

Pivot to Internet Plus: Molding China’s Digital Economy for Economic Restructuring?

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Under the Internet Plus policy, China’s Internet and digital economy become unprecedentedly important during the post-2008 economic restructuring. Using the Internet as a metaphor to represent the broader Web-oriented communications commodity chains that encompass access devices, networks, and services and applications, and by examining three state–corporate disputes involving Foxconn, Qualcomm, and Alibaba, this article historicizes the political economy of China’s digital economy, especially the liberalized and quasiliberalized sections, and then characterizes the nature of the state’s interventions under the auspices of economic restructuring. It argues that the state’s ability to make effective policy for change in this critical field is incoherent. The combination of state-power decentralization and the externally oriented commodity chain for the Web economy is likely to turn Internet Plus into a risky strategy, but the cyber business section of China’s digital capitalism is most likely to benefit.

Keywords: the state, digital capitalism, global economic crises, the Internet, transnational capital, state–corporate relations

Prelude: Pivot to Internet Plus

China and communications are two major engines generating decisive dynamics in the global market economy. This is palpable especially during a worrisome global economic situation from 2008. Led by disruptive innovation centering on digital networks, digital devices, and digitized information services, the communications ecosystem has created a few high-growth outlets in the overall sluggish economy. In China, meanwhile, the corporate-run cyberspace is building a global impact—as the country has the world’s largest number of Internet users and is nurturing a few Internet conglomerates. New Web-empowered ICT applications, from artificial intelligence to cloud computing to the Internet of things, are poised to infiltrate and transform the economy and social life. As the digital economy of applications and services has become one of the most important drivers in the world today, and as the Internet is the backbone for such a digital economy, China’s rising power on this frontier encourages the Chinese state to deliberately integrate network connectivity and networked applications into the country’s key national strategy for economic restructuring.

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Since the 2008 global economic crisis, the Chinese state has engaged in a rethinking of development. Before 2008, China reaped rapid GDP growth by turning itself into a cog in the global production system. But the export-driven and investment-dependent model is not sustainable; different but interrelated symptoms include dependence on a low-wage assembly regime, dependence on foreign technology, and deep entanglements with foreign capital of various kinds. After 2008, economic restructuring, defined as a purposeful transition to a consumption-based and innovation-driven economy, became a top state priority in a way never seen before (Naughton, 2014). The new administration pledged to cultivate more sophisticated divisions of labor, foster domestic consumption capacity, and encourage innovation and entrepreneurship (Chinese Communist Party Central Committee, 2010, 2015). But does the Chinese state possess a coherent plan for change in light of the vulnerabilities exposed by the 2008 global economic crisis?

Notably, the state finds some answers in the realm of communications. Communications underpinned China's global convergence in the past three decades. The gigantic volume of electronics production for export and the country's systematic deployment of networked applications showcase the state's intention to position ICTs as a driver of national economic development. In the current stage of economic restructuring, the state further accords communications, especially Internet connectivity and networked applications, an unprecedented status, culminating in the Internet Plus Action Plan in 2015. The plan encompasses a long series of industrial, technological, and spending initiatives. The gist is to use the Internet—with which innovative information applications and disruptive business and managerial models can be deployed—as a crosscutting lever, both for integration with other areas of restructuring, from banking system reforms to industrial modernization to the creation of renewable energy, and for propelling a new digital capitalism capable of uplifting the Chinese economy in the global setting (State Council, 2015).

The Internet Plus policy is just a prelude. The state's 13th Five-Year Plan for 2020, which incorporates Internet Plus, affirms the Internet and ICTs as the general-purpose catalyst for innovation, structural reforms, and the new industrial revolution, all critical restructuring goals the 13th Five-Year Plan pledges to achieve. Apart from driving China's internal transformation, the Internet and ICTs are also designated to support China's global economic leadership. In 2016, not only did the Chinese state create and chair the G20 Digital Economy Taskforce, but it also led the passage of the G20 Digital Economy Development and Cooperation Initiative. As a major contributor to global economic stability and growth, China is now forging a global consensus centered on the digital economy.

Analytical Purpose

This pivot to Internet Plus raises questions about the political economy of China's digital economy, which predates the Internet Plus strategy and therefore will condition its implementation. Using the Internet as a metaphor to represent the broader "Web-oriented communications commodity chains" (Schiller, 2014, p. 7) that encompass access devices, networks, and services and applications, I thus have two foci of analysis: first, to historicize the political economy of China's digital economy, especially the liberalized and quasiliberalized sections of the digital economy, and, second, to characterize the nature of the state's interventions under the auspices of economic restructuring. Ultimately, I focus on the structural

constraints that state power faces in the quest of turning the digital economy, an unevenly globalized economic sector, into a critical level for economic restructuring.

This analytical purpose is achieved through a comparative and within-case historical analysis of three state–corporate disputes involving Foxconn, Qualcomm, and Alibaba, which were chosen for three reasons. First, although these corporations represent distinct areas, respectively, of hardware manufacturing, chip production, and cyber business, collectively they are heavyweight and even monopolistic members of the Web-oriented transnational commodity chain that crisscrosses China, illustrating China’s positions in the global system of digital capitalism. Second, although each is deeply entangled with different yet interrelated vulnerabilities of the Chinese economy, including but not limited to dependence on the low-wage assembly regime, dependence on foreign intellectual property, and dependence on foreign capital of various kinds, the importance of these firms is on the rise because they form the industrial foundation for the new digital economy—when Web-enabled devices and platforms are becoming ubiquitous and critical. Third, instead of reproducing the state–market dichotomy, looking into these corporations and their disputes with the state also serves the analytical purpose of “disaggregating state goals, state–business relations, and state methods” (Hsueh, 2015, p. 628), which coalesce into the political economy of China’s digital economy.

Apart from synthesizing sources drawn from trade journals, yearbooks, newspapers, government documents, and scholarly publications, I also use the People’s Congress, China’s legislation authority where rich discussion of policy ideas takes place, to identify proposals submitted by its national representatives between 2010 and 2015 and the media reports on its 2015 annual meeting that have bearing on the high-profile disputes. Although episodic, all of the disputes, when understood in relation to industrial conditions and to the structure of bureaucracy, reveal multifaceted state–business relations and uncover incoherence in the state’s ability to forge a new digital economy to the national advantage.

After first outlining a theoretical framework, the following sections delve into the three state–corporate disputes. I argue that although pivoting to the digital economy, the state has an incoherent ability to make effective policy for change in this critical field. The combination of state-power decentralization and the externally oriented logic of the Web-oriented commodity chain is likely to turn Internet Plus into a risky strategy for economic restructuring, but the cyber business section of China’s digital capitalism is most likely to benefit.

Theoretical Positioning

The Chinese Internet research community has connected the Internet with development. However, with some exceptions (Harwit, 2008; Zhao, 2010; Zhao & Schiller, 2001), the literature has a disproportionate focus on social-political implications of the Internet (Tai, 2006; G. Yang, 2009; Zheng, 2008; also for reference, see Qiu & Bu, 2013; Sullivan, 2014), while taking Internet development as a pragmatic yet unproblematic technoeconomic choice made by the authoritarian state. If asked, the prevailing technoeconomic question is, can the state-guided economy build a free-market Internet (Kluver & Yang, 2005)? In recent years, in light of China’s ambitious industrial policy intended for domestic Internet-related industries, Western analysts conversely portray a tight fusion of interests between the

state and Chinese capital (U.S. Chamber of Commerce, 2016). Implicit in both propositions is a reductive treatment of the political economy of the Internet to the state–market dichotomy. To go beyond this simplistic state–market binary framing, it is important for future research to disaggregate competing state imperatives, reveal disparate interests of various units of capital the digital economy entails, and to follow complex, evolving, and even contingent state–business relations, which are contentious, collaborative, and ambiguous at once.

The broader interdisciplinary field of the information society and ICT policy tends to prioritize the perspective of industrialized countries, conceptualizing ICTs as the “drivers” of productivity and efficiency and promulgating the Western model of market-led technological diffusion (Mansell, 2010). This dominant perspective pays little attention to contextual issues that non-Western developing nations face, such as opportunities and constraints in the global capitalist system. By extension, mainstream ICT4D literature sees the Internet as a malleable tool and development as an acupuncture operation (Heeks, 2009), still leaving ICT development as a neutral-sounding black box with insufficient analysis of its institutional and political economy nature. Because the digital economy has become a multibillion-dollar business, the linkages between digitalization and development are mediated by economic policy, the political economy, and social dynamics. To avoid abstractly conceiving the Internet as the change agent, the research agenda should include the political economy, especially state–business interactions, as a critical level of analysis, in light of a country’s historical position in global digital capitalism.

Informed by these critiques and sensibilities, the analytical framework in this article synthesizes the scholarships on digital capitalism and on China’s state–business relations.

China and Global Digital Capitalism

Critical scholars in the West have theorized how transnational corporate logic colonized digital networks and even recast Internet-related activities and programs into “digital capitalism” (McChesney, 2013; Mosco, 1989; Murdock & Golding, 2010; Schiller, 2000). As a global system, digital capitalism comprises transnational corporations, global production networks, and international governing entities. As a historical trend, it presses developing countries to conform and to participate. As a concept, it encapsulates the U.S.-dominated technoeconomic context within which national development takes place—especially as it underscores the central role of communications in recasting global economic dynamics (Schiller, 2000).

Developing countries are integrated into this hierarchical global system to varying degrees (Heinrichs, Kreye, & Fröbel, 1981). In global digital capitalism, China is first and foremost a downstream manufacturing powerhouse. However, new zones of market subsumption are forged as media, technology, and telecommunications have become a new epicenter of market reforms in the 2000s and especially after 2008 (Zhao, 2008). Hit by the 2008 crisis, the Chinese state accelerated the corporatization of the state-controlled realm of communications. The Internet Plus policy introduced in 2015, however, implies that the measures intended to unleash state media capital had achieved limited results for economic restructuring. Now, the Internet, which supports a new digital economy and heads a Web-oriented commodity chain, is a new engine designated to power China’s political economy forward. The pivot to

Internet Plus, therefore, represents a comprehensive drive to both elevate and mold China's digital economy to meet national economic preferences.

Although celebrated as a revolutionary force, China's existing digital economy is partly shaped by the old economic dynamics—and the accompanying power structures. Disaggregating the Web-oriented commodity chain that crisscrosses China, this study reveals the transnational corporate dynamics that both contend and overlap with the state in shaping China's digital economy. After economist Martin Hart-Landsberg (2013) noted the resistance registered by vested interests in the existing global economic dynamics against economic restructuring, this study explores further: In this new round of forging a new digital economy as part and parcel of China's economic restructuring, to what extent can the Chinese state harness transnational economic dynamics and contest constraints born of the old growth model?

State–Business Relations in a Globalized Economy

Achieving economic restructuring requires the state to actively renegotiate with the global system—through domestic administrative and legal institutions. In the past three decades, decentralization laid the institutional bedrock for the export-driven economy, with regulatory tasks and law-making power delegated to local governments (Xu, 2011). This scheme equips local governments with sufficient autonomy and incentive to act in an entrepreneurial fashion. To make a forceful push on economic restructuring, however, political scientist Andrew Mertha (2012) suggests that the state needs to “ensure that a not insignificant amount of power and wealth be taken out of the hands of local (and, to some degree, national) leaders” (p. 8). Although recentralization and reregulation are already important new trends in China's market governance, they are by no means linear countervailing processes, but have created ambiguous situations of decentralized centralization, where the provincial authority, after consolidating vertical power, has a nonbinding relation with the state authority, but falls more under the direct leadership of local governments (Friedman & Kuruvilla, 2015; Mertha, 2005a).

Still, the state has managed economic global integration at its own “gradual, measured” pace (Kim, 2009, p. 75)—through differentiated regulatory approaches toward various sectors depending on their strategic values (Hseuh, 2015). Along the Web-oriented commodity chain, for example, the state retains its ownership domination and licensing authority in network operation and, thereby, is able to wield some unusual regulatory power for facilitating import substitution in the adjacent liberalized network equipment market. What political scientists have not noted, however, is that the strategic value of a particular economic sector is not fixed, which therefore may play havoc with the established regulatory structure and create new reregulatory imperatives. On the one hand, as the Internet enables ICTs to integrate with all sorts of socioeconomic operations, the gravity of the digital ecosystem shifts from telecom networks to proprietary platforms and mobile applications (Xia, 2016), negating considerably state power in network management. On the other hand, the strategic value of the liberalized and quasiliberalized Internet-related industries has significantly expanded to affect the broader goals of economic restructuring. The resurgence of a capitalist class in cyber business is one sign of a power shift (Y. Wen, 2015), and the Internet Plus policy is another sign, which opens up leeway for private cyber giants to influence, if not hijack, the state's agenda.

In this context, new theoretical and empirical questions arise: Can the state effectively reregulate the digital economy—when state power over various issue areas is unevenly distributed on the scale of centralization, decentralized centralization, to decentralization, and, more important, when the liberalized sections where the state retains relatively little power have contradictorily become unprecedentedly important? This study reveals that economic restructuring targeting the Web-oriented commodity chain entails “multilevel bargaining across multiple issue areas both at home and abroad” (Kim, 2009, p. 78) and that intervening factors, including the decentralization of state power and fragmentation of bureaucratic authority, continue to dilute state reregulatory power aimed at curbing old transnational corporate dynamics, but have conversely enabled “loopholization” for the new digital economy.

With these analytical blocks and questions, the following sections assess the state’s intention and ability to make policy for change—along the Web-oriented commodity chain—by focusing on state-business interactions involving Foxconn, Qualcomm, and Alibaba.

More Than a Controversy: Foxconn and Low-Wage Accumulation

The biggest predicament China faces is the difficulty to correct the wage-depressing mechanism that has made China a global factory, but has ruined the well-being and consumption capacity of its worker and peasant communities (Hung, 2011). In light of the pivot to Internet Plus, does China’s digital economy offer a better alternative, or is it linked to the low-wage assembly-and-export model that the crisis destabilized? The latter is the answer—China’s ICT manufacturing is the number-one business for the export-processing regime. From the 1990s, the country has grown into the low-cost global supply base for electronics, hosting Taiwan-headquartered mega contract manufacturers responsible for final assembly and export to the Western markets.

Foxconn is exemplary. With no brand name of its own, but providing comprehensive manufacturing services for brand-name companies on the global scale, Foxconn along with other contract manufacturers constitute the largest segment of ICT production in China in terms of revenues, production facilities, and employment (Lüthje & Butollo, 2016). After Apple’s iPhone ignited a worldwide consumption fad in 2007, Foxconn, the world’s number-one contract manufacturer with 70% of its operation in China, has supported this wave of info-techno consumerism. Apart from Apple, other major brand-name companies, including Chinese device vendors Huawei and Xiaomi, also work with Foxconn as their contract manufacturer for final production.

To sustain its business development, however, Foxconn needs to go beyond what it has near monopolistic power for: low-cost volume contract manufacturing. Despite its superb ability to slash cost through industrial, mechanical, and organizational innovation, Foxconn has little power over the supply chain, and its business model is dependent on inexpensive migrant workers. After 2008, to relieve the downward pressure on corporate profits, Foxconn relocated massive production facilities to interior provinces while diversifying into new business areas. The low-margin business is a major reason for concern and is subjected to active upgrading efforts, but Foxconn’s low-wage system, which contributes to labor unrest and, more broadly, to the depression of residential consumption capacity, has not been changed much (Lüthje & Butollo, 2016).

The low-wage system, based on local minimum wages, derives partly from the decentralization of economic decision making. From 1993, labor administrative authorities had and continue to have the legal right to determine local standards of minimum wage, thereby causing systematic suppression of labor compensation in the rush to attract foreign industrial capital (Bao, 2010). After 2008, as a gesture of economic restructuring, local governments raised the minimum wage, but no place had it close to 40% of the urban residential income (Q. Q. Zhang & Li, 2013). Without excessive overtime, the minimum wage rarely meets the living wage standard. But export-processing enterprises use it as the default standard for base pay, forcing workers to “willingly” accept overtime work (Qi, 2015). As a result, excessive working hours were and continue to be a hallmark feature of the repressive wage system (Lüthje & Butollo, 2016). Proposals submitted to the People’s Congress from 2010 to 2015 expose the widespread persistence of excessive and unpaid overtime (Financial and Economic Affairs Committee, 2012, 2014; H. L. Lu, Shen, & Pan, 2012).

The call for economic restructuring did encourage critical reflections on the low-wage mode of accumulation, especially the excessive overtime practice. The All-China Federation of Trade Unions (ACFTU) was unusually vocal. In 2015, Guo Jun, ACFTU party secretary, criticized Foxconn for its unlawful overtime as causing suicides among workers. This comment pushed Foxconn back into the spotlight after the series of worker suicides in 2010. The corporate giant reacted bluntly, ridiculing Guo for never making an onsite investigation. As a mass organization under the party leadership, the ACFTU has neither legal rights to organize strikes nor administrative power to impose business-related approval or penalty and thus is crippled to defend the interests of labor. Echoing the decision of the 18th Party Congress in 2012 to rule the country by law, the ACFTU (2015) declared its intention to use legal means to improve union work, specifically to use “media exposure and public condemnation” (para. 10) as a method of law enforcement. Guo’s move reflected this new strategy.

But the brief media attention the ACFTU managed to stir up was far from enough for altering its weak institutional position overpowered by decentralized state–corporate alliances. Although the ACFTU—a weak hierarchical national organization—has deliberately decentralized its operation to encourage primarily firm-level collective bargaining over wages with management (Friedman & Kuruvilla, 2015), the labor law has not made this mechanism an ironclad requirement, giving leeway for disobeying management (X. Y. Chen & Shen, 2015a, 2015b; Financial and Economic Affairs Committee, 2015). Moreover, the bargaining is supposed to be nonadversarial, leaving the final collective contract an agreement between the local government and the management (Zheng, 2009). With little power to overrule local authorities, the ACFTU was and continues to be a weak watchdog mired in decentralized labor relations, unable to ensure industrywide or nationwide wage increases in step with economic growth as promised by the government’s restructuring scheme.

If progressive labor-law reforms represent an increase in centralization, local authorities are still responsible for law enforcement in a decentralized fashion. But local officials lack incentives to correct widespread substandard practices, especially if law compliance would add costs to local businesses; besides, their punitive methods limited to warnings and fines are insufficient to overcome the corporate incentives for noncompliance (Zheng, 2009). Given the nodal position labor administrative authorities occupy in law enforcement, the 18th Party Congress emphasized strengthening such grassroots capacity.

By July 2014, 28 provinces had passed workplace inspection regulations. The Chongqing regulation effective in January 2015, for example, requires labor-intensive enterprises to keep records of employees' regular and extra working hours and instructs them to set up procedures for whistleblowing (B. Yang, 2014). Such decentralized regulatory mechanisms are a positive development, but short of raising minimum wage—across the industry and its various locations in the country—they are likely to have limited effectiveness. In October 2014, intensified production but reduced overtime led Foxconn workers in Chongqing to go on strike (Luk & Wong, 2014), where the minimum wage standard rose to 1,250 yuan per month (\$198), but still fell far below the monthly urban residential income of 3,700 yuan (\$587).

With Foxconn occupying a nodal position in the mobile Internet ecosystem and, thereby, having inserted China into the low-wage assembly division of labor in the global production network, this case of public dispute with the ACFTU illustrates that in the device assembly section of China's digital economy, policy and institutional transformation necessary for economic restructuring, especially for empowering digital labor and breaking up the low-wage system so as to raise residential income and consumption capacity, is lagging behind transnational corporate moves. One can even make an educated guess that the further spread and elevation of the digital economy encouraged by the state during the economic restructuring are likely to reinforce and expand the low-wage model.

Taming Foreign Internet Provider Tigers: A Wrist Slap on Qualcomm

Dependence on foreign technology is another malaise the Chinese economy suffers from, and China's digital economy is not exempt. While China's forceful technonationalist measures have heightened Western concerns, the following case of Qualcomm qualifies the prevailing analysis by illustrating serious limitations of statist technonationalism.

In the assignment of turning China into a global economic leader, the mobile Internet stands out because its deployment is a prerequisite for cultivating next-generation innovation, consumption, and entrepreneurship. However, making headway in the mobile Internet ecosystems is no easy task. In the age of "platform imperialism" (Jin, 2015), layers of platforms on which services and software operate have become the new gateways to the presumably boundless Web (Gehl, 2010). The popularity of the iPhone, for example, channels a huge number of global users to Apple's application store. As noted by the Ministry of Industry and Information Technology (MIIT, 2014b), pocket-size devices with computer functionalities have become "an important carrier for convergence technology, a key gateway to Internet services, and an important platform for innovation" (para. 3).

This new mobile-Internet ecosystem has amplified China's technological deficit. Sourcing chips from Qualcomm, Samsung, MediaTek, and Huawei, China is the largest device production base, which produced, in 2013, 1.5 billion units of cellphones or 81.1% of the global total. Although 31.6% of the total output or 461 million units carried Chinese brands, profit was below zero when all Chinese makers were taken into account because of systematic dependence on imported components, especially chips (MIIT, 2014c; Sun, 2015). If dependence on foreign chips is a major hurdle for domestic handset makers, it is even a bigger risk for the Chinese economy in the age of cloud computing and the Internet of things—as chips are built into all sorts of operation. As the major buyer of chips, China-based companies of all kinds

procured nearly 50% of the global output (Sun, 2015), spending \$232 billion in 2013 on semiconductor imports and making semiconductors the biggest item for importation (Mozur & Hardy, 2015).

Qualcomm, the largest chipmaker for smartphones and tablets, is a linchpin in this industrial landscape. The company entered China after the United States pressed China during the World Trade Organization negotiation into adopting the company's second-generation (2G) mobile communications standard, CDMA, an alternative to the Europe-backed standard GSM. In the 2G era, this Qualcomm-backed standard was peripheral. Still, entry into China benefited Qualcomm with revenue from equipment and handset sales in China and from a network of equipment manufacturers that licensed the CDMA technology. Holding 4,800 patents as of 2006, Qualcomm has a business model of licensing its technology portfolios for royalties while selling chips directly to handset makers (Balint, 2006).

The transition to 3G mobile networks, however, centralizes Qualcomm in the explosively growing mobile Internet ecosystem. All 3G standards have CDMA components, enabling Qualcomm to seek royalties on all 3G handsets no matter whether they use the company's chips or not. WCDMA, for example, uses a smaller percentage of Qualcomm's patents than CDMA does, but Qualcomm still charges the same rate (Balint, 2006). China Unicom, the Chinese operator with the WCDMA license, used Qualcomm processors in 65% of its phones (Chokkapan, 2013). As for the dominant telecom operator, China Mobile, its take-up of TD-SCDMA, the China-only 3G standard, substantially reduced Qualcomm's revenue, but not for long. Because TD-SCDMA is an awkward technology, major stakeholders, including China Mobile, were eager to pass it. In December 2013, only five years after having issued the 3G operational licenses, the MIIT issued 4G licenses. Having made 4G handset chips available two years earlier than Chinese counterparts, Qualcomm reinstated itself to dominance, holding 65% of the worldwide 4G liquid crystal display market in 2015 (ABI Research, 2016; B. L. Chen, 2014).

Qualcomm's dominance, however, triggered a technoeconomic nationalist assault. In December 2013 when the MIIT was about to issue 4G licenses, the National Development and Reform Commission (NDRC) put Qualcomm under an antitrust investigation. In 2014, the industrial alliance of domestic handset makers reported Qualcomm's anticompetition practices to the NDRC, specifying detrimental effects on the domestic industry. To remove a source of uncertainty, Qualcomm reached a settlement in 2015 by paying a \$975 million fine. Under the settlement, it offered special packages of 3G and 4G essential patents to Chinese device makers at lower rates than the original bundled package. In addition, it agreed to collect royalties based on 65% of the phone's selling price instead of the whole wholesale price as it does in the rest of world (Randewich & Miller, 2015).

Unlike the ACFTU, the NDRC is a tremendously powerful comprehensive bureau, coordinating a wide range of functions pertaining to development. More important, this macro-level planning and supervisory power is augmented by micro-level authority to scrutinize individual firms. The passage of the Antitrust Law in 2008 gives the NDRC, along with the Ministry of Commerce (MOC) and the State Administration for Industry and Commerce (SAIC), administrative power to enforce the law. Since being enacted, the law has put Microsoft, Japanese auto part vendors, and South Korean liquid crystal display panel vendors under scrutiny ("China makes anti-trust thrusts," 2014). Qualcomm paid the largest fine of the kind so far.

Notably, although the NDRC flexed its augmented regulatory muscle against this foreign corporate giant, it still left the company's business model intact (Clark, 2015). Qualcomm saw this settlement as a stepping-stone toward full participation in the Chinese market, although the settlement benefited Chinese handset makers and although Qualcomm has faced serious challenges in the wireless market. The outcome therefore reveals a dilemma the economic restructuring, especially its technonationalist efforts, faces: The state's harsh stances toward global Internet provider (IP) giants can hardly undercut their heavy participation in China's mobile Internet industry or in the economy at large because Chinese telecom operators and Chinese brand-name vendors all have huge demand for Qualcomm chips to ramp up advanced services and products. The lenient approach also reflects China's plan to use intellectual property rights to build an "innovation-driven nation," a pledge made at the 2006 National Science and Technology Conference. Since 2008, the Chinese state has stepped up IP regulations to support new technology-instigated industries (State Council, 2008, 2012).

If the Antitrust Law empowering central bureaus to constrain IP-based transnational corporate power is an increase of regulatory centralization intended ultimately to enhance the technological bargaining position of China's digital capitalism, the deep entanglement of the Chinese mobile Internet ecosystem with transnational commodity chains, and state policies intended to create a larger IP ownership base, all circumscribe the exercise of such power.

Mainstreaming Alibaba: Legal Localism and Ownership Transnationalism

Driven by externally oriented circuits of accumulation, the Chinese economy lacks commanding business models. For the sake of economic restructuring, the Web 2.0 economy gives the country a chance to spearhead demand-driven business innovation. Nonetheless, because Web 2.0 thrives on foreign financial and portfolio capital, on the one hand, and on the preexisting counterfeiting industrial base, on the other, the state faces regulatory dilemmas when it encourages Web 2.0 to permeate industry, commerce, and social life. The following case of Alibaba illustrates the state's unwarranted attempt to gain command when unleashing cyber corporate power. Ultimately, state-power decentralization and fragmentation allow loopholes for the new digital economy. Again, I start with a brief history.

China's Web is unique because of its largest user base. As of 2014, Internet users were 632 million (China Internet Network Information Center, 2014). This huge user base provides fertile ground for cyber startups. China is unique also because private or shareholding Web companies have dominated the Chinese cyberspace, striking a sharp contrast with the rest of the world where Silicon Valley-originated intermediaries prevail. As of 2014, China boasted 16 websites in the top-100 global site ranking, trailing behind the United States with 52 websites and eclipsing the distant third-tier group of Japan and Russia with five websites from each country (Jin, 2015).

Although the Great Firewall and market restriction shield Chinese Web companies from direct competition from Silicon Valley, Chinese companies tap into the same pool of financial resources as their U.S. counterparts. Back in the mid-1990s when the Web economy just took off, the Chinese authority regarded Web activities as an extension of telecom services and thus resisted the investment hype on Wall

Street. Web companies could hardly get investment from state banks, thus turning to overseas venture capital. Between 1999 and 2013, venture capital and private equity funds invested more than 200 billion yuan in China's Web economy—having given Softbank and Yaboo a combined 57% of stock ownership of Alibaba, a few American venture capital firms 55% of Baidu, and Naspers 38% of Tencent, all prior to their initial public listings (Barboza, 2014; MIIT, 2014a). By condoning the overflow of global financial capital above the legal cutoff, the state has implicitly supported the ramp-up of the Chinese corporate-run cyberspace.

Intermediary Liability: Legalizing Local Protection

Alibaba spearheaded turning the Internet into a marketplace. Its founder Jack Ma "foresaw a new group of Internet users, namely 'Net businesses,' taking over the dominant role from user groups that were typically called 'Net people' and 'Net friends'" (Liu & Avery, 2009, p. 68). By providing platforms to numerous retailers, wholesale suppliers, and even individual entrepreneurs, Alibaba has drummed up an e-commerce boom, both catering to the national need for job creation and tapping into participatory sentiments of consumerism. Celebrated as a catalyst for economic restructuring, Alibaba nonetheless reinforces many symptoms of China's old growth model, including counterfeiting.

Although deemed as unprecedented for growing up in a "state-controlled China" and then becoming part of "business folklore at the epicenter of global capitalism" (Kehoe, 2014, para. 5), Alibaba faced a domestic crisis after its historical IPO on the New York Stock Exchange in 2014. In early 2015, the SAIC posted online a white paper, alleging the company's Taobao Marketplace for selling counterfeit products. This white paper was based on memos from an earlier meeting between Alibaba executives and an inspection team made up of SAIC officials from Beijing, Jiangsu, Shandong, Guangdong, and Fujian (Xing, 2015).

Counterfeiting is rampant in China. To combat diffused counterfeiting activities in the offline world, the SAIC mobilizes its local bureaus to raid production and commercial sites and to impose fines (Mertha, 2005b). In the online world, however, the legal liability of cyber intermediaries is undefined. Proposals submitted to the People's Congress illustrate that as the Internet is becoming a marketplace for the economy, policy makers are on the fast track to institute a legal and regulatory framework (Financial and Economic Affairs Committee, 2014, 2015). But none of the regulations issued by central authorities specify the parameter of legal liability for e-commerce intermediaries (MOC, 2014; SAIC, 2014). In the case of Alibaba, the Zhejiang Provincial Bureau of the SAIC—in a hierarchical structure of decentralized centralization—has territorial jurisdiction, but lacks economic incentive or political clout to punish the e-commerce giant (Xing, 2015).

At stake is the legitimacy of Alibaba in the global financial network. The fact that the warning had not been released prior to the IPO could have caused Alibaba overseas litigations. The company hit back swiftly, accusing the national authority of regulatory misconduct. On the following day, the Xinhua News Agency published an opinion piece (as cited in Shih, 2015, para. 24), warning the e-commerce giant to stop "bullying others" while criticizing the SAIC for having failed to release its findings earlier. Industrial pundits read this semiofficial statement as a prelude to punishment of Alibaba, which nonetheless would

be conducted in a more discreet fashion (Shih, 2015, para. 24). To protect Alibaba's access to global financial capital, the SAIC later retracted its allegation, announcing that the white paper has no legal power.

Meanwhile, local protectionism was underway through legal means. In 2015, the Hangzhou Municipal Government (2015) in Zhejiang passed the by far most comprehensive regulation for e-commerce providers. The local rule affirms its territorial jurisdiction over e-commerce providers headquartered in the city despite the networked nature of e-commerce. It requires e-commerce companies to register and oversee retailers and wholesalers using the proprietary online systems. It also stipulates that e-commerce providers must establish an in-house procedure to protect intellectual property rights. By and large, however, this is a cyber-business-friendly regulation. It does not place any legal liability on e-commerce providers if an intellectual property rights breach happens; knowingly allowing unlicensed business entities to make sales only causes a fine of no more than 30,000 yuan. In fact, putting Alibaba in one single municipal jurisdiction, rather than under the national authority, is likely to reduce regulatory scrutiny and legal liability it would face otherwise.

Internet Plus: Normalizing Ambiguous Corporate Nationality

Access to global financial capital is conducive to the concentration of cyber business to a few platforms. Whether for information search, social interaction, video streaming, or e-commerce, market concentration has characterized each of the major categories of Web-based information services. The well-known BAT league (i.e., Baidu, Alibaba, and Tencent) made a flurry of mergers and acquisitions after 2008. By buying into each other's stronghold, they have gained increasingly similar portfolios. However, because of the difficulty to access sufficient capital from China's banking system or from its underdeveloped bond market, these companies and many others have deepened their reliance on foreign investors—by listing on non-Chinese exchanges—to keep their businesses growing (Rosier, 2014).

Alibaba has also led the efforts to expand online influence offline and to fortify its position as the middleman for cyber trade. It has applications for social networking, payment service, personal transportation, e-hospital, mobile gaming, online video, sports merchandise, retailing, and app search (Horn, 2014). In the health market, for example, it has a shareholding company to provide cloud-based information services for patients and to sell prescription drugs online. In the automobile market, Alibaba teamed up with the Shanghai Automotive Industry Corporation to develop Web-connected cars. As Jack Ma indicated, despite overblown market valuation, cyber companies often have a singular stream of revenue and, as a result, may not have a sustainable business life. How to build a symbiotic relationship with traditional sectors, which are often state-dominated and heavily regulated, is a lesson cyber companies need to learn (X. R. Zhang & Jiang, 2015). Alibaba is not alone. In 2014 when Alibaba spent \$17 billion on buying activities, Tencent spent \$7 billion, and Baidu \$1.5 billion (F. Wen, 2015). Notably, the Internet Plus policy affirmatively fueled this competitive expansion, making unfettered access to global financial capital an all-time importance.

Corporate nationality grows into a sensitive issue, however. Exemplified by Alibaba, Chinese cyber companies set up Caribbean islands-based "variable interest entities" (VIEs), a kind of shell

company, to get around the regulatory restriction on foreign ownership in the Internet value-added market (Harwell, 2014). The transnational ownership structure subjects a company's acquisition of domestic assets to a national security review. So, while the state let cyber giants into the driver's seat for overhauling the economy, Web companies with the VIE structure paradoxically face investment barriers because of the competing national security mandate (Touzi Zhongguo, 2013).

Cyber entrepreneurs have gained remarkable political influence after 2010—with new membership in the People's Congress and the People's Political Consultative Conference. They pressed hard to ease the restriction, which has made a difference especially when the new administration sees cyber business as a beacon of hope for economic restructuring. In 2015, echoing the proposal made by the CEO of Tencent at the National People's Congress, Premier Li turned "Internet Plus" into a national policy mantra. To align the financial structure of cyber giants with national economic objectives, in 2015 the MOC put forth a foreign investment draft law. In light of the widespread existence of the VIE structure in restricted Internet-related business areas, the new law allows such companies to prove with supporting documents that Chinese partners have the actual control and thereby qualify them as Chinese companies so as to negate the national security mandate (MOC, 2015).

Although the new law has potential to accord cyber giants with national treatment and to legalize the overflow of transnational financial capital in restricted areas, the state in 2015 further removed the cap on foreign investment for e-commerce (MIIT, 2015). This latest move is likely to reduce the functional value of the VIE structure—and even help lodge accumulative capital flows in the Chinese territory. Intended to expand the cyber business section of China's digital capitalism, whether these fortuitous moves will give the state more command or turn the state more into a transnational capital's apparatus, however, is too early to tell.

Discussion and Conclusion

The 2008 economic crisis with which China is trapped derived fundamentally from the stagnation tendency of global capitalism, especially the disconnection between the high efficiency of the economic system and the capped standard of livelihood for the majority of the world's population (Sprague & Ietto-Gillies, 2014). In this unbalanced economic dynamic, China has a significant share because the country aggregates a world-class export-processing capacity, but depresses the consumption capacity of its own people. The old model is denounced for future development, but how to move forward, specifically how to reform the well-entrenched dynamics and to build new drivers for economic growth, is contingent on strategic moves, social forces, and the linkages between the state and corporate forces.

Internet development in China has created a global impact, leading to deliberate changes in the state's national strategy. This manifests itself when the Internet and the digital economy it supports take up a central position in the economic restructuring, and when state actions intended for this vital realm are increasingly tied up with the broader goals of fixing structural illness on the one hand and creating new growth drivers on the other. The crosscutting and catalyzing role designated to the Internet and ICT industries means that the political economy of the digital economy is never so important. Given this unprecedented importance, this article has engaged the still unfolding economic restructuring—especially

in and around the digital economy—through three case studies, to explore the extent to which state power, still constrained or skewed by fragmentation and decentralization despite uneven degrees of centralization, can make policy for change in this critical realm.

Traversing major terrains from device assembly to technological innovation to cyber business, I have shown that Internet-related industries share many difficult problems with China's political economy and manifest different yet interrelated symptoms: dependence on the low-wage assembly regime, dependence on foreign technology, and a deep entanglement with foreign capital. Predicated on this political economy jointly shaped by the state and transnational corporate dynamics, the Internet Plus policy is likely to be a risky strategy.

But we also see that the state is acting to manage this political economy. In the name of economic restructuring, the new leadership has combined a strong commitment to the digital economy with overt willingness to punish leading enterprises. However, unlike what the dichotomous state-market framework prevailing in the Chinese Internet research indicates, the state is not a unitary entity and does not have a uniform relation with the digital economy either. Due to the state's modest centralization amid a complex globalized economy, intervening factors, including rivaling developmental imperatives, skewed grassroots institutional capacities, and a transnational corporate stratum with significantly enhanced domestic political influence, are creating scattered initiatives and uneven commitments in the increasingly vital digital realm.

The state's capacity to regulate varies along the commodity chain, depending on what is at stake for China and for the transnational business ecosystem—and on the relative positions of the corresponding supervisory entities in China's bureaucracy. As administrative power remains decentralized, the central state agencies that take action against corporate giants and the developmental pitfalls they represent often do not have real power, as in the case of the ACFTU and SAIC. They can hardly push through change when local authorities, which oversee a local political economy directly entangled with global dynamics, are out of alignment. Even when the acting agency has substantive power, as in the case of the NDRC, because foreign capital is so entrenched in local economies and in the commodity chain, and because the central authority wants to moor a transnational digital economy in China, state actions often end up reflecting local and corporate special interests. So, the state's ability to make effective policy for change is incoherent and restricted.

Ultimately, under the banner of Internet Plus, the state intends to forge an upgraded Chinese digital capitalism. This article sheds light on the contingency the state faces in saddling and yoking this dynamic economic sphere to its preference. The state's agenda to expand the cyber business section, and the fact that private cyber giants control powerful Web 2.0 business models and have gained considerable political influence, have parlayed into a cyber-business-friendly legal and regulatory approach—through local or departmental loopholes. As exemplified by the case of Alibaba, despite the state's restriction on foreign investment and operation, the widespread VIE arrangement has created a transnational circuit of capital, enabling the transnational financial community to feed on China's explosively growing Web 2.0 business. Unable to sever this conduit to global capital, the state is altering its own investment policy at the expense of its own security mandate.

As China's communications gain strength, scholars are prompted to discuss their global impact. The nature of the impact is predicated on the politics of the economic restructuring concerned primarily with industrial and business modernization and with bettering China's position in the hierarchical structure of global capitalism. Under the banner of Internet Plus, the state is buttressing China's digital capitalism, especially its cyber business prowess, but the issue of empowering digital labor and stimulating domestic consumption seems to have taken a back seat. Overall, although creating friction, state actions collude with corporate interests on making the Internet an omnipresent vehicle of accumulation and enlisting private and transnational capital as stakeholders—while continuing to offload the majority of socioeconomic costs to Chinese labor.

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