Uber’s Viability in the Chinese Market

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Executive Summary

While analyzing the viability of a re-entry by Uber into the Chinese market, it becomes clear that political and legal risks, as well as competition within China have posed major issues. The political and legal risks inherent in doing business in China are significant, as the Chinese Communist Party regulates the economy and controls businesses within the country. Uber would not only be required to comply with state-level regulations, but also with various local regulations across multiple provinces and cities. While navigating the complex regulatory regime, Uber would battle the existing competition, composed of well established ride-hailing services, such as Didi Chuxing. Didi Chuxing was Uber's primary rival in its initial bid in the Chinese market, ultimately beating Uber and buying Uber's share of the market in China.

I. Political and Legal Risks in China

Country Rating- **B**
Business Climate Rating- **B**

Political Risk (Aidan)

Since 1949 China's dominant political party has been the Chinese Communist Party (CCP). The country's central government and its provincial/local governments struggle against one another over authority in applying laws. This conflict makes it difficult for companies operating in China to clearly identify the laws in play, which causes legal complications that may harm business. This concept is captured in the ancient Chinese proverb: "The mountains are high and the Emperor is far away" -*tian gao, huangdi yuan* (Rao, 2019).

China has extensive intellectual property laws, but corruption within the country has led to frequent violations of the laws. This poses a risk for companies doing business in China, and requires precautionary measures to control the company's intellectual property. China also has rigid regulations on foreign exchange. These regulations necessitate that transactions across the country's border require settlement, registration, or approval from Chinese authorities. Each transaction in and out of China must adhere to strict rules or the company will face legal consequences. This complicates commerce for international businesses who need to transfer funds between countries.

Other political troubles that may ensue involves the domestic political unrest, where "the dislocation of tens of millions of people as state-owned companies have shed workers; public anger over land redistribution; widening wealth gaps; and major industrial accidents, including toxic spills have all fueled social instability" (Bremmer and Zakaria, 2014). Although China offers vast opportunities for business ventures through their enormous consumer base, the country also clearly presents a multitude of notable political risks that must be evaluated before making an effort to conduct business.

Industry (Stephanie)

Uber offers ride-sharing and ride-hailing services via smartphone requests. The company's services operate within the transportation industry and China has one of the greatest transportation industries and structures in the world. Due to China's government regulations and infrastructure, the country has established itself as one of the strongest players in the transportation industry. This factor is a crucial reason Uber had previously entered the Chinese market; it was ideal and attractive for the company. China's status and reputation as the powerhouse in the transportation industry attracted Uber's expansion efforts, and the market potential existed. The market potential especially exists now as we see China's transportation industry gear towards more electrically powered vehicles. Electrically powered vehicles is something that Uber wants to tap into in order to grow their brand recognition and China's transportation industry would help with that.

Risks: Relationship between the U.S. and China (Lauren)

Trade between the U.S. and China is crucial for both countries, but the relationship between them is strained and tensions have increased with time. Since the COVID-19 pandemic the two countries have taken steps to reduce their dependence on each other. This raises concerns for companies considering entering the Chinese market. According to Sean Stein, "Some American businesses 'worry about how long they will be welcome in China" (Flannery, 2022). China and the United States are both top export markets for each other, but strong import competition from China has led to the unemployment of many Americans in recent years.

Strengths (Lauren)

China's advanced level of infrastructure along with their strong supply chain allows for efficient sourcing and transportation of goods within the country. According to The British Consultancy Centre for Economics and Business Research, "China's economy [will] continue growing at 5.7 percent per year through 2025 and then 4.7 percent by 2030" (China Briefing, 2023). This means that China would surpass the United States, taking the title of the world's largest economy.

Weaknesses (Nick)

Although China has demonstrated much economic growth in the past few decades, in part due to strengths such as its large, educated, and disciplined population, the Chinese state as a whole suffers from several crippling weaknesses. These weaknesses stem from the fact that CCP is intimately entangled in the Chinese economy. It is centrally controlled and highly regulated. Three specific characteristics of the Chinese economy raise issues for sustained success. These are (1) the Chinese government controls every major aspect of its economy through large-scale intervention and state-owned enterprises, (2) China is only open to foreign direct investment so long as the government can regulate and direct this investment toward its planned projects, and (3) that the first two factors, combined, allow the government to mobilize massive economic resources that ultimately go to waste when misallocated (Ezrati, 2022).

Consistent with the nature of planned economies, China is unable to make corrections once a direction is set or a project is undertaken. This is apparent in infrastructure projects, such as unused housing or transportation systems to nowhere, that are unable to return their initial investment. Chinese debt, as of early 2022, exceeded 220% of their GDP (Ezrati, 2022).

Additionally, Chinese policy on foreign direct investment ultimately discourages innovation, and, as of late, the cheap labor offered by China no longer justifies for many companies the legal, political, and intellectual property risks that a firm assumes when operating in China. The government requires intimate involvement with foreign investors, as well as access to the proprietary technology and procedures of the company (Ezrati, 2022). This system is destructive to innovation and led to the failure of Uber's first foray into the Chinese market in 2016. Extreme government regulation, at both the provincial and national levels, imposed restrictions down to precise operational details. The Chinese government could control ride prices, determine who drove for Uber, and what vehicle types were allowed, as well as pressuring Uber to merge with state-owned taxi companies, and requiring access to all of Uber's data (Kirby, 2018).

Relationship between home country and target country (Quinn)

The relationship between the US and China has been marked by complex dynamics, including economic competition and political tensions. As Uber attempted to enter the Chinese market, these factors influenced its operations. While initially optimistic about expansion, Uber faced significant challenges due to regulatory hurdles and competition from local ride-hailing companies backed by Chinese tech giants like Didi Chuxing. Moreover, geopolitical tensions between the two countries occasionally strained Uber's efforts, as political considerations influenced market access and regulatory decisions. Negotiating this intricate landscape will be crucial for Uber's success in re-establishing a foothold in China.

II. Demand for Uber's Offerings

Size of the market (Stephanie and Lauren)

With over 1.4 billion people, China currently has the largest population in the world. Key segments of the Chinese population include smartphone users and mobile payment users. Services and payments take place through Uber's mobile app, so users must have access to these features. The number of smartphone users in China, as of 2022, is almost 1.04 billion. This makes China an attractive market for Uber because the company would not have to introduce a new system to the target market. The mobile payment landscape is another factor that would directly impact Uber's success in China. Approximately 943 million Chinese citizens use mobile payment, though Uber would likely have to partner with Alipay, the main Chinese mobile payment provider. Another segment that Uber would have to take into consideration is the number of people that utilize car transportation. China has diverse geography. Cities are in need of transportation options, and rates of public transportation use are high. The different cities in China have different environmental regulations that need to be taken into account. Another factor to note when estimating the demand for Uber would be purchasing power in China. China's nominal GDP is second only to the United States. When looking at the purchasing power parity, China is larger than the U.S. This is a positive for a nonessential service like Uber.

It is important to consider factors that vary from country to country such as cultural values and consumer tastes, preferences, and behaviors. China is historically a collectivist country, so Chinese consumers tend to base their purchasing decisions on group mindsets, social connections, and traditions. One way that this could impact Uber is through the aspect of *carpooling*. Americans generally tend to avoid sharing rides, but Chinese customers–immersed in a culture that values the group over the individual–would likely be more open to ride sharing. Uber should market with specific emphasis on the rideshare component of their service in China. The Chinese also emphasize brand loyalty, and expect high value in return for their loyalty. One way for Uber to build a strong customer base in China is to keep their prices lower at first, so individuals are more willing to try the service.

Level of Competition and Unmet Demand

Primary Competition (Quinn)

In the competitive landscape of the ride-hailing industry, Uber lost its initial bid in China to Didi Chuxing (also called "Didi"). Often referred to as the "Uber of China," Didi possesses a dominant market share and substantial financial backing, making it a primary competitor to Uber in the region (Li, 2017). Didi Chuxing's offerings included a comprehensive range of ride-hailing services, including private cars, taxis, and shared rides, catering to diverse consumer preferences. The company's strengths lay in its deep understanding of the local market, strategic partnerships, and significant investments in technology and infrastructure. Didi Chuxing did face challenges such as regulatory scrutiny and concerns related to passenger safety, which present potential weaknesses (Gordon, 2016). Understanding the dynamics between Uber and Didi Chuxing provides valuable insight into the competitive forces at play in the Chinese ride-hailing market.

Uber's Advantages (Nick)

Uber holds the most market share of any individual competitor in the global ride-hailing market, as well as the majority of market share in the U.S. While Uber is positioned to remain a strong player in the local and national markets in which it currently competes, the ride-hailing industry is particularly difficult to gain–and retain–a competitive advantage in. Uber's advantages largely stem from its status as the first-mover in its industry. Detrimentally, the simplicity of its model and the ease with which users can hail, pay for, and rate their ride has been copied by Uber's competitors. A common competitive advantage in other industries are economies of scale. However, due to the relatively level playing field once a firm's software has been developed, it is unlikely Uber will gain much price advantage by sheer size, especially when additional costs, such as marketing and lobbying are factored in. One source of competitive advantage that Uber usually enjoys is regulatory avoidance, due to the structure of its services. However, regulators will inevitably “catch-up,” and it must be remembered that Uber initially failed in China due to governmental regulation (Zupic, 2017).

Uber’s current competitive advantages likely stem from two sources: 1) direct and indirect network effects, and 2) its brand. Network effects mean that the value of the platform increases as it gains more users. Direct effects are benefits for users of the same kind, and indirect effects are benefits for users of different kinds. The fact that Uber has more riders and drivers than its competitors offers benefits to riders–such as short wait times, the ability to split fares, and competitive prices–and to drivers–such as readily available work and competitive rates. Uber’s high number of users also acts as a barrier to entry for new firms. In attempting to re-enter the Chinese market, Uber would have to overcome this barrier in Didi Chuxing. Uber’s second source of competitive advantage is its brand. Uber is the most well known name in ride-hailing, and remains the first choice for many riders. Its reputation alone helps it gain share in new markets. This is a strong benefit for Uber, but it must add value in ways that differentiate itself from competitors (Zupic, 2017).

Uber’s Exit (Aidan)

In 2016 Uber officially withdrew from the Chinese market, selling its market share to Didi Chuxing. Didi’s victory in pushing Uber out of the Chinese market can be attributed to their aggressive investment and marketing strategies. Uber first made an opening into China in 2014 and invested roughly $1 billion a year, but could not attract enough market share. This was in part due to Didi’s annual investment of nearly $4 billion. In February 2015, Didi Chuxing merged with Kauidi to create a $6 billion entity. Ultimately, this venture dominated the market and in 2016 Didi bought Uber’s Chinese segment (Liu and Kim 2022). If Uber were to re-enter the Chinese market, it would face immense pressure from Didi and would need to quickly attract a base of consumers to achieve a foothold in the market. As both these companies compete for the same base of consumers, it puts them at a direct rivalry with one another. Didi would likely continue their aggressive techniques in maintaining control of the market, but gaining a position in the massive Chinese market would be a boon to Uber’s bottom line.

III. Resources and Infrastructure Available in China

Uber’s Needs For Resources and Infrastructure (Quinn)

Uber's strategic return to the Chinese market demands a meticulous evaluation of client needs for resources and infrastructure. Adapting services to local preferences, such as preferred vehicle types and payment methods, is paramount. Studies have shown the importance of understanding regulatory requirements and tailoring operations to align with both legal and operational standards. Moreover, an analysis of the transportation infrastructure, including road conditions and connectivity, is crucial for seamless integration. The research underscores the importance of forging partnerships with local businesses to optimize resource allocation and ensure a successful re-entry into the Chinese market.

Key Resources–Labor and Supplies (Nick)

Uber utilizes a fairly simple model when considering the labor and supplies necessary to offer a fast, clean, and efficient ride-sharing service. Uber’s major labor component is its drivers, who are classified as independent contractors, rather than employees (Helling, 2024). Uber offers a streamlined, online process to becoming a driver. Though Chinese governmental agencies place greater restrictions on who can drive for a ride-hailing service, there is no shortage of labor (Kirby, 2016). The upside to the ride-sharing market in China, which differentiates it from all other markets, is that due to its large number of densely populated cities, potential drivers–as well as potential clients–are plentiful. China is *the* prime market for ride-hailing services, which attracted Uber in its initial entry in 2013 (The Economist, 2021). Physical parking space in urban areas, in addition to government-run lotteries and bidding auctions to obtain a license plate, restrict access to private vehicles from much of China's urban population, forcing most city commuters to use public transportation, or a ride-hailing service (The Economist, 2021). These physical and legislative restrictions on private car ownership, particularly in large urban areas, set the conditions to motivate those with cars to benefit financially from ride-hailing services, and those without cars to benefit in convenience from the same. The difficulty in the Chinese market, as discussed earlier, and where Uber lost in its initial bid, is in gaining enough market share to realize the advantages of operating in the Chinese market without having to subsidize rides (Hook, 2016).

Natural Resources and Raw Materials (Aidan)

As a technology company, Uber's services require minimal natural resources and raw materials, unlike manufacturing and industrial companies. However, its operations rely heavily on various resources and materials including data, fuel, and electricity. The use of data within Uber is the most crucial. It optimizes its services through the collection and processing of vast amounts of data related to transportation, user behavior, and routes. An Uber driver named Spencer says, "Uber lives or dies by data. Their overall mission and their sustainability is completely dependent on how good their data is. The more data they can collect, the more information they can derive from patterns and behaviors. Their ability to increase profits is all dependent on that" (DASCA 2020). This demonstrates how paramount the usage of metadata is for Uber and their overall success as a business. Uber is constantly collecting, cleaning, and sorting data to maximize efficiency within their company (DASCA 2020). Fuel and electricity are also important resources for Uber. Currently, Uber drivers mainly use fuel based vehicles, causing fuel consumption to be vital for drivers. Through its sustainability efforts, Uber plans to be operating as a zero-emission platform in the US, Canada, and European cities by 2030. By 2040, 100% of rides and deliveries globally will be in zero-emission vehicles. Through Uber's plan for the future, it will show how crucial electricity will become for the company as they move from burning fossil fuels towards using renewable energy within their company (Uber 2024).

Infrastructure–Transportation and Distribution (Stephanie)

In both large and small cities in China, personal transportation is uncommon. Ride-sharing services, taxis, buses, trams, trains, etc. are more prevalent modes of transportation. China has a high population density, so personal transportation opportunities are limited. In fact, "China also has a relatively low level of car ownership, with only 130 vehicles per thousand people" (Lopez, 2016). This, combined with the fact that there is a high population density in China, generates a greater need for transportation services such as Uber. Uber provides ride-sharing services that would be convenient and effective in the Chinese market. However, due to such a high need for services like Uber, there is a greater level of competition within this market. Also, railways are the primary mode of transportation within China, which also creates greater competition.

Technology and Communication (Lauren)

China's information and communication technology (ITC) market has undergone rapid growth in recent years and is now one of the most dynamic sectors of the country's economy. As technology becomes more accessible and essential to everyday life, the ITC market continues to mature and China's domestic firms are becoming more competitive. Uber entirely relies on the use of smartphones for their business to succeed, so it is crucial that they are able to compete at the same level as Chinese companies and hold onto their place in the ITC market. Another important aspect to note about technology in China is the extensive cyber security policy. Recent legislation has called for increased regulations on Chinese networks, data transmission, and data protection. The entry of Uber into China may be impacted by the recent modifications to China's Personal Identification Information Specification; differences between the countries' data transfer and localization processes may mean Uber has to make changes to how it handles customer data in order to abide by China's Cybersecurity Law ("China - Technology", 2019).

Telecommunication is a booming industry in China, as it accounted for nearly 20% of internet users worldwide in 2022 (Slotta, 2023). China also has upwards of 1.7 billion mobile subscriptions which is the highest in the world; there is no shortage of communication via smartphones. Fixed-line users dwindled in numbers, however, which put even more pressure on mobile subscriptions to provide the needed service to customers. The success of this industry can be attributed to three main telecommunications operators: China Mobile, China Telecom, and China Unicom. These operators have expanded their offerings to include businesses such as e-payment apps and cloud services, which could present the perfect opportunity for Uber to demonstrate its usefulness in the Chinese market (Slotta, 2023).

IV. Strategic Importance of China

Strategic Importance of China On the World Stage (Nick)

Over the past several decades China has grown into a global superpower with legitimate influence felt in all corners of the world. Through economic, political, and military expansion China continues to shape the global marketplace in its image–ultimately attempting to establish a new world order, with itself at the head (Chhabra et al., 2020). China has taken a multidimensional approach to expanding its soft influence across the globe–soft influence that could readily manifest itself as hard, military influence. The interconnected web of infrastructure China is in the process of fortifying is both capable of physically ensuring economic influence, as well as expanding China's military presence and surveillance capabilities. The two most important facets of this expansion are China's Belt and Road Initiative, and its Maritime Silk Road. Through the Belt and Road Initiative China offers developing nations infrastructure development deals, but predicates development on acceptance of predatory loans, which often result in crushing debt for the developing nations. The Maritime Silk Road describes China's operations at, or ownership of, nearly 100 ports in key locations across global supply chains. The control of these ports also has significant military implications (*China's growing influence,* 2023).

China is currently the world's second largest economy when evaluated by nominal Gross Domestic Product (GDP), and the world's largest economy when evaluated by Purchasing Power Parity (PPP) (Silver, 2023). China operates as a socialist market economy, though the Chinese Communist Party (CCP) centrally plans many aspects of its economy (Bada, 2019). The CCP extensively regulates business, competition, and controls its currency.

Market growth (Quinn)

For Uber, the Chinese ride-hailing market is an enticing opportunity for expansion and growth. With its valuation surpassing $70 billion in 2021, this market is the largest in the world (Statista 2022). China's rapid urbanization, increasing disposable incomes, and widespread smartphone adoption may present an opportunity for Uber to provide convenient, reliable transportation solutions worldwide. By capitalizing on the size and growth trajectory of the Chinese ride-hailing market, Uber would significantly expand its global footprint and enhance its revenue potential. Achieving success in China requires a deep understanding of local preferences, regulatory dynamics, and competitive landscapes. Navigating the complexities of the Chinese market demands strategic foresight and adaptability from Uber. This necessitates customization of the company's offerings to meet the needs and preferences of Chinese consumers, forging partnerships with local stakeholders, and adhering to regulatory requirements. Also, Uber must contend with fierce local competitors such as Didi Chuxing, which maintains a dominant position in the Chinese ride-hailing market. To gain a competitive edge, Uber would need to differentiate its services, innovate its technology, and offer unparalleled value to attract potential customers. While the Chinese ride-hailing market presents vast opportunities for Uber, realizing its full potential requires a strategic approach and a deep understanding of the market. By leveraging its global expertise and adapting to local conditions, Uber would position itself as a formidable player in one of the most dynamic transportation markets.

Geographic Importance (Stephanie)

China is a highly urbanized country and houses 25 of the 100 largest cities in the world (Seto, 2013). Coupled with China's massive industry and population, this creates an ideal market for a company like Uber. With so many people and industries, space for personal items such as cars has become a luxury that much of the country cannot afford. This is why transportation services are critical in China. With the population expected to continue growing, not having a presence in China may reduce Uber's competitiveness and worldwide effectiveness- both now and in the future. Uber will miss out on a primary market if it does not enter China, but there are also costs to consider. The Chinese market is difficult to join and stay in, especially with competitors such as Didi Chuxing. It would prove difficult and costly for Uber to maintain a strong presence in the market.

Innovation characteristics (Lauren)

China has experienced tremendous growth and development in becoming the second-largest economy in the world, and much of this growth is due to the country's effective innovation characteristics. Some key factors that continue pushing China towards economic and technological success include the leading role of government, the strong leadership of the Chinese Communist Party (CCP), and continuous learning (Gao, 2022). The Chinese government has facilitated much of the country's innovation over the past century by implementing various plans to further specific sectors. These plans have targeted science and technology, research, public policy, and social development (Gao, 2022). The Chinese Communist Party has had a similar role in assisting with innovation in China, as they have created many government initiatives and policies stemming from specific development-focused goals (Gao, 2022). The CCP is the ruling party in China, and with a mission of achieving happiness and prosperity among the nation, its dedication to innovation is indisputable. Turning to another of China's innovation characteristics, it is inevitable that any nation amidst growing its innovation system will *learn*. Whether they learn from past mistakes, learn new strategies, or learn from the policies of other nations, a country must continuously absorb new information to succeed. China understands this concept, which explains their implementation of systems such as the *Angang Constitution*. This set of principles, created after a failed attempt at following management practices used by the former Soviet Union, is still referenced in the 21st century as a reliable resource (Gao, 2022). China's innovation system has led them to success on the world stage, and their effective innovation characteristics have facilitated the nation's development.

China's Strategic Importance to Uber (Aidan)

Successfully fortifying a position within China's ride-hailing services would ultimately be the next leap towards essentially naming Uber as the supreme platform for ride-sharing worldwide. With the market China offers, Uber would globally compete in ways that no other ride-hailing service has done before. Internationally, "137 million people used Uber in 2023" (Iqbal 2024), but "As of June 2023, almost 472 million internet users in China used online ride-hailing services" (Zhang 2024). With China's ride-hailing user base nearly tripling Uber's worldwide base, strategically attaining a position in the Chinese market would place Uber on a pedestal among these services, opening up endless opportunities for global expansion and aiding their international competitiveness.

V. Final Recommendation

Following a careful, holistic study of the Chinese market, it is our professional recommendation that Uber not attempt a re-entry. The main factors underlying this conclusion are the outright hostility of the Chinese government to foreign companies, and the difficulty of achieving the requisite differentiation to establish significant market share in a region already dominated by a major competitor.

While fully acknowledging that China is theoretically the prime market for ride-hailing services due to its large, dense, highly urban and car-less population, the costs to Uber are not worth the potential benefits. Uber's loss to Didi in 2016 was decisive. Because Uber sold its market share to Didi, its largest competitor in China, it would have to begin a re-entry bid with zero footing. Furthermore, Uber's name recognition–one of its largest advantages–is negligible compared to that of Didi, or Dida, another dominant competitor in Chinese ride-hailing. The established players in the Chinese market do not stand to benefit from a partnership with Uber because these players already effectively copy Uber's business model, and its name and technology do not provide an additional benefit.

Uber's initial failure was the result of a confluence of factors culminating in high operating costs and heavy losses. Uber was fighting a war on multiple fronts. Crippling mandates from the Chinese government increased management costs and significantly hindered Uber's ability to maintain its lean business model. Additionally, in vying against Didi for market share, both Uber and Didi were subsidizing rides for riders and drivers. In a bid for users, both platforms were losing money on every transaction. The differentiator: Didi had the backing of the Chinese government, as it is a Chinese company. This backing manifested as billions of dollars of investment that Uber could not match. The bottom line is that when direct competition occurs in China, companies favored by the Chinese government–domestic, state-controlled companies–will succeed, and those that are not favored–foreign competitors–will fail. We recommend Uber not re-enter the Chinese market because the factors that forced Uber's withdrawal are stronger today than they were in 2016 and the years proceeding.

The Asia Pacific region does not contain other potential new markets that Uber does not currently have, or has previously had, a presence in ("*Asia pacific,"* 2022). Uber made a strategic decision in 2018 to consolidate its operations in the region (*"Uber Countries 2024"*). Uber merged many of its Southeast Asian operations with Grab, a Singapore based company. Because of the political volatility of the region, Uber will be most successful by focusing international efforts on regions other than Asia Pacific.

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