech giants such as Tencent, JD, Didi, and Baidu, China has made significant strides in the tech industry in a relatively short time. These companies have helped boost China's gross domestic product (GDP), provided jobs for millions of people, and make it a viable player in the world tech market. But for President Xi, the rise of these tech companies is viewed as competition for control and power of China and its people.

Richard McGregor, China policy expert and senior fellow at the Lowy Institute, has stated that, "One thing that Xi [Jingping] doesn't want are alternative centres of power to be created" (Chau, 2021). Xi does not like any type of threat to his power over China and its people, whether internal or from outside. Xi sees the rising influence of Jack Ma at Alibaba or Tencent, which are regarded as "consumer-facing" companies that pose a huge threat to him since they have significant exposure to the Chinese people (Chau, 2021). The individuals running these companies can become the center of attention and develop a following that can rival the CCP and President Xi.

The CCP and Xi want its large state-owned companies at the forefront of the nation's economy and to be the engine that powers financial and economic growth for China. These state-owned companies are mainly involved in manufacturing and present a lower threat level to the CCP and Xi. The state-owned manufacturing companies do not need to obtain financial capital from foreign investors nor become publicly listed on global equity exchanges. Tech companies are tempted by the lure of being listed on stock exchanges in the United States, Japan, or Europe. But this also means adhering to international accounting standards, such as the Financial Accounting Standards Board in the United States that demands transparency in auditing and financial accounting reporting (Jacobson, 2021). China's state-owned enterprises do not want to open their accounting books so as to allow companies to survive that would not normally be able to make it in the United States or even Europe.

China's government has stated that it wishes to create a level playing field by invoking control over tech companies. For example, China has the State Administration for Market Regulation (SAMR) which oversees regulating any monopolies in the country. The SAMR stated that it seeks to prevent domination by any platforms and using any methodology that will obstruct fair competition (Bahree, 2020). In 2019, the SAMR summoned more than twenty platforms to a conference to require them to cease forcing vendors in signing exclusivity agreements (Bahree, 2020). But the problem here is that the Chinese government and Xi are more concerned about economic control over the tech industry rather than creating a fair and level playing field that promotes competition among all companies.

What China's tech companies want is a liberal, open, and free market economy which promotes and enhances autonomy and ownership over their property and business. This gives Chinese firms not only the chance to grow and succeed, but also to experiment and fail if that will help them flourish in the future. The CCP and Xi are maintaining a statist form in which guidance and control by the government and the party is the locus of China and its people. Should the tech industry grow to a massive size that the Chinese government cannot control resulting in numerous unethical business and financial practices then the end-product could be civil upheaval or economic collapse.

3. The Parties Involved in the Clash

There are three main parties involved in this clash, each with different objectives.

First, there is the Chinese Communist Party (CCP). Founded in 1921, the CCP is based on the ideas of Marxism-Leninism. Even though China has undergone extensive market reforms since the latter part of the 1970s, the nation still adheres to the principles and philosophy of Leninism very much like Cuba, North Korea, and Laos (Albert and Maizland, 2022).

The CCP has managed to remain a powerful entity in China and enjoyed the benefits of a rising economy which has seen millions of Chinese rise from poverty and enjoy an improved lifestyle. The CCP has changed China significantly and allowed its people to experience unprecedented wealth they never knew before. But this growth in economic prosperity has come at a severe price to the Chinese people.

The CCP is the controlling and ruling entity that all Chinese must answer to. The CCP, not the Chinese people, control the laws, court system, police force, and prosecutors (Albert and Maizland, 2022). Because of the CCP's extensive power over the internal security of China, it is very concerned about outside influences over the Chinese people and does not want any competition. The CCP uses the police, laws, and court system to watch, scrutinize, and maintain iron clad control over the Chinese people. The idea is that all in China, that is its people, organizations, and even privately held companies, must adhere to the control of the CCP. A free press does not exist in China, since the media is also under the control of the CCP. Since the CCP controls Chian's legal system and the nation's media, the CCP is not accountable to anyone within its borders. Maintaining this control is paramount to the CCP's existence and even extends to dealing with the perceived threat that technology companies pose.

The CCP feels that tech companies present a severe threat to its power base by using data from their customers. The CCP feels knowledge is a vital asset and raises the possibility of undermining its base of power. The CCP, through a warning issued by President Xi in a party congress report, stated that emerging groups should not become "the spokespersons and agents of interest groups" and that "the problems of political and business collusion that destroys the political ecology and economic development environment" will not be tolerated (Gao, 2023). Tech companies, such as Alibaba and Tencent, are that threat.

Secondly, there is President Xi. As the leader of 1.4 billion Chinese, Xi oversees the world's second largest economy in terms of GDP. While China's economy has grown astronomically since the late 1970's, it needs to grow even more if the Chinese people are to eat, be clothed, and have a roof over their head in the coming decades. But with competition from the United States, Europe, and other nations in Asia, Xi's job continues to become more difficult. However, Xi seems to make his goal of expanding China's economy even tougher through his controversial policies.

Xi has called upon Chinese firms to use "new productive forces" which means expanding the use of new and cutting-edge technologies (Free Exchange, 2024). The problem is that Xi still wants traditional manufacturing industries to have a major position in the Chinese economy. In essence, President Xi wants two aspects of China's economy to co-exist and share economic, financial, natural, and human resources. The big question is how can limited resources be used in an effective and efficient manner in competing industries and sectors in a way that may hurt the Chinese economy. These industries are competing against one another and can be considered contradictory in their goals and nature. This is not the most efficient use of China's resources and the chances are excellent that this tactic will hurt the nation's economy in the long run.

President Xi is hurting China's technology industry by allowing manufacturing to exist and use the country's resources. This presents a clear problem since China's tech industry needs economic, financial, and human resources to grow and be competitive in the world markets. Also, with Xi's deep distrust of the tech industry in what he perceives as a contest to control China's people, he will use what he can to gain the upper hand.

Xi is also clashing with China's tech industry through the policy of the "two unshakeables." This policy ties in the CCP's unwavering or unshakeable commitment in having both a state-owned economy and privately held businesses or enterprises (Free Exchange, 2024). This policy, also known as the "two unswerving" or the "two unwaverings," is a promise in which the CCP is committed to "unwaveringly encourage, support and guide the development of the non-public sector" (Free Exchange, 2024). This means that scarce economic, financial, natural, and human resources will be allocated to state-owned enterprises (SOEs) which may be promoting manufacturing rather than privately-owned businesses in the tech industry. The problem here is that a commitment to one aspect of the economy comes at the expense of a more progressive aspect of China's economy.

But Xi is not only using China's economic and financial resources to control the nation's tech industry. There is also the use of regulatory crackdown. Xi has ordered the Chinese government since late 2020 to conduct a strict crackdown on the most powerful private corporations in China which involves expanding control on all aspects of their existence. This includes antitrust, data security, and wealth distribution (Magbuhos, 2023).

The tech crackdown has also come in other forms. In March 2021, Alibaba removed its popular internet browser from Chinese app stores after the company was criticized by state media for supposedly permitting false and misleading medical advertising (Wang, 2021). On top of this, the Chinese government has reportedly ordered Alibaba in the divesture of all its media assets due to growing concern regarding the company's influence over public opinion (Wang, 2021). Also, in 2021, Tencent, Baidu, Didi, and TikTok developer ByteDance were fined by Chinese governmental regulators for investments and acquisitions that occurred in the past. It could be argued that President Xi has had a hand in these actions and others to enforce and promote his policies.

The third party involved in this clash are the tech companies. These companies are the largest in the tech industry which include Baidu involved in search and related services, Alibaba specializing in e-commerce and online retailing, Tencent which deals with messaging, social media, and online gaming, and Xiamoi which manufactures phones and other products. Known as the BATX companies, they dominate the competition in China due to their large networking effects as well as the huge economies of scale among online companies (Gray, 2022). The BATX are also known for swallowing the competition whole. For example, Tencent allegedly made 168 investments as well as mergers and acquisitions in 2020 of domestic and foreign firms while Alibaba had 44, Baidu had 43, and Xiaomi was involved in 70 (Gray, 2022). The BATX were very aggressive in expanding their businesses, whichever way they could. This unprecedented level of growth became a cause of concern for Chinese regulators who responded in a swift and decisive manner. Regulators have also accused the BATX companies of mandatory user data collection, favoring new users using algorithm-based pricing, and different treatment of customers depending on their spending habits (Bahree, 2020).

The speed and fierceness which Chinese authorities acted was regarded as incredible and as analysts from Goldman Sachs noted, "The latest regulatory tightening cycle is unprecedented in terms of duration, intensity, scope, and velocity" (He, 2021). As a result of the actions by these regulators, more than $1 trillion globally was erased from the market value of Chinese companies (He, 2021). The problem is that such actions have a negative impact on Chinese companies looking to expand and grow their operations due to severe repercussions by government regulators.

More specifically, there have been internet firms forced to cease operations, while others have incurred substantial monetary losses as well as severe reduced net earnings. Among the BATX companies, in Quarter #3 of 2021 Tencent saw its slowest revenue growth since the company went public in 2004 while Didi had a $6.3 billion operating loss for the first three quarters of 2021 (Yuan, 2022). In 2021, the Ministry of Industry and Information Technology began a six-month rectification program in which the BATX companies were ordered to cease anticompetitive business practices and the misuse of consumer information and data (Holland, 2021). While the BATX companies felt they were making moves to expand and grow their operations, Chinese regulators justified their actions to place a damper on the ultracompetitive nature of the tech industry.

However, these aggressive moves by Chinese regulators are regarded by many as being unfair and not equal to all tech industry companies. For example, Huawei is considered by many as being exempt from governmental actions incurred by the BATX companies and seen as a highly favored company. Also, the semi-conductor industry in China is receiving huge sums of financial capital from the Chinese government to expand their operations and become more competitive in the world markets. The Chinese government is also favoring the artificial intelligence (AI) industry by putting huge amounts of financial capital into this burgeoning field. Another group enjoying shelter from the wrath of Chinese regulators are small- and medium-sized companies. For example, the Ministry of Industry and Information Technology set an objective in 2018 in the creation of 600 "Little Giants" which are startup firms that are backed by the Chinese government focusing on strategic technologies (Klyman, 2022). These strategic technologies include advanced machinery, computing, and electrical equipment. While the Chinese government has given support to 4,500 of these companies, its goal is that in three years it will create 5,000 more such companies (Klyman, 2022).

In sum, these three parties all have different agendas and all have diverse impact on the Chinese economy and the nation's future.

4. What Effect will this Clash Have on China

The clash between the Chinese government and China's high-tech industry will influence the nation in two ways. One will be on China's future and the other will be the future of China's economy.

The effect on China's future

In today's world, there are three types of nations that participate in the global economy. First, there are nations that provide the raw materials needed by other nations. Whether it is petroleum, copper, zinc, or lithium, these nations, such as Saudi Arabia, have built their wealth and income by being ***producers*** of raw materials.

Second, there are nations, such as Vietnam and the Philippines, that make tangible goods, such as garments, clothes washers, or hand-held electronic consumer goods that are shipped around the world. These nations are the ***manufacturers*** that derive their wealth and income by selling products at low cost.

Finally, there are nations, such as the United States and Japan, that create, innovate, and start new businesses that make new products and services. These nations are the ***creators*** of new technology that consumers and firms around the world will purchase, use, and very often, come to rely on them. If a modern nation is to grow, develop, and enhance its economy it must embrace three key ideas: creativity, innovation, and entrepreneurism. For any nation in today's world, that is more than likely the best method to ascend the ladder of economic and financial strength.

China is presently the leader of the second group of nations, the manufacturers, since it is regarded as the world's factory. But the problem is that China must expand and grow its macroeconomy at a much faster pace than it is doing so currently. China is stifling the creativity, innovation, and spirit of entrepreneurialism that it desperately needs to achieve in order to reach the level of creator of new products and services such as the United States.

By suppressing creativity, innovation, and entrepreneurialism, China is also hurting its future by scaring away its intelligent, talented, and highly educated young people. The Organization for Economic Co-operation and Development (OECD) in its Programme for International Student Assessment (PISA) measures educational results on an international basis in the administration of a cross-national examination triennially to 15-year-old students in approximately eighty high- and middle-income nations. Based on the exam results from 2018, China came in first in science, mathematics, and reading while the United States was 13th in reading, 37th in mathematics, and 18th in science (Packard, 2023). China also has a high number of science and engineering undergraduates that exceeds the United States, Great Britain, France, Germany, and South Korea combined (Packard, 2023). The problem is that these students do not remain in China but approximately 56 percent go to the United States to further their careers (Packard, 2023). For Chinese students completing their doctorates in American programs in science, technology, engineering, and math (STEM), 85 percent remain in the United States versus 70 percent for all other graduates (Packard, 2023).

China also must be concerned that to further develop its technological base it must cooperate with nations that are advanced in STEM and with its trading partners. The last thing that China can afford to do is to make enemies with nations that are technologically superior in areas such as chip manufacturing and high-tech equipment. While China is making strides in reducing reliance on international suppliers and increase its domestic production and development of technology, it cannot happen overnight. This objective will take years, and with assistance from its trading partners, foreign corporations, and other nations. China will need assistance from companies such as Amazon, Apple, and Microsoft, to name a few, if it wants to further develop its technological base. But this means cooperation and the willingness by Chinese policymakers to relax its rigid controls and regulations that stifle advancement of its high-tech sector.

Another way in which the conflict between China's high-tech companies and the Chinese government could hurt the nation's future is that it will severely limit the company's expansion globally. For companies such as Alibaba and Didi to grow their operations, they must expand to foreign markets. These companies must increase their revenues, net profits, and cash flow by becoming competitive in overseas markets. If the Chinese government continues to clamp down on its high-tech companies, then this hurts their opportunities to have joint ventures with American tech companies, learn from such relationships, and expand into foreign markets. American investors will view the actions by the Chinese government as too big of a risk and a hinderance of trying to establish partnerships and investments in China.

China's future could also be hurt if investors and entrepreneurs become severely apprehensive of the actions of the Chinese government through its crackdown on innovation. These investors and entrepreneurs will become deeply cautious about taking risks in starting operations in China. It is big enough of a risk to start a high-tech company even in the United States, where financial, human, and technologically resources are plentiful and the local, state, and federal governments want them to succeed. But there is still a strong possibility that a high-tech startup could fail. Given the crackdown in China, the probability of failure could be substantial.

According to Shaun Rein, founder and managing director of China Market Research Group in Shanghai, "The crackdown was deep and cut far to the bone, probably more than the government expected it to. Because what has happened is over the last two years, venture capitalists and entrepreneurs have been scared to deploy capital and start new companies" (Soo, 2023).

China has been trying to avoid the possibility of failure by fostering and assisting what are known as "Little Giants." The "Little Giants" or "Specialized SMEs" (medium-sized enterprises) are government-certified high-tech companies. These startup firms receive the benefit from the Chinese government of comprehensive direct and indirect state support (Brown, Chimits, Sebastian, 2023). The "Little Giants" are receiving subsidies from the Chinese government along with substantial support in research and development, working with universities and research institutions, and an intellectual property system designed to strongly benefit their growth objectives (Brown, Chimits, Sebastian, 2023). The Chinese government is strongly pushing the "Little Giants" to move ahead both financially and commercially. The problem is that in one way the Chinese government wants to put more monetary capital through public financial institutions and encouraging private investors into helping the "Little Giants" so they can grow. But once these "Little Giants" have achieved the desired growth and maturity of a Didi or Alibaba, then the Chinese government wants to place controls and regulations on these same firms. The Chinese government is trying to have it both ways, but will this strategy have any benefit for China's future economic, financial, and commercial development?

The effect on the future of China's economy

The effect on China's economy in the long run could be devastating. With the clash between the

Chinese government and its high-tech industry, foreign investors will be quite hesitant to invest in China. Investors do not want nor like uncertainty when going into a new venture. Investors want to minimize their risks and maximize their returns. The interference by the Chinese government will more than likely scare off foreign investors and hinder the ability of Chinese high-tech to raise foreign investment capital in the long and short-term. No matter how good the idea, products, or services that Chinese high-tech companies come up with, if there is interference and super strict control by the government, then foreign investors will be frightened off.

The effect on China in the long run is that it will ruin its rise as an innovation star on a global basis. If the Chinese government continues to interfere with its high-tech industry, China will lose any prestige it seeks to build on a global basis. This will also affect its economic and financial growth which has given the CCP the legitimacy it desperately needs to stay in power.

The Chinese government is very concerned by what is considers as "the disorderly expansion of capital" and will do what it can to control high-tech companies that have achieved high-profile status (Bramble, 2021). The Chinese government is attempting to put limits on the power, financial growth, and popularity among the Chinese people, that a privately owned company can have. But this move can also stagnate the economic growth China needs for the long-run if it wishes to prosper and provide jobs for its people.

According to Chris Marquis, author, and professor of Chinese management at the University of Cambridge, "While Chinese leaders talk about how they are open for business in public forums, their actions across sectors say they truly believe the opposite. Overall, the trend is toward much stronger control of the economy." (Yu, 2023). Professor Marquis goes on to say that China and President Xi "is creating a culture of fear which will stifle innovation, leading entrepreneurs to leave China . . . and those left behind are less likely to experiment." (Yu, 2023). This is a serious problem for China since it seriously needs entrepreneurs who will take risks, create new products and services, play an important role in the global economy, and become role models for future generations of unborn Chinese.

The Chinese government is having second thoughts regarding its actions in recent years. The Chinese government has been cracking down on tech companies that have not fallen in line with its strategic goals. This has seriously hurt publicly traded Chinese companies, while those who have gone along with the government dictums have been able to survive and grow. But this has hurt the Chinese economy which has seen its GDP stagnate and unemployment, especially among young people, take a serious hike. Starting in early 2023, the Chinese government has started to relax its crackdown on tech companies.

According to a high-ranking official at China's central bank, the restrictions and cracking down on high-tech companies was coming to an end and that these firms will be encouraged to become leaders in economic growth for China as well as the creation of more jobs (Soo, 2023). The Chinese government has now recognized that economic growth must be a top priority in its national policy and an important way to achieve this is to allow the technology industry to have more leigh way and less constraints. Technology is going to be an important driver of economic growth for China and a vital source of technological innovation.

The CCP held a four-day meeting in Beijing in July of 2024 in which the decision was reached to "place reform in a more prominent position" (Love-bombing entrepreneurs, 2024). The reform that the CCP cited was to revive and encourage China's sagging entrepreneurial endeavors so that it will help the nation's economy. Chinese policymakers have realized their mistake in cracking down on the high-tech industry since China's GDP grew at 4.7 percent in the second quarter of 2024 on a year-on-year basis (Love-bombing entrepreneurs, 2024). For an economy of China's size and with 1.4 billion people, this is not enough to foster growth. The slowdown in the growth of the Chinese economy, has opened the eyes of China's policymakers and made them realize what a huge mistake they made in the crackdown on the nation's high-tech companies.

The problem is that trying to attract investors, encourage and foster a spirit of entrepreneurism, and lure American investment capital will be extremely difficult. Once investors, entrepreneurs, and foreign capital have seen that the CCP and the Chinese government were willing to crack down on high-tech companies even if it meant hurting its own economy, why should they return? The risk that such an action could happen again is too real and remains fresh in their memories. Therefore, stagnating China's economic future.

5. How this Clash is Occurring

The Chinese government is using a variety of methods to reign in China's private sector high-tech companies. The aim is to control these firms and have them fall in line with government policy.

One method being used by Chinese regulators is the imposition of fines on major private high-tech companies. In July 2023, regulators imposed a $1 billion fine on the Ant Group Company after completing a three-year investigation of the firm. The idea behind the fine was to cut down the size and influence of Jack Ma who was a major backer of the Ant Group Company which is a fintech affiliate of Alibaba (Zhang, 2023). This was not the only time a firm run by Jack Ma was fined. In April 2021, Alibaba incurred a fine of $2.8 billion for allegedly abusing and dominating the market (Miszerak, 2023).

Another method used by Chinese regulators to reduce the size of high-tech firms is to break up these companies. For example, in March 2023, Alibaba made the announcement that it would spin off into six separate, distinct, and largely independent companies that would pursue unique goals and objectives (Huang, Zhang, Zheng, 2023). Not only did this move reduce the size of Alibaba, but the company also included a plan that would give up control of its $11 billion cloud business that its managers saw as a foundation of its future growth (Huang, Zhang, Zheng, 2023). For Chinese regulators, what better way to control a high-tech giant than to bring it down to size and stymie future growth plans.

Yet another method that Chinese regulators have used is by imposing key changes in the governance of high-tech companies. This has been accomplished by Chinese regulators forcing high-tech firms to appoint state-nominated directors to their boards. This tactic allows the Chinese government to have a direct say through these directors in the strategic moves by high-tech companies by vetoing anything they deem dangerous to China's society. These are known as "golden shares" (Wei, 2023). An important example of this tactic occurred when Jack Ma saw his control over the Ant Group's initial public offering (IPO) severely diminished. When the Ant Group went public, Jack Ma's voting rights were over 50 per cent. But when the company was subject to a reassignment of its voting shares, Ma's voting rights were reduced to 6.2 per cent (Miszerak, 2023). To make matters worse, Chinese regulators halted Ant Group's IPO in November 2020 that was worth approximately $37 billion and was deemed to be the largest offering ever seen in the global markets (Saxena, 2023). This move effectively reduces to nothing the entrepreneurial spirit that many Chinese high-tech firms had and now they became closely and irreversibly entangled with the government.

There is also the method of creating new rules and guidelines by Chinese regulators that will make it difficult, if not impossible for high-tech firms to expand. In November 2020, the Chinese made public drafted antitrust rules whose goal was to control any potential monopolistic behavior by large internet platforms (Bahree, 2020). This move eliminated billions of dollars of market value of Chinese high-tech companies. In April 2021, the Cyberspace Administration of China, several government regulators, and the State Administration for Market Regulation (SAMR) made available rules and guidelines aimed at stopping false advertising and the selling of inferior quality goods (Law, 2021). While in one way, these rules and regulations serve an important purpose of protecting consumers and users of technological innovations and services, there is always that risk that these guidelines may serve a dual purpose in controlling high-tech firms.

In January 2023, it was announced that the two-year crackdown on high-tech firms in China was coming to an end. The party secretary of the People's Bank of China, Guo Shuqing, announced that the special campaign whose goal was to rectify fourteen internet platform firms was ending (Ran, Wei, 2023). But the uncertainty surrounding this announcement is how long the lull would last.

6. Conclusion

The clash between China's government, the CCP, and its high-tech industry will have serious long-term implications for the economy and in global competition.

For China to expand its macroeconomy, it must seek new ventures and opportunities. While this is not an easy task, it is necessary and vital or else China's economy will not only start to shrink, but fall behind other nations such as the United States, Japan, and India. Each is moving ahead in research and development in high technology and seeing new companies come up with startling innovative products and services. The United States is especially being aggressive as entrepreneurs are starting new companies that have brilliant and original ideas. While the federal government of the United States is keeping a wary eye on the actions and initiatives by these companies, they are still growing and contributing to the increase of America's GDP. Investors are putting new and additional funds into these companies and achieving satisfying returns. But for China, entrepreneurs, investors, and inventors of high-tech innovations are facing roadblocks set up by the Chinese government and the CCP. These roadblocks will hurt China's future in so many ways so that the country will fall behind the United States, Japan, and India, and will not be worth the risk nor return sought by global investors.

China's economy will also suffer because investment in high-tech will mean subsequent growth in jobs for its people. China needs to grow and obtain jobs for its people, since its unemployment rate, especially among the young, is dangerously high. Growth and expansion of China's high-tech industry is a great way to create jobs in new fields. But if there is continued government interference, China's high-tech industry will suffer and so will its employment situation. China cannot continue to rely on manufacturing to save and grow its economy. There must be alternatives and diversification in China's economy and the rise of its high-tech industry can do just that. If not, China's economic future and as a global competitor will be quite bleak.

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