

With the rapid development of digital technology, the platform economy has rapidly risen, bringing the tremendous changes in the management of business and governance. This report proposes three major challenges in collaborative governance of the platform economy: protection of rights and interests, reasonable taxation and fair competition. It is suggested that, the primary goal of governance should be to encourage innovation and development, and its regulation should be sufficiently inclusive and prudent, while the platform economy is still at an early stage.

New Governance of the Platform Economy

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The rapid development of digital technology has revolutionized the way business is done today. At the heart of this change is the new platform economy. In the Internet platform economy, platform, consumers and service providers form a collaborative network. Platform is the foundation of the entire ecosystem, providing a space for the exchange of information, trading, logistics and other facilities to consumers and service providers. A large number of consumers and service providers constitute the major players of the platform economy. They perform various economic activities on the platform including information exchange, demand matching, payment and receipt and delivery of goods. The participants of the platform economy interact and cooperate with each other, which enables to create greater value.

The development of the platform economy also requires that the existing systems of regulation and governance be completely overhauled in order to respond to the new trends. Three issues need to be addressed in order to establish an efficient system of collaborative governance of the platform economy: protection of rights and interests, reasonable taxation and fair competition. Whilst As the platform economy currently in its infancy, Deloitte suggests setting innovation and development the priority of regulation. In addition, the regulation of the platform economy should embody inclusiveness and discretion.

Accelerated Integration of Platform Economy into All Aspects of Social And Economic Life

The platform economy takes off thanks to the digital technology surge. In 2016, transaction volume of the e-commerce industry in China exceeded 20 trillion yuan, with 710 million Internet users and an Internet penetration rate of 51.7%. As of June 2017, three out of top ten global platform economies, whose market value exceeds the top ten traditional multinational corporations, come from China (see Figure 1). Today, the platform economy has become an important driver of China's economic development and a catalyst for its economic transition.

Figure 1: Top Ten Platform Economies VS Top Ten Multinational Corporations

Platform Economy				Multinational Corporation			
Name	Country	Market Value (USD 100m)	Found in	Name	Country	Market Value (USD 100m)	Found in
Apple	USA	8986	1976	Berkshire Hathaway	USA	4876	1956
Google	USA	7396	1998	Johnson	USA	3764	1886
Microsoft	USA	6597	1975	JPMorgan	USA	3728	1859
Amazon	USA	5630	1995	Exxon Mobil	USA	3558	1882
Facebook	USA	5149	2004	Wells Fargo	USA	3031	1852
Tencent	China	4938	1998	Wal-Mart	USA	2909	1962
Alibaba	China	4459	1999	Nestle	Switzerland	2650	1867
Priceline.com	USA	866	1998	AT&T	USA	2391	1877
Baidu	China	832	2000	P&G	USA	2337	1837
Netflix	USA	822	1997	General Electric	USA	1518	1892

Market value is based on the closing price of December 22, 2017
Data Source: Ali Research.

With the popularization of digital technology, platform-based business has flourished, gaining scale and influence. Looking ahead, platform economy will expand into more aspects of our socio-economic system and inevitably transform the traditional economy.

Figure 2: The Scope of Platform Economy

E-Commerce B2B, B2C, C2C... (DHgate, Amazon, Wechat Business)	
Online Marketplace Used Good, Real Estate... (Xianyu, Xiaozhu, Airbnb)	
Ride-Sharing Carpooling, Taxi, Car Rental... (Didi Chuxing, UBER)	
Entertainment Online Games, Films, Music, Literature... (Youku, Mtime)	
Social Network Social, Live Streaming, Microblog... (Wechat, Douyu, Zhihu)	
Service Health, Sports, Consulting, Travel, Education, Law, Employment... (Chunyuisheng, Tuniu, Bestdo, Boolaw, Zhaopin)	

Search
 Engine, Push... (Baidu, Toutiao, 360 Search)

Technical Support
 Cloud Computing, Data Center, Operations... (Alibaba Cloud, AWS)

Logistics
 Logistics Platform (Cainiao, Transfar, KXTX, Huochebang)

Instrument
 Browsers, Translation, Statistics, Download... (UC, Youdao, Umeng)

Web Portals
 Comprehensive, Life, Dating... (Sina, 58 City, Jiayuan)

Internet Finance
 Payment, P2P, Fund, Crowdfunding... (Bitcoin Chian, Yu'e Bao, Renrendai, Zhongchou, lu.com, Alipay)

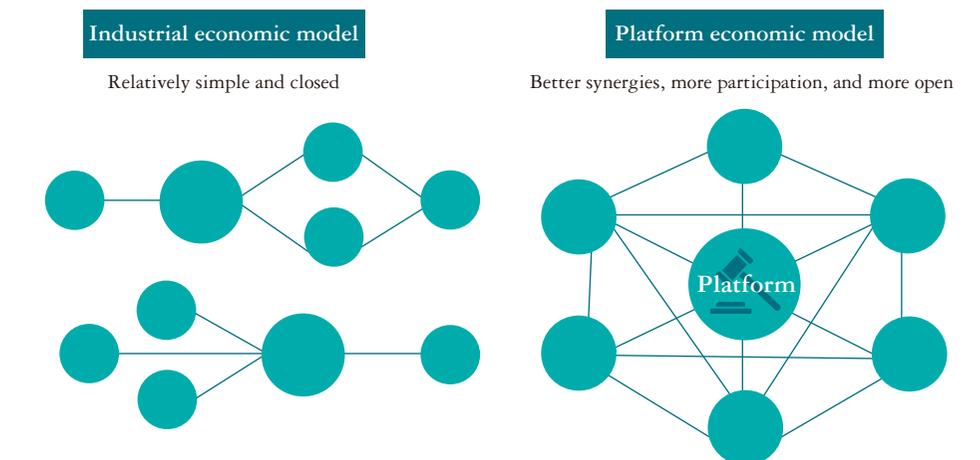
Data Source: Ali Research.

Shifted Social Governance Structure in New Economy

From a broader perspective, the digital economy, with platform economy at its core, has become the new engine for China's development, moving the country away from the traditional mode of development, that is, industrialization, that heavily relies on the production of material goods and services, towards a digital mode that focuses on the exchange of information and provision of services. The strength of the platform economy lies in its ability to eliminate trade barriers and liberate new supply and demand.

For any marketplace to function successfully, the free circulation of information is crucial. Due to the rise of the platform economy, there has been a phenomenal increase in the circulation of data and the emergence of large-scale social collaboration systems. As a result, the benefit of increased information sharing between different players has become even greater, leaving us a more open economic system, with much greater participation. This is drastically different from the relatively single-chained, simple and closed model of the past industry-led economy, bringing different social benefits.

Figure 3: Different economic models have different levels of complexity in social production relationship



Data Source: Deloitte Research.

The rise of the platform economy has led to a more open economic system, with increased social participation and application of intensive Internet distributed computing. Thanks to it, the whole business structure is changing dramatically. With the emergence of global interconnected platforms and the application of artificial intelligence in business, good governance in face of new challenges become ever more pressing.

Challenge One: The Protection of Consumer Rights and Interests

Unlike the traditional economy, the digital economy is characterized by virtual environment, mass information flows, personalized service, cross-sector collaboration and constant changes. As the digital economy evolves tends towards one with greater intricacy, new problems and challenges arise with heightened complexity.

The rise of platform trading has expanded the market by providing consumers with convenient services, yet it has inevitably increased the possibility of consumers being harmed and created new obstacles to consumer protection. Internet consumers are entitled to nine consumer rights (right to safety, right to information, right to autonomy, right to fair trade, right to compensation, right to form associations, right of access to relevant information; right to dignity, respect for customs and traditions, and right to supervise). However, amongst these rights, the right to safety, the right to information, the right to fair trade and the right to claim are the most vulnerable.

Challenge one: the virtual nature of the Internet

Because the Internet is a virtual space, there is less accountability, verification of credentials is difficult and therefore fraud is easier. Internet technology can easily be exploited for new ways of theft and fraud, while the anonymity of the Internet user has made it very difficult to identify wrongdoers and hold them accountable. As a result, dishonest individuals are willing to take risks to engage in illegal activities.

Challenge two: Internet’s transregionality complicates consumer rights protection

The transregionality of the Internet has also increased the difficulty of carrying out and supervising market transactions. Certain problems less common in traditional market transactions have become recurrent in the context of e-commerce. One of the most difficult problems is the jurisdiction of international consumer rights protection. However, Internet platforms have become aware and have taken actions to address some of these problems.

Actions taken by platforms to ensure consumer rights

In recent years, Taobao has formulated a complete set of customized regulations, which have basically covered all the problems that may be encountered on Taobao, from registration to completing transactions. These rules are different from the compulsory measures mandated by

law, for they closely follow the characteristics of transactions on Taobao. They mainly apply restrictive measures, and seldom interfere with substantive rights and interests of entities. In most cases, these rules would restrict the platform services available to the entity, and such restrictions are effective for they can affect stores’ actual transactions. In order to create an agreeable e-commerce ecosystem, Taobao put a lot of effort in creating a diversified governance structure, and has gradually formed a comprehensive structure that includes propaganda and education, proactive action, the creation of complaint channels, cooperation with users, government coordination, and controls based on system and rules.

Figure 3: Governance structure of Taobao



Data Source: Ali Research.

A digital platform not only concerns trading, information, data, credit, and consumer protection, but also requires governance. Only on a platform featured by open governance can Internet users play an active role in governance rather than simply being governed. At the same time, only a platform-featured based governance system can nourish a supportive ecosystem for collaborative governance and encourage participation by professional third parties, whose respective strengths can be brought together to redefine the new commercial culture.

Governance Issue Two: Reasonable Taxation

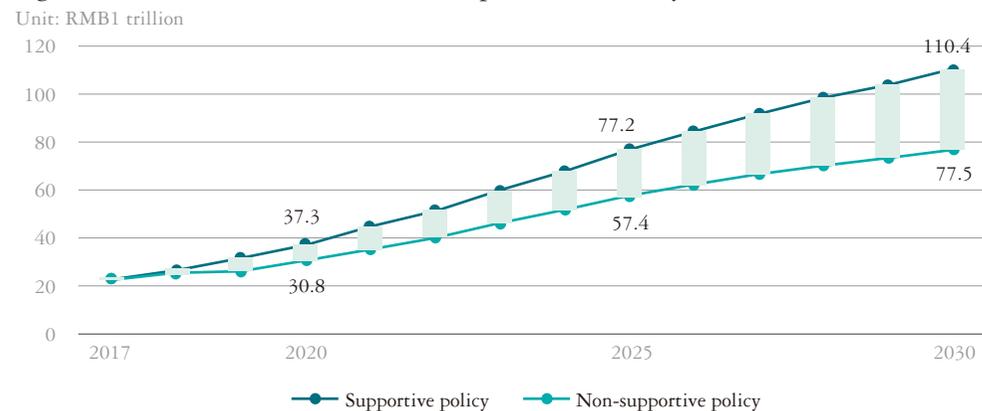
The taxation system for the platform economy centers around the internet platform and connects upstream and downstream industries on both ends. In terms of tax revenue generated, upstream industries have produced greater output and larger tax base, far exceeding platform transactions. But as the platform economy increases in volume and scale, a forward-looking taxation policy tailored to the rapidly evolving platform economy will spur the development of platform economy and thus push for China’s economic transition.

Given the complexity of the platform economy, taxation has drawn the attention of many stakeholders. How does one deal with tax issues? What concept and objective should be adopted to guide decision-making? Given the new business environment, a new perspective that

is concise, efficient, dynamic, and flexible is needed. With the platform economy driving the transformation of traditional industry from a low-efficiency business model to a high-efficiency one, government revenues will also increase. If supportive tax policies in place, it is estimated that the platform economy will generate tax revenues of RMB 110 trillion by 2030, based on the present size of the platform economy and taking into account the development potential of downstream e-commerce services. On the contrary, continuous inadequate regulation and non-market environment will limit tax revenue below RMB 77 trillion.

The platform economy has also encouraged many related service industries. In Internet platform service market, customer service outsourcing, photography, consulting services, recruitment, training, quality control, custom design and other service providers have become a new growth points. A large number of third-party service providers that platform economy relies on (such as software service providers, e-commerce marketing service providers, telecommunications, finance, logistics, cloud computing, etc.) are growing together in the ecosystem. Taking upstream and downstream industries into account, it is clear that the platform economy has the potential to vastly increase the tax base of the Chinese economy. It will continue to do so provided a reasonable taxation policy tailored to the needs of the new transaction type is put into force.

Figure 5: Estimated tax source of China's platform economy in 2030



Data Source: Ministry of Commerce, iResearch, CCID, Ali Research.

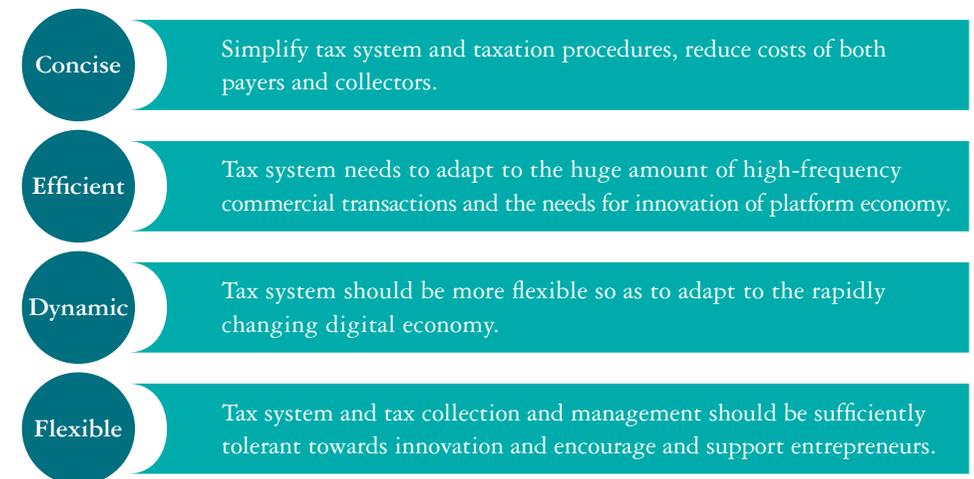
To construct a reasonable tax system

As the platform economy is still in its early stages, it should be regulated prudently in a sufficiently inclusive way. Development and innovation should be the primary objectives of governance as this will also nurture and expand the tax base. In the long run, tax regulation should converge, the “game rule” of tax collection both online and offline, facilitate the integration of online and offline business while make a long-term commitment to building a simplified tax system catered to the needs of high-frequency Internet transactions and constant and rapid innovation. A long term commitment is also needed to significantly reduce compliance costs, encourage self-declaration, construct a tax credit system and improve tax compliance.

• Medium-to long-term systematic innovation

With the advent of the platform economy, great changes have taken place in the traditional economic structure, labor division, distribution and trading methods. These new changes will promote continuing innovation of the tax system to accommodate the new economic environment. The new trends and characteristics of the platform economy (see figure 6) will also drive the following two transitions: one transition from indirect to direct taxation system. the other transition from taxation based on amount of goods to one that based on taxpayer profits.

Figure 6: Characteristics of the tax system under platform economy



Data Source: Ali Research, arranged by Deloitte.

• Short-term policy orientation

To encourage innovation. In the era of digital technology, to incorporate data in business, and innovations in data cognition and management will become the main driving force for platform enterprises to form new business ecosystems with their partners. In order to reduce innovation costs, China may resort to deducing manpower cost from VAT, the refunding mechanism in relation to offsetting entries and the standardization of taxpayers.

China should also continue with the strategy of reinvigorating through talent development, construct a globally competitive tax system to retain talent, substantially reduce the tax burden on equity incentives and reasonably adjust pre-tax deduction for individual income tax.

An innovation-driven national taxation policy is the prerequisite for winning the race of innovation and competitiveness. China should conduct in-depth research on how to create a tax policy that can spur innovation, encourage talent, and enhance the multiplier effect of the platform economy.

To vigorously support micro and small enterprises and start-up entrepreneurs.

Small and micro enterprises are the main forces of innovation and entrepreneurship in e-commerce. However, they are struggling to manage their businesses, facing high labor cost,

contributing only a small portion of tax revenues. The government should give them support and protection. We suggest a further study of tax incentives for small and micro enterprises: for example, researching the impact of increasing the tax threshold and removing related charges against small and micro enterprises, and implementing a single “comprehensive tax”. Such measures could greatly reduce the costs of launching a start-up and create a relaxed and favorable environment for innovation and entrepreneurship. Here are two heavily focused collection and management rules

1) Converge online and offline tax collection and management rules

Based on the principle of fairness and the growing trend of online-offline integration, a set of consistent online-offline tax collection and management rules should be set put in place. The openness and transparency of the Internet will inevitably lead to a more open and transparent tax base and can easily lead to the online tax burden exceeding the offline tax burden which will discourage online-offline integration. In the meantime, retailing in the future will break the online-offline boundary and move towards omni-channel integration. Therefore, setting up a consistent online-offline tax collection and management rules is required to ensure fairness in taxation.

2) Tax related information from third party platform help improve rule-making

Laws and regulations should ensure data security, protect taxpayers’ basic rights and interests, reduce the burden of third-party platforms, and balance the rights and obligations of government, taxpayers and third parties. Third-party platforms should cooperate with finance and taxation authorities to provide necessary tax-related information. China should amend the tax laws on third party assistance in tax-related information, clarify the ownership of platform data, regulate the access, purpose, procedures and scope of inspection, guarantee taxpayers’ right of information and supervision, safeguard the privacy of taxpayers and business intelligence, establish an information feedback and data security accountability system, abide by the principle of minimizing the burdens of taxpayers and platforms. These will protect national innovative capacity and nurture entrepreneurship.

Governance Issue Three: Fair Competition

In the era of the platform economy, competition is still the basic method of allocating economic resources. However, for the purpose of enhancing competition, reform should be introduced into existing antitrust legislations to accommodate the shifting context of platform economy.

The relationship between scale and efficiency has changed in the era of the platform economy

Platform is an open system promoting collaboration, which is drastically different from enterprises of the industrial economy. A traditional enterprise is a closed system, and therefore, the relationship between size and efficiency of a platform is very different from that of an enterprise. In the traditional industrial economy, bigger is not always better. When the market is

dominated by monopoly or oligopoly, it will have a negative impact on the efficiency of resource allocation. However, in the case of the platform economy, size is generally proportional to the efficiency of the platform, i.e. the larger the platform is, the better it will manage resource allocation. There are two main reasons behind this phenomenon:

(1) Platform has network effect.

The platform market is composed of both (or multiple) sides of commercial transactions (or interactions). For same side transactions, there is a same side network effect; for both sides of transactions, there is cross-network effect. The same-side network effect refers to the fact that more users there are on one side of the platform market, the greater the value of the platform to the users on that same side. For example, for an operating system platform, the more users on the platform, the greater the value it brings to all its users. The cross-side network effect refers to the fact that the more users there are on one side of the platform market, the greater is the value of that platform to the users on the other side. For example, on a shopping platform, the more buyers it has, the greater the value it brings to the sellers; similarly, the more sellers it has, the greater value it brings to the buyers.

(2) Platforms have the characteristic of diminishing or even zero marginal cost. In the early stage of development of a platform, investment in fixed assets and marketing is substantial. During operation of the platform, the maintenance cost also picks up. However, as the platform matures, for every additional user, the marginal operating cost will gradually decrease, and sometimes even approach zero. Therefore, the larger the platform is, more money it can save.

In terms of the relationship between scale and efficiency, a platform economy has different characteristics from an industrial economy. This is why we cannot judge a platform economy by the same yardstick as a traditional industrial economy. In a traditional industrial economy, exceeding a certain scale may be detrimental for the enterprise, but for a platform, in most cases “big is beautiful”.

The network effect of platform and its diminishing marginal cost can easily result in only a few players surviving in market. However, despite few competitors, dominant enterprises would still face intense pressure of potential competition due to innovation or low barriers to entry. Therefore, the concerned markets would remain competitive for most of the time.

New perspective on antitrust analysis

The relation between the platform service provider and one of the two transaction party is very different from the relation between the upper/middle and upper stream and the downstream (the end user) in traditional business. The relation between the two sides of a traditional business is a direct function of production and consumption. The relationship between platform provider and one of the two transaction parties is not only constrained by the production and consumption function, but also by the relationship between the two transaction parties.

A platform involves interaction and interdependence of a tripartite kind rather than the traditional economic relationship between two parties, hence competition in a platform economy has a completely different character from competition in a traditional industrial economy. Certain commercial arrangements, which would be considered as violating anti-trust laws in a traditional economy, may be fully justified in a platform economy and should not be regarded as unlawful. The establishment of a new paradigm of economic analysis with respect to the platform economy and the reconsideration of the boundaries between legal and illegal aspects of various commercial arrangements are the new topics for the current antitrust regulation of platform economy.

Embrace the Arrival of the New Economy with an Open Mind

- **From the government's perspective: Openness means actively supporting and standardizing regulation**

With the arrival of the platform economy, the responsibilities of the government have changed. Openness means promoting an open and inclusive business environment and thus releasing the development potential of the digital economy.

The Chinese Government has incorporated the ideas of supporting the development of new science and technology, new industries and new economy throughout the outline of "13th Five-Year Plan". At present, China has been committed to developing a fair and standardized digital economy regulatory policy so that development and regulation can mutually promote one another.



- **From platform providers' perspective: Openness is a double-edged sword, requiring better understanding of industry guidelines and standards**

Platform providers are leaders of the new economic era. Tremendous space and opportunities lie in the development of the platform itself. Due to the significant number of participants on both the supply and demand side, establishing industry standards to regulate both sides is crucial. At present, there is no explicit law or regulation on the platform economy. In order to prevent the participating enterprises from exploiting legal ambiguities or breaking the law to advance their own interests, platform providers should record the private information and transaction information of both sides (buyers and sellers) in a timely manner so that they can ensure data security as well as punish misdeeds. At the same time, in order to reduce resistance from government and traditional enterprises, the platform provider should take the initiative in accepting social supervision, accept certain social responsibilities, abide by laws on information

security, ensure lawful use of all kinds of information, and properly handle the relation between public and private interests.

- **From an enterprises' perspective self-regulation is the prerequisite for openness.**

In order to promote a healthy and sustainable development of all industries within the ecosystem, prevent regulatory lag and stop bad money from driving out good, an effective industrywide self-regulation must be put in place. Strengthening industry self-regulation is undoubtedly an effective complement to government regulation: First, under the condition of incomplete supervision of the new economy, self-regulatory organizations can put forward higher requirements to guide the industry's development in a healthier direction; second, according to the development of the industry, self-regulatory organizations can impose self-regulatory requirements and organize mutual supervision in a timely manner, making up for regulatory lag; third, self-regulation can carry out market verification and stress testing for various regulatory policies in advance thus ensuring that there are fewer regulatory 'mistakes'. Fully mobilizing industrywide self-regulation and implementing bottom-line administration through rigid regulations at the same time is an effective way to ensure the healthy development of platform-based related businesses.

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