



**Policy Brief**

# **Deliver on the Promise of the Platform Economy**



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**Recommendations on Digital Platforms for Ride-hailing and Food Delivery Services in China**

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## 1. Context for the rise of on-demand service platforms in China

The rise of Chinese digital platforms cannot be fully understood without being put in the context of China's decade-long pursuit of 'informationizing' its economy and the seismic changes it has effected. Policy orientation has offered sustaining institutional support for the IT industry. Internet penetration rate in China has risen from 2 percent in 2000 to 53.2 percent in 2017 (CNNIC, 2006, 2017). An immediate indicator is the booming online retail sector, whose sales exceeded \$1 trillion in 2017, not only dwarfing that of the US market (\$455) but also accounting for 40 percent of the global e-commerce market (Tong, 2018).

With the global expansion of internet giant companies represented by Alibaba, Baidu, and Tencent, China's digital presence on the international landscape is on the rise. The digital policies under the current leadership of President Xi and Premier Li continue and reinforce the nationalistic and technocratic tendency. The passage of China's Cyber Law (2017) represents the high-water mark for nationalism toward internet governance. The fixation on technologies is prominent within government documents for economic restructuring and social prosperity. Initiatives like Internet Plus and Made-in-China 2025 are among the pivotal national strategies to innovate and restructure Chinese economy. Consequently, a strong pro-business yet politically conservative regulatory framework emerges.

China's digital ecosystem sets itself apart in two characteristics. First, there are new multi-functional, cross-cutting digital platforms that lack comparable references elsewhere in the world. For example, WeChat is a "super-sticky" app that combines a wide range of functionalities for social interactions, news, entertainment, restaurant booking and reviewing, and payment, and the list is expanding (Chen, Mao, & Qiu, 2018). WeChat's penetration (93 percent) is close to the saturation point in China. It is not only the top choice among Chinese for work-related communication, but also the most favourable choice for the government agencies to release their policy information (Chen et al., 2018; China Tech Insights, 2017). Mobile payment platforms are another example. Effectively connecting online-to-offline transactions, mobile payment apps are used more frequently than cash and bank card by more than 70 percent of users (CNNIC, 2018).

Secondly, the private and public sectors are more intricately linked than ever in government-led initiatives like the social credit system and R&D support for Artificial Intelligence (AI) technologies. China's digital ecosystem is going through an ecological change wherein mega-platform WeChat and mobile payment apps seem to sink into the digital infrastructure for public and private services, and state's centralized data infrastructure is under construction for future political, economic, and social governance (Liang, Das, Kostyuk, & Hussain, 2018).

Stunning growth statistics and ambitious development plans should not distract attention from a plain reality, that the existing economic structure and the labor force remains to be dominated by migrant workers—286 million in 2017 (National Bureau of Statistics of China, 2017b). A majority of them are informally employed and still excluded from the legal protections granted by the China's Labor Contract Law (2008) because they don't have labor contracts.

## 2. Policy and praxis of on-demand service platforms

Digital platforms are regarded as significant jigsaws in the blueprint of elevating China's economy up the global value chain. On-demand service platforms (such as for ride-hailing services) are among the fastest growing sectors in China. The platform economy market is estimated to have facilitated more than 49 billion CNY (\$7.7 billion) worth of transactions in 2017, involving 700 million users and 70 million workers (China's National Information Center & Internet Society of China Sharing Economy Committee, 2018). The emerging

sectors already absorbed 18 percent of the labor force in the tertiary industry in 2016.<sup>1</sup> Most noticeable are ride-hailing platforms and food-delivery platforms. The online ride-hailing market has been consolidated in the past few years and it is now dominated by DiDi, arguably the most funded startup in the world (\$18.57 billion exceeding Uber's \$16.9 billion) (CB Insights, 2018). A duopoly of Meituan Waimai and Ele.me emerges for the online takeaway market. Meituan Waimai belongs to Meituan-Dian which went public in late September 2018 with a market value of \$50 billion. Ele.me is now part of the e-commerce giant Alibaba. However, the widespread labor disputes and unrest in the emerging markets also make them among the most contentious ground for labor struggles (China Labour Bulletin, 2017, 2018b).

Institutional willingness of the central government to standardize and regulate the rapidly growing market is evident. A new comprehensive e-commerce law passed in August 2018 took effect on January 1st, 2019, which stipulated the responsibilities and liabilities for e-commerce operators (merchants) and e-commerce platforms. Specifically, for the on-demand service platforms, Interim Administrative Measures for the Business of Online Taxi Booking Services went into effect in November 2016, making China the first nation to legalize ride-hailing platforms. The Interim Measures set broad guidelines and rules for license or certification system for platform companies, vehicles, and drivers, respectively, but delegated to local concerning authorities the responsibility for implementing the national Interim Measures and making localized regulations.

Regulatory efforts from the central government, however, are directed differently at local levels to accommodate the local authority's own needs. This gives rise to remarkable local discrepancies. By the end of 2017, 219 municipal governments (including Beijing) have drafted or passed implementation by laws for the ride-hailing market (China's National Information Center & Internet Society of China Sharing Economy Committee, 2018). Most of the localized regulations concentrate on setting their own requirements for vehicles and drivers. For example, Beijing disqualifies non-local residents (those without Beijing household registration) from becoming platform drivers (Beijing Transportation Committee, 2016). Shenzhen, a migrant city, requires one-year proof of residence in the city from the applicant driver—a relatively lenient policy, but rules that only electric cars are eligible to apply for Road Transport Business License (Shenzhen Transportation Committee, 2016, 2018).

In practice, ride-hailing platform companies' compliance with local regulations vary significantly. Didi the market leader, for example, obtains legal operational licences in only 51 cities out of more than 400 cities where it operates, ranking fifth in the list of legal ride-hailing apps (Yue, 2018). The most compliant platform controls less than two percent of the domestic market. But the plausible legal position of DiDi does not prevent the platform company from growing into a monopoly that controls 94.6 percent of the domestic market and expanding to Europe, Africa, Middle East, Southeast and South Asia, and North Africa.

In contrast, local restrictions raise administrative obstacles and thus offset the easy access to the market afforded by the digital platforms. In particular, the requirement of local household registration from the applicant drivers precludes migrant workers (who were born in the rural areas without urban household registrations) from becoming legal platform drivers—that means, a majority of migrant worker-turned platform drivers are illegitimate *de jure*. They, as a result, take the brunt of the volatile market and the penalty inflicted by suddenly tightened local regulations. Drivers in Beijing, if caught in violations of rules, would face stiff fines and penalty—up to 30,000 RMB of fines and temporal seizure of driver's license. Nonetheless, local discrepancies also mean some workers may be better protected than others elsewhere even though they work in the same platform-mediated sectors, because of local support. For example, Shanghai municipal trade union helped establish the first trade union for food-delivery riders (China Labour Bulletin, 2018a).

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<sup>1</sup> Calculated by the author based on statistics in the China Statistical Yearbook (2017a).

Local regulatory barriers and platform's indifference and sometimes brazen violations of regulations have led to a return of informal and gray market of illegal drivers hired by third-party rental companies that have the correct vehicle plates and proper documents in possession. This kind of gray market has long been in existence in the taxi industry before ride-hailing platforms became popular. A similar growth of informal labor practices is seen in the online food-delivery market. Since the existing policy for food-delivery apps prioritizes food safety and consumer protection and does not specify the relationship between platforms and riders, subcontracting is prevailing. Our study showed that half of the riders in Beijing do not have labor contracts. And many riders work full time for third-party human resource service companies.

### 3. Key policy gaps

Current legal framework and policies of on-demand service platforms in China fall short in capturing the praxis of platform economy comprehensively, especially the varied practices at the local level. Regulations and policies align with the technocratic discourse of development and lean toward the governments and successful enterprises. There is little evidence that the policy agenda is empirically informed. For on-demand service platforms like ride-hailing, logistics, and food-delivery, workers' voices and studies on their work conditions and real-life experience seldom channel to the policy-makers. Algorithmic control from the platforms over the labor process is well-documented by a number of studies about platform workers (See for example, Lehdonvirta, 2018; Rosenblat & Stark, 2016), and Chinese platform workers are no exception.

The platform economy in China, nonetheless, is deeply entrenched in the pre-existing informal labor market and, along with localized regulations, tends to further labor segmentations and make participant workers' life more precarious. The question of employee status is prominent in lawsuits and legal debates around on-demand worker's rights in the platform economy (Cherry, 2015). Where the informal economy is the norm, it is not incidental that the platform economy often involves more than workers and platforms. There ought to be a regulatory framework that includes multiple participant parties and specifies the correspondent responsibilities and liabilities for different parties involved, or even, as some scholars envision, forms multilateral contractual relationships (Prassl & Risak, 2015).

### 4. Recommendations

- The regulatory bodies for digital economy need to refine relevant policies to accommodate the existence of third-party labor service companies in the platform economy and set the legal parameter for the middleman sector by specifying their responsibilities and liabilities for workers and platforms. Labor contract law can be extended to include multilateral contractual relationships involving workers, third-party intermediary companies, and the platform.
- At the national level, a joint legal and regulatory body needs to be in place to oversee and inspect platform companies for their operations in handling data and deploying algorithms.
- Given the local discrepancies in regulations, there ought to be more efforts to help establish platform worker organization at the local level. It can be achieved via local branches of All China Trade Union Federation (ACTUF) or grassroots workers NGOs. In the meantime, since ACTUF is the only official trade union in the country, it needs to reconsider its service scope in the face of a rapidly growing platform labor force.

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