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Friends and Foes: Rethinking the Party and Chinese Big Tech

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Short bio

Yvette is a recipient of Postdoctoral Fellowship (2020-2023) offered by the government of Hong Kong. Her current project focuses on the political economy of the global 5G race; it applies a political economy framework to understand the political production and implementation of national policies of key advanced economies in relation to Chinese tech conglomerates that have developed leading expertise in 5G wireless communication technology.

Yvette's book with Routledge, *Contested Development in China's Transition to an Innovation-driven Economy*, was published in May 2022. Focusing on the actual processes and outcomes of technological upgrading in three dynamic sectors in China, the book presents an alternative approach to understanding China's industrial upgrading strategies, by examining the ways in which technology policies are influenced by power struggles between state actors and dominant capitalist interests over key resources.

Yvette obtained her PhD in Asian and International Studies from City University of Hong Kong and MPhil in International Relations from University of Cambridge. Her research has been published in Georgetown Journal of International Affairs and East Asia Forum.

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This article adopts an analytical framework that prioritises the importance and contingent nature of class power and relations in competitive global capitalism, explaining the ways in which power struggles amongst key interests over material gains have produced volatile relationships between the CCP and Chinese tech conglomerates. In doing so, this article contributes to the literature on Chinese state capitalism and debates around the Chinese state's recent crackdown on private tech capital. In contrast to Chinese state capitalist models, which posit the Party as dominating over market forces, I argue that the actual patterns of collaboration and confrontation between the Party and private tech capital, which oscillate from time to time, can be better understood in relation to the contingent power and leverage exercised by state actors and private capital at particular points in time. Influencing these interactions are important structural forces within and beyond China, which have transformed domestic and international landscapes for development. In this analytical framework, the state–capital relationship in China is understood to be volatile, varied and far from unidirectional; it is subject to changing narratives of national interests and is influenced by dispersed sources of power and contention over the control of essential assets.

Keywords: Chinese state capitalism; state–capital relationship; internet technology; tech conglomerates; social conflict theory; Murdoch School

Introduction

On 17 May 2022, the Chinese People's Political Consultative Conference (CPPCC) held a symposium with representatives of leading Chinese technology firms (Qu 2022). A key message of the meeting was to promote the healthy development of China's digital economy, with senior Chinese Communist Party (CCP) leaders reaffirming the role of private tech companies in reviving the domestic economy which has been seriously hit by COVID-19-related disruptions. To many, this could signal an end to a series of restrictive policies the Party has imposed on domestic technology companies since late 2020. For almost two decades, Chinese internet companies had flourished under a state-protected institutional environment which fended off foreign competition. These domestic players were given a relatively free hand in navigating the domestic market. However, what seemed, for the most part, to be a symbiotic relationship between the Party and these new economic players took a dramatic turn in late 2020, with the Party reining in the growing business of internet technology companies. Following the last-minute suspension of the initial public offering (IPO) of Alibaba-owned fintech company Ant Group (hereafter 'Ant') in November 2020 (Tudor-Ackroyd 2020), Chinese regulators imposed antitrust fines on leading tech companies including Tencent, Alibaba, Baidu, ByteDance and Meituan in 2021 (Qu 2021). The Party also tightened its scrutiny of data security of technology platforms, leading to Didi Chuxing delisting from the US stock exchange (McMorrow *et al.* 2021). This article aims to explain the multiple factors behind the changing relationship between the Party and leading internet technology companies in China, contextualising the relationship beyond these recent and dramatic events.

Recent scholarly analyses of China's state capitalism tend to point to an asymmetrical power relationship between the Party and private capital. For example, the CCP's 2020 market interventions, which targeted leading domestic internet technology companies, have been cited as evidence of a resurgence of Chinese state capitalism (The Economist 2020), creating a new form of 'party-state capitalism' (Pearson *et al.* 2021) and 'CCP Inc.' (Blanchette 2020), in which the Party under Xi Jinping has tightened its grip over private capital. In addition to increasing party-state institutional encroachment in the private sector (Pearson *et al.* 2021), the Party is said to have been decisive in shifting policies and strengthening regulatory scrutiny to govern new activities of domestic internet technology companies (Wang 2021). These analyses echo the state-dominant view in most Chinese state capitalism literature, in which the Chinese state is conceived as a powerful institution capable of controlling and managing market players (albeit to varying degrees across time and sectors). Under the authoritarian rule of the Party, economic elites are understood to be increasingly integrated into the political system, sharing similar interests with state actors in promoting regime objectives (Dickson 2008).

This article challenges the linear view of state–capital power relations in China and the observation that the state–business relationship is only characterised by mutual interests in sustaining the status quo (Dickson 2008). Instead, using the internet sector as a case study, I argue that interactions between the Chinese party-state and major Chinese internet technology companies are multifarious and often contested. To illustrate this, this article adopts an analytical framework that prioritises the importance and contingent nature of class power and relations in competitive global capitalism, explaining the ways in which power struggles amongst key interests over material gains have produced volatile relationships between the CCP and Chinese tech conglomerates. In taking this approach, this article contributes to the growing and diverse literature on Chinese state capitalism, linking it to the more recent debates around the Party's crackdown on private tech capital. Contrary to Chinese state capitalist models, which posit the Party as having command over non-state economic actors and the capacity to intervene in market forces as and when it sees fit, I argue that the actual patterns of collaboration and confrontation between the Party and private tech capital, which oscillate from time to time, can be better understood in relation to the contingent power and leverage exercised by state actors and private capital at particular points in time. Influencing these interactions are important structural forces within and beyond China, which have given rise to new economic actors (such as technology companies) and demands (such as those related to maintaining national competitiveness), thus transforming domestic and international landscapes for development. Global capitalism and China's development challenges have facilitated the growth of tech capital as a new economic force, whose activities not only complement but also contest state power and policies. While the Party's use of regulatory mechanisms to exercise control over market actors (Wang 2021) manifests in some ways the power of the CCP, the resources, influence and resilience of tech capital, and the ways in which it compels political actors to confront and even succumb to certain pressures, should also be given due attention. State–private capital relations in contemporary China are better understood to be volatile, varied and far from unidirectional; they are subject to changing narratives of national and regime interests, and are influenced by dispersed sources of power and contention over the control of essential assets.

Chinese internet companies have grown rapidly over the past two decades. Understanding the nature of this type of capital and the sector is the starting point for analysing the complexity of state–capital relationships in the sector. Some work has been done by scholars in media and communication studies in this area. For example, Jia (2018) and Jia and Winseck (2018) have explained how the exponential growth of Chinese internet technology companies has been tied to global finance networks and institutions, reflecting the existence of a 'triangular relationship' between state power, private business and domestic and international capital (Jia and Winseck 2018, p. 56). Shen (2016) adopts a critical economy approach to explain the CCP's evolving approach to global internet governance; Wang (2021) examines the shift of the regime's policies to govern new fintech activities. Together these works offer a critique of the different interests and forces at play, which have shaped actors and policies in China' internet sector. This article adds to this literature by providing a systematic analysis of contemporary relationships between the CCP and major internet technology players through an examination of policymaking processes and outcomes, while at the same time, attending to not only the power (and constraints) of the Party but the leverage (and tensions) created by dominant tech capital at particular times. Changing power dynamics among political elites, dominant tech capital and other important economic players help explain policy changes relating to the market space of internet technology companies in China. While Jia (2018) notes the 'globalised' facet of Chinese internet technology companies, this article goes further to investigate how these economic players come into frictions with other domestic economic actors and the political regime at specific phases of development. Importantly, the building up of such tensions is contingent on several domestic and international conditions. This article also departs from Wang (2021) in terms of how the power and capacity of the CCP in managing development goals are understood. As this research will show, although the CCP wields policymaking and regulatory power, there are situations where the state's technology policy agenda is influenced by important power-holders within and beyond the state, as well as competition between different fractions of interests within the Party. This has important implications for understanding the confines the Party is subject to when making certain policies.

This article examines cases of state–capital interactions between the CCP and major internet technology companies in China, including Baidu, Alibaba and Tencent, which are collectively known as the BAT companies. Other fast-growing, second-generation internet technology companies in China include Meituan, Didi Chuxing and ByteDance, which were established about a decade after the BAT companies. This article will focus on the BAT companies, given their more extensive involvement with the Party and their roles as important investors in most second-generation internet technology companies in China. Set up in the late 1990s and early 2000s, the BAT companies originally built their businesses around internet search engines, e-commerce and social media; over the years, they have expanded from operating internet platforms to researching emerging technologies such as artificial intelligence (AI), cloud computing, robotics and autonomous driving. Their diverse interests, resources and control over important assets make them good candidates for assessing state–capital relationships in China. To provide the empirical evidence, the research draws on primary and secondary data. Over 50 semi-structured interviews were conducted with industry experts in Beijing, Shanghai and Hong Kong between March 2017 and December 2020, through either in-person or online meetings. The objective of these interviews is to collect opinions from a small number of carefully selected informants, including members of Chinese state-sponsored think tanks

(Chinese Academy of Sciences and Chinese Academy of Social Sciences), senior-level corporate executives of Chinese tech companies, bankers, executives of private capital funds and specialised industry consultants. Several think tank members the author interviewed were involved in drafting government policy papers; they can be treated as credible sources of information regarding the Party's stance on internet technology policies. Other interviewees from the business and technology sectors offered important insights into the changing domestic landscape following rapid internet development in China; their views, which confirmed or refuted secondary material collected by the author, were incorporated into the analysis in this article. All interviewees requested their identities remain anonymous. Data were also collected from company reports and public announcements, in addition to official publications from the CCP, including speeches, strategic plans and various notices issued by government ministries and regulators.

This article proceeds as follows. The next section introduces scholarly work on state–capital relationships in China. Concerned about the limitations of some prevailing theoretical approaches, I introduce social conflict theory (SCT) and explain how its key concepts are relevant for explaining state–capital relations in China, using the country's internet sector as an example. The following section then explains the ways in which Chinese internet technology companies represent a distinct form of capital accumulation facilitated by technological advances, financialised capitalism and partial state intervention. Furthermore, internet-linked capital embodies tensions between political imperatives (relating to freedom and control) and economic benefits (associated with innovation in a digital economy) in authoritarian, late-developing China. I analyse the evolution of such tensions which date back to the 2010s, during which the CCP prioritised internet-led development in its national development strategy. I then explain how policy changes related to internet development in China are linked to the relative power and leverage variously exercised by political elites and private tech capital at different times. This article concludes by discussing the ways in which state–capital relationships in China can be best understood in terms of contingent power relations between political elites and Chinese tech capital in the context of changing domestic developmental needs and the global race for national competitiveness.

Theorising Chinese state capitalism and state–private capital relations

China's development model is often described as 'state capitalism', an umbrella term that has been used by scholars in different disciplines (see Alami and Dixon 2020, Alami *et al.* 2022). Scholarship on Chinese-style capitalism is diverse; it has included efforts to describe and analyse China's political economy in a comparative sense (Kennedy 2011, McNally 2012, Walter and Zhang 2012), to explain institutional change and development outcomes (McNally *et al.* 2013, Naughton and Tsai 2015, Hsueh 2016, Allen *et al.* 2021), to highlight the rise of new forms of capital and governance (Petit 2016, Yan and Huang 2017, Petry *et al.* 2021) and to assess the implications of growing (Chinese) state power and state capital on the liberal international order (Bremmer 2009, 2010, Kurlantzick 2016). Meanwhile, Chinese state capitalism has evolved and there have been variations in the degree of state control vis-à-vis market freedom across different tiers within the economic system (Pearson 2011), under different leadership, at different stages of development (Huang 2008, Blanchette 2020, Pearson *et al.* 2021) and even across regions (Mulvad 2015).[1] Of various classifications of Chinese state capitalism, most analyses point to a system in which the state plays a major role in capital accumulation and resource allocation (which often distorts market signals). While certain market principles are adopted in this system, the state (including the central state and provincial and local governments) maintains significant control over the commanding heights of the economy. Typically, in China, a vibrant private sector[2] which has driven much of the economy's growth, exists alongside a large state-owned sector in strategic industries and a banking sector that is dominated by state-run banks in a predominantly market economy (Naughton and Tsai 2015).

As far as state–private capital relations are concerned, analyses of Chinese state capitalism generally posit a strong party-state presiding over private businesses. In China, the state exercises its power over private capital in several important ways. The Party defines, maintains and changes the rules of the game to favour or disadvantage private capital. State intervention takes the form of industrial and regulatory policies; through its domination of the banking system, the state also controls who has access to finance. For large, important private companies, the Party owns stakes and places party cells within the company to ensure the political and economic direction of the state is followed. Elsewhere, the Party has strengthened its presence in the private sector by infiltrating businesses with various provincial-level Party institutions (Yan and Huang 2017). There is evidence of closer relationships between the Party and private businesses (Dickson 2008, Milhaupt and Zheng 2015), particularly those which are identified as operating in target industries in national development and those which provide important tools for governance (such as political and COVID-19-related surveillance equipment). Meanwhile, intimate ties with ruling elites allow private sector entrepreneurs to use political power to obtain commercial gains (Dickson 2008, Ten Brink 2011, Tsai 2015, Heberer and Schubert 2020). Historically, there have been cycles of loosening and tightening of state control over market activities in China. The stepping up of state action in the aftermath of the global financial crisis of 2007–08 and, more recently, the regulatory moves to chastise domestic internet technology firms have been described as the resurgence of state capitalism in China.

Despite their contributions, prevailing studies of state–private capital relations within the broad study of Chinese state capitalism have several limitations. First, the adoption of state capitalism as an umbrella notion to describe the power of the state over private capital inevitably obscures the divergent scenarios unfolding in and across sectors. Sectoral characteristics have effects on the form of capital that has evolved; in the context of China, the (perceived) importance of a particular type of capital to national development goals influences institutional arrangements (see Pearson 2011, Hsueh 2016). A more sophisticated, and preferred, analytical approach is one that treats different forms of capital and state action as variables affecting state–capital dynamics in different sectoral contexts. Equally important is the need to understand certain fractions of capital (and their coalitions) as not necessarily nationally bound but increasingly internationalised. Second, in addition to describing how the Chinese party-state exercises control over capital (as noted in the Chinese state capitalism literature), a sound theoretical approach should be able to explain what drives continuation and change in such a relationship. Achieving this requires more attention to the domestic environment and global conditions, which impact the relative power of different players and, hence, policies. Third, the observation that the Chinese state consistently has power over private capital at home, and Chinese entrepreneurs and the Party simply cooperate in national development and collude in personal wealth accumulation is an oversimplification. There are situations in which Chinese political elites face dilemmas when engaging private capital in pursuing development goals, while private businesses are a source of contention as much as support for the political regime.

To address the above limitations, I adopt a theoretical framework that draws on several key concepts of social conflict theory (SCT, also known as 'the Murdoch School') to explain state–capital relations in China, using interactions between the CCP and the leading domestic internet technology companies as a case study. SCT/Murdoch School scholars understand institutional development as largely shaped by political struggles and patterns of contingent cooperation between different fractions of interests within a polity. Various works by these scholars adopt the social conflict framework to explain linkages which involve global forces, sources of collaboration and tensions, and changing domestic situations, such as the diffusion of neoliberalism and the rise of the populist movement and developments in Southeast Asia (Carroll *et al.* 2020). Relatedly, other SCT scholars have developed the State Transformation Approach, which is used to explain the capacity of China as a rising state (Hameiri and Jones 2016), to dispel common misconceptions of strong affiliations of Chinese state-owned enterprises (SOEs) with the Party (Jones and Zou 2017) and to analyse the evolution of global regulatory regimes (Hameiri 2020). In this article, I operationalise SCT against prevalent narratives of Chinese state capitalism and argue that instead of conceiving the authoritarian Chinese party-state as all-powerful and all-knowing, strategically exploiting private enterprises for its governing objectives, the Party (and different factions within it) constitutes one of many socio-political forces engaged in continuous battles with economic power-holders and vested interests over policies governing internet technology companies. Thus, the Chinese party-state is both powerful and circumscribed; its interests with domestic tech capital are both aligned and divergent. Understanding these interactions provides insights into policy change, the constraints facing Chinese political elites and the relative resilience of Chinese domestic technology companies.

Two key concepts of SCT are relevant to analysing state–capital relations in China. First, conflicts and cooperation between different interests shape how policies are made and developed. The various interests articulated within a polity are primarily delineated in relation to class and other constellations of social forces, including groups of particular ethnic, religious and gender connections, as well as sub-class categorisations such as fractions of capital. This article focuses on the relationship between the ruling class and capitalists. Classes and other social forces have their own interests and goals which they aim for. Some interests and their coalitions are more powerful than others due to the resources they possess, their perceived competitiveness and the rules that have been promoted to protect them; moreover, the power of particular interests can change in relation to a variety of factors. While interests and social forces compete for resources and power and, in the process, marginalise their rivals, their ongoing struggles to defend particular political, economic and social arrangements impact policies (Hameiri 2020).

Second, in contrast with methodological nationalist analyses, for SCT scholars, context beyond the nation-state matters. In a globalised world economy supported by geographically fragmented production chains and predominantly neoliberal policies favouring cross-border capital and investment flows, some social forces (transnational capital) and interests are no longer territory-bound. They retain direct and indirect power over recrafting state institutions and policies in their interest. Conversely, other less-mobile social forces (such as labour) experience diminishing leverage within the context of threats of capital flight and increasingly operate as rule-takers rather than rule-makers. The important point here is that the relationship between the ruling class and capitalists (state–capital relationships) is conditioned by the broader geo-economic and geopolitical context in which it evolves. The macroscopic environment—specifically competitive global capitalism and its associated power structure—affects the relative leverage of social forces, their interactions and, hence, policies (Rodan *et al.* 2001, Carroll 2017, Chacko and Jayasuriya 2017).

In the remainder of this article, I apply the SCT framework outlined above, describing the relationship between the Party and domestic tech conglomerates in terms of political struggles between interests over material gains and political power. The diffusion of global capitalism and its associated effects, accompanied by domestic development conditions in China, shape the relative leverage of different parties (and their coalitions) and the contests that take place.

The emergence of Chinese Big Tech

This section explains the rise of Chinese internet technology capital, placing the emergence of this new form of capital in the context of China's market reforms and global capitalism in the 1990s and 2000s. Although Chinese internet technology companies have benefited from economic protectionism to some extent, they are not simply products of the Chinese state. Domestic economic liberalisation, accompanied by the availability of global finance and foreign investments, opened up space for Chinese entrepreneurs to initiate new modes of capital accumulation by leveraging internet technology. However, as this fraction of capital flourished, new tensions also emerged.

China's market reforms played an important role in aiding the rise of Chinese internet technology firms. In the 1990s, Presidents Jiang Zemin and Hu Jintao largely followed the liberal economic policies of Deng Xiaoping to promote economic growth. China's admission to the World Trade Organization (WTO) in December 2001 further obliged the CCP to extend and deepen market reforms, reducing tariffs and opening more markets to foreign investments across a range of industries. These measures led to an influx of foreign capital flows and human expertise into China. In 2000, before China joined the WTO, FDI inflows into China reached US$42 billion; by 2008, the amount had jumped to US$171.5 billion, more than a four-fold increase (World Bank Group 2022). Greater openness and a much improved political-economic environment attracted many foreign-educated Chinese to return home to start new ventures. For example, Robin Li and Eric Xu, founders of Baidu, studied and worked in the United States; they returned to China in the late 1990s to set up China's the internet search engine company. These returnees brought new ideas, valuable institutional knowledge and technical skills to domestic start-ups.

Nevertheless, the seeds of tension between the regime and internet-linked capital and internet technology were sown right at the beginning. When the internet went public in China in 1994, concerned about the political repercussions of the new technology, Chinese ruling elites did not hesitate to regulate internet content and strengthen the political censorship system already present. From controlling the internet gateway and regulating internet service providers to employing surveillance tools to scrutinise web content, the CCP built a sophisticated, multi-tiered system of gatekeepers to control information flow (Rayburn and Conrad 2004). Supplementing these technical tools were an array of laws to legitimise state censorship of information. In 2000 alone, nine policies were adopted by the CCP to regulate internet content and cybersecurity, involving internet users and internet service providers (Yang and Mueller 2014).

Despite state regulation on internet usage, sector-specific conditions favoured new, private, domestic internet firms. Operating in a new industry with neither SOEs nor market rules benefiting established incumbents, private internet technology companies enjoyed the first-mover advantage. Initial competition with foreign rivals was limited. For example, Alibaba's online marketplace, Taobao, established in 2003, competed briefly with eBay's Eachnet, but Taobao's more localised services outcompeted eBay, which withdrew from the Chinese market in 2006. In social media and internet search services, domestic providers entered a new market without any foreign competition. Tencent's Weixin (also commonly known as WeChat) has no serious rivals, as foreign social media platforms are all blocked in China. Baidu became the domestic market leader among internet search engines after Google withdrew from China in

2011, following the company's refusal to comply with China's internet censorship. While it appeared that the Party's internet rules created a 'walled garden' for domestic internet technology companies, the role of the Party in shielding these nascent companies should not be overstated. Protecting domestic internet technology companies was not the prime objective of the Party at the time of imposing internet censorship.[3] The 'walled garden' was aimed at foreign internet technology firms and was initially created to serve the political objective of controlling information flow. The Party erected institutional barriers to disadvantage foreign internet technology capital in the domestic market; in so doing, political elites enabled an insulated, albeit controlled, environment for domestic internet-linked capital to flourish quickly.

While Chinese tech entrepreneurs deserve much credit for their innovation and business acumen, these start-ups could hardly have grown to their present scale had there not been parallel global forces providing channels for them to overcome certain domestic constraints. Among the various global forces, the emergence of financial capitalism has led to the dominance of financial capital and the corresponding demise of state control over it. Variously inspired by neoliberal doctrines and the pursuit of growth and profit, a constellation of interests, including capitalists, capitalist states and regional and multilateral organisations, has pursued an ongoing campaign to liberalise trade and promote competition on a global scale (Cammack 2016, 2017). With banks, multilateral organisations and their political allies pushing financialisation, various financial activities such as lending, securitisation, private equity and venture capital investments have emerged as new sites of accumulation. Global financialisation has provided important funding sources for nascent Chinese internet firms in their early development phase (Jia and Winseck 2018). As these firms developed, increased access to global capital, for instance through listing on foreign stock markets, allowed them to amass resources they otherwise would have been deprived of. Private capital in China has to compete for funds, especially when domestic finance in China is controlled by large commercial state banks that serve the interests of the Party (Beardson 2013).

The Party's turn to private tech capital: drivers, contestation and outcomes

Global and local developments in the 2010s created new conditions which compelled the Party and the BAT companies into closer collaboration. In trying to overcome development bottlenecks faced by the nation, the Party adopted a new political narrative to justify new rules favouring private, internet-linked capital. This section applies the SCT framework to analyse this shift in the state–capital relationship in China, the factors behind it and the varied outcomes.

The changing domestic environment was one of the factors that prompted a shift in CCP policy narratives in this period. In 2014, encountering lower-than-expected GDP growth, rising production costs and sporadic social unrest, President Xi Jinping announced that China had entered a 'new normal condition' of moderate growth, pointing to the need to create new engines of development, and to focus on quality and sustainability rather than the sheer pace of growth (Ministry of Foreign Affairs of the PRC 2014). A year later, in 2015, the Party unveiled the 13th Five Year Plan (2016–20), the Internet Plus programme, and the Made in China 2025 plan: all of these placed technological innovation at the heart of China's development strategy. Promoting innovation, exploiting emerging technologies and embracing internet technology to accelerate development were common themes across these strategic plans (China Daily 2015, State Council of the PRC 2015). Given the development challenges confronting China in the early 2010s, the Party's turn to internet technology and the BAT companies reflects a high degree of political expediency: it was more of a necessity than a choice for the Party to engage these competitive, but not necessarily like-minded, players. The political fortunes of CCP elites were tied to the new narrative of development and the accompanying technology-centred strategies to revitalise the slowing economy. If China was to build a digital economy, at a time when state-owned enterprises had no presence in the sector, there were no better candidates than the BAT companies, which possessed the resources and infrastructure to spearhead China's internet development.

Collaboration between the Party and private capital in accelerating technological innovation demonstrates that while the Party is conventionally portrayed as adopting a heavy-handed approach to development, it nonetheless encounters pressures to give room and incentives to private tech capital to help support the regime's immediate and long-term interests. For example, the Party and private tech companies were brought together by the elite interest in using AI to achieve domestic political objectives and the resources the BAT companies could employ to meet those ends. Alibaba's e-commerce platform (with more than 900 million monthly active users), Tencent's WeChat (with more than 1.2 billion monthly active users) and Baidu's web search engine provide enormous amounts of useful data to the Party, including for surveillance purposes. Chinese policymakers have placed their hopes on the BAT companies to develop the country's technological capabilities, particularly in AI, a strategic area in which political elites hope China will catch up and compete with the United States.[4] In terms of economic benefits, one market analysis estimates that integrating AI into industrial activities and service areas will accelerate the growth of several new and traditional sectors in China, such as automotive, logistics and healthcare, creating an additional US$600 billion in economic value annually in the coming decade (Shen *et al.* 2022).

Mutual interests shared by the Party and private tech capital represent just one side of the coin, however; contestation over the making of technology policies in China and differential power of key players in pushing their demands reflect other dimensions of their relationship. The assumption that CCP national strategies are concerted state-led efforts inevitably occludes contention within the Party over technology policies. The Internet Plus plan mentioned above is a case in point. Despite the exigency of promoting internet-driven development to spur economic growth, rival interests within the Party caused delays in launching the new initiative.[5] Party members were divided over the political repercussions of accelerating internet development as greater internet freedom could threaten regime legitimacy. Moreover, the Party's interests would be best served by promoting state-owned rather than private capital in the internet sector. In addition to revealing divisions within the Party, the Internet Plus strategy represented a site of contention in which powerful tech-linked interests gained some influence over policymaking in an area deemed critical to national development. Founders of the BAT copmanies were among the key architects of the Internet Plus plan.[6] As owners of leading technology firms in China, they would also be major beneficiaries of policies that facilitate internet infrastructure and the expansion of the domestic market. Moreover, an increasing number of tech enterpreneurs also hold political positions, allowing them to use their connections to influence policies: Ma Huateng, CEO of Tencent, and Lei Jun, co-founder and CEO of smartphone manufacturer Xiaomi, are delegates to the National People's Congress (NPC); Li Yanhong, CEO of Baidu, Ding Lei, CEO of NetEase (online game provider), and Richard Liu Qiangdong, founder and owner of e-commerce operator JD.com are delegates to the CPPCC. In this sense, leading tech entrepreneurs have become a competitive class (Heberer and Schubert 2020) able to influence, at least incrementally, the content of certain CCP policies.

The growing power and influence of the BAT companies have become a factor affecting policy outcomes as well. There is evidence that as this powerful fraction of capital contests policies, it leads to outcomes that diverge from the original intention of policymakers. This is the case with AI. In 2017, when the BAT companies were handpicked to lead a national AI research lab, the

Party's plan was that each of the BAT companies would specialise in a specific field within AI, in the hope of coordinating their activities and reducing unnecessary competition between them.[7] For example, Baidu would invest in autonomous driving, Tencent would focus on AI-enabled medical diagnosis, while Alibaba would research the development of smart city tools to address urban problems. Over the years, the BAT companies have leveraged first-mover advantage on the back of favourable government policies and have consolidated their positions as leading developers in AI technologies. However, notwithstanding the state's original plan of managing their research in AI, these players primarily respond to market imperatives. As they branch out into different fields of AI, they compete against one another in areas such as autonomous driving and healthcare, thus compromising the Party's goal of specialisation and managed competition through state resource allocation. This suggests that one of the prevailing understandings of Chinese state capitalism, which views the Chinese state as capable of controlling private capital through regulation and market rules, overlooks an important and vexed aspect of the state–capital relationship: top-down policies are contested by divergent interests of economic actors, with the potential to produce outcomes which counter the Party's original intent.

State power, corporate interests and contestation

Technological breakthroughs, global capitalism and the political interests of ruling elites (at a particular time of China's development) have made it possible for Chinese tech conglomerates to emerge. This section discusses and explains another dimension of the state–capital relationship which is fraught with competition over power and the control of critical assets. The SCT framework, which emphasises that policy outcomes are driven by battles over resources, power and influence between social groups, is particularly well suited to account for the agent-led factors and structural forces driving policy patterns. In the first place, the rising market power of the BAT conglomerates changed power relations by beginning to threaten the vested interests of SOEs and state-linked players which traditionally dominate the commanding heights of the Chinese economy. As tensions between these two fractions of capital began to intensify in the mid-2010s, the Party encountered pressures to defend important state-linked interests. Tightened policies targeting internet technology companies, which began around 2015, were driven by both the Party's legitimate need to regulate new capital accumulation activities and the elite interest to protect state-linked groups.

One of the battlefields in which existing interests rival new tech capital is banking. Alibaba and Tencent have been domestic pioneers in integrating digital technologies with traditional banking, for example by providing online payment services and online credit by leveraging their massive customer base. In the fourth quarter of 2016, Alipay (54 per cent) and Tencent's WeChat Pay (37 per cent) accounted for over 90 per cent of all mobile payments in China, compared with less than 1 per cent secured by state-owned UnionPay (Lucas 2017). In some ways, innovations in digital finance align with the Party's goal of modernising the financial industry (Gruin and Knaack 2020). Fintech companies in China, primarily led by Alibaba and Tencent, had their heyday when they were regarded as 'official harbingers of tech-based innovation' (Wang 2021, p. 774). However, their rapid expansion and growing market share have inevitably upset important players linked to the state—one of the several reasons behind Ant's IPO suspension mentioned in the Introduction. At the heart of the conflict is the peer-to-peer (P2P) microlending function provided by Ant via Alipay, which has grown so rapidly that Ant had become the largest credit provider in China at the time of its IPO listing preparation in 2019. While online microlending helps fill gaps in the existing credit market by providing alternative access to finance to customers, resistance to Ant's unregulated activities has built over the years. Meanwhile, regulatory loopholes permitting massive online lending operations by Ant have not gone unnoticed by ruling elites, especially when Ant's business model puts commerical banks in a disadvantaged position. Since Ant is not registered as a financial institution, it is not subject to the leverage ratio applied to traditional banks. Large state banks have thus been pushing vehemently for Ant to be subject to the same regulations that are applied to industry peers (Business Times 2020).[8]

Furthermore, the Party is concerned about a potential financial bubble that could be triggered by large-scale unregulated finance. Ant's credit to consumers and small businesses is security pledge-free. The company offers joint loans with around 100 financial partners (McMorrow and Yang 2021), but contributes little to them. Ant only contributed 2 per cent of the US$263 billion outstanding loans made via its platform at the end of June 2020; the rest was funded by traditional banks and trust companies (Yang and Yu 2020). In the event of defaults, partnering financial institutions will be exposed to much greater risks than Ant. In addition to microlending, Ant's other products also directly challenge existing business of state banks. One example is Yuebao, Ant's money market product, which has drawn millions of customers to transfer their deposits from state banks to Ant. A Chinese state media commentator once described Ant's money market fund as a vampire sucking up state banks' deposits (Wang 2020).

Clearly, what is at stake here are the material interests of state-owned banks and China's financial stability, which the Party is determined to safeguard (Liu 2018). In a move that was seen to be addressing regulatory loopholes of fintech activities, the China Banking and Insurance Regulatory Commission (CBIRC) issued new rules in February 2021 to tighten capital ratios in online lending activities (CBIRC 2021). Financial technology platforms are required to contribute at least 30 per cent in joint loans issued with commercial banks. For each commercial bank, its joint loans with any single internet platform should not exceed 25 per cent of its core capital, while total cross-lending with all technology plaftorms is restricted to 50 per cent of a bank's overall loan portfolio (CBIRC 2021, Riordan 2021). These new rules aim to reduce the risk exposure of commercial banks in online lending; they also force Ant to increase its contributions to joint loans and restructure its fintech business to more closely align with that of a commercial bank before it can meet listing requirements.

While there are legitimate reasons for the Party to regulate fintech activities to maintain financial stability (Wang 2021), Ant's IPO has been further complicated by vested interests involved in the international listing. Political struggles inside the top elite circle play a part in cementing pressures against Ant's listing. Several key investors of Ant's IPO have links to political figures whose power Xi Jinping wants to undermine. For example, one of the investors, private equity firm Boyu Capital, was founded in part by Jiang Zhicheng, grandson of former Chinese leader Jiang Zemin (Wei 2021). Another investor, Beijing Zhaode Investment Group, is connected to Li Botan (Wei 2021), son-in-law of a former senior political figure with ties to Jiang Zemin. Both Jiang Zhicheng and Li Botan belong to the 'Shanghai faction'—a political faction which includes top officials and elites who have strong ties with Jiang Zemin (see Choi *et al.* 2021). The group was a target of Xi Jinping's anti-corruption campaign, which purged not only corrupt officials but also Xi's opponents and challengers. The constellation of interests which includes Jack Ma and these politically connected investors will benefit substantially from a successful IPO of Ant (as some of them did with Alibaba's IPO in 2014). In this sense, the suspension of Ant's IPO is a product of factional politics of the Party, and is a battlefield in which top elites attempt to limit the growing wealth and influence of their political challengers.

Political contestation over the Ant IPO marks only the beginning of a series of regulatory measures targeting domestic internet conglomerates. Tencent, Alibaba, Baidu, ByteDance and Meituan were fined for monopolistic activities; Didi Chuxing was interrogated by Chinese regulators over its IPO and data protection in the United States; online games for young people were restricted under new anti-addiction regulations which saw Tencent's revenue dip (Lockett and Riordan 2021). All of this conjures an image of an omnipotent Party to which private tech capital is subordinated. However, it is not only the Party's regulatory power that warrants attention, but also the ongoing contestation from suppressed social forces; leveraging their material resources, these actors continue to find new ways to navigate regulatory restrictions. The recent race for philanthropy, which saw leading tech entrepreneurs scale up their 'common prosperity' contributions (White *et al.* 2021), was both a response to Xi Jinping's call for reducing widening wealth gaps and a move by dominant tech capital to negotiate space and time to continue capital accumulation elsewhere. Given that Chinese tech entrepreneurs and their firms are among the biggest contributors to social philanthropy in the country (Forbes 2021, To 2022), Xi Jinping's ambitious programme to improve social equality thus depends not only on structural reforms but also the prospects of a handful of tech conglomerates.

Having diverse business interests has proven to be an added leverage, allowing these tech conglomerates to strategically divert resources to other potential areas for growth, despite facing stronger political scrutiny in some business areas. The BAT companies have been racing to develop more robust, custom-made semiconductors to power applications from mobile technology and AI to cloud computing. With the Party shifting the priority of technological upgrading towards breakthroughs in deep technology, research and investment in high-end chips by domestic tech companies encounters little regulatory interference from the state. Alibaba has achieved some success on this front; the company launched its first AI chips in 2019, which were followed by more sophisticated server chips in 2021 (Alibaba Cloud 2021). Development of higher-end domestic chips is a pressing matter on the Party's agenda because of US sanctions. Adding to the foreign pressure is the failure of several large-scale, state-sponsored projects to boost domestic chip production. For example, Wuhan Hongxin Semiconductor Manufacturing Co. and Tsinghua Unigroup, which have received generous state investment in developing cutting-edge chips, have halted production and fallen into financial turmoil, respectively (Zhang 2021, Cheng *et al.* 2022). The limitations of state-sponsored players heighten pressures on the Party to rely on more competitive, domestic tech conglomerates to strengthen supply-chain independence—a national priority stressed in the 14th Five Year Plan (2021–25). The relationship between the Party and Chinese tech conglomerates thus embodies dual tendencies, reflecting not only a heavy-handed party-state but also the resilience of private tech capital in counteracting the changing institutional environment.

Conclusion

The characteristics and operation of Chinese state capitalism have drawn significant interest across various fields from political economy and international relations to business management studies. This article aims to challenge those works that depict the Chinese party-state as a powerful institution capable of using institutional tools to strategically expand or contract market space to achieve CCP-defined developmental goals. It draws on the SCT framework to analyse interactions between the Party and domestic internet technology companies, providing useful theoretical tools to explain periods of amity and confrontation between them amidst China's struggle to maintain growth and stability in a competitive, technology-driven global environment. In doing so, it makes a deeper enquiry into contemporary Chinese state capitalism by analysing not only how but why the state and certain fractions of capital act in particular circumstances.

Empirically, this article reveals that since the early 2010s, the Chinese party-state has confronted very different domestic and international landscapes. The rise of new actors, supported by global capitalism and coinciding with the surfacing of various developmental bottlenecks and an intensifying global tech race, has added new pressure to the CCP to formulate new development strategies favouring competitive technology companies. The Party did not entirely dictate the terms of the amity between itself and domestic internet technology companies; to some extent their relationships were also driven by specific domestic needs and global environments, which provided the contingent conditions for the Party and private tech capital to align their interests under a new political narrative of internet-led growth. Yet, the Party also faced constraints in gearing policies towards development goals. The dispersal of power to market agents has impacted the making of technology policies and their actual results, as shown in the Internet Plus plan and AI policies. Meanwhile, recent regulatory measures imposed by the Party on domestic technology companies reflect a power contest between state actors and different fractions of capital. Despite the Party's new regulatory scrutiny, Chinese tech conglomerates, with their market power and control over critical assets of competitiveness, have shown some degree of resilience and leverage in overcoming institutional barriers. Recently with senior Party leaders reassuring the role of internet technology companies in reviving the pandemic-hit domestic economy (as mentioned in the Introduction), the Party's crackdown on tech capital may turn out to be a time-limited phenomenon. All of this suggests that judgements about the dominating role of the CCP in controlling the market, market agents and policy outcomes need to be critically examined.

Theoretically, this article argues that two interrelated forces—the leverage of dominant interests (and their coalitions) in contesting rules, and the dynamics of competition and collaboration between different interests in the context of global capitalism—account for the continuation and change of domestic rules regarding internet technology companies in China. Examining state–capital relations through the lens of social conflict helps reveal complex rivalries among existing and new players over market power and commercial gains. While studies on China's political economy generally acknowledge some connections between domestic happenings and global developments, the contribution of this research is to explain such connections by highlighting the relevance of deepening class conflicts (party elites, private capital, state-linked capital) over material privileges and political gains. Moving beyond the narrow understanding of Chinese state power (typically viewed in terms of controlling market forces), this approach engages the influence of competing developmental goals and pressures from competitive global capitalism in analysing policy change, both of which are important forces shaping collaboration and tensions between the Chinese party-state and private tech capital.

Notes

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[1] Huang (2008) identifies an entrepreneur-led capitalist China in the 1980s and a statist, commanding-heights China in the 1990s. Blanchette (2020) and Pearson *et al.* (2021) identify a new paradigm of state capitalism under Xi Jinping, which they term CCP Inc. and 'party-state capitalism', respectively. Mulvad (2015) compares and contrasts a more liberal model pursued by the local government in Guangdong with a state-led one championed by Chongqing between 2007 and 2012.

[2] The private sector in China contributes over 60 per cent to the country's GDP and more than 70 per cent to technology innovation. It makes up over 80 per cent of urban employment and contributes more than 50 per cent to tax revenue (China Daily 2021).

[3] This is according to three interviewees, including two think-tank members (in Beijing and Shanghai) and a senior executive at a Chinese technology company.

[4] Global internet companies not only operate platforms but, together with software companies, also dominate the AI industry. Recently accelerated AI research has evolved from the existing online platforms of global tech firms, which initially researched and adopted AI-powered technology to manage their customer data. The massive quantities of customer data that are extracted through their platforms give internet companies valuable resources to develop AI models.

[5] Interview with Chinese think-tank member, Beijing, 17 April 2018.

[6] Interview with a senior executive at a Chinese technology company, Hong Kong, 22 April 2019.

[7] Interview with Chinese think-tank member, Shanghai, 19 May 2019.

[8] This media source matched the comments of several interviewees the author spoke to between November 2020 and December 2020, including private equity fund executives in Beijing and banking executives in Hong Kong.

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