TOMORROW'S CHALLENGES

HOW CAN CHINA TECH GIANTS SURVIVE REGULATORS? CASH - FROM ABROAD

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Chinese big tech is in trouble these days. And it's not because of the escalation of tech rivalries between US and China.

The Biden administration is set to root out some of the past U.S.-China tech deals that are deemed security sensitive. The Committee on Foreign Investment in the U.S., or Cfius, has already forced two divestments last year. The *Wall Street Journal* reported that Cfius is expanding, hiring professionals from venture-capital firms, investment banks and technology backgrounds.

But the real trouble is at home. Beijing is cracking down on big tech too.

The Chinese government has drafted antitrust rules aimed at curbing monopolistic behaviors by its giant internet platforms. It suspended the initial public offering of Ant Group, which could have been the world's largest-ever IPO. Then Jack Ma is rumored to have disappeared. He has resurfaced since.

Between December 24th and 28th, Alibaba's valuation fell by 13%, or $91bn. This happened despite the $6bn in share buy-backs aiming to avert the slide. The decline in Alibaba's share price also weighed on other internet and technology companies. Games publisher and dominant social network operator Tencent Holdings and e-commerce giant JD.com also felt the heat.

Chinese authorities have reputation for supporting national champions. Think about the alleged support that Huawei and TikTok have received. Then there is the forced technology transfer that Western companies have constantly complained about. Now, all of the sudden, Beijing has decided to rein in its own tech giants. Regulators are asking about Alibaba's past success. Has that been due to a good business model, or to the company's hold on some scarce resources and its monopoly position?

This complaint is not uniquely Chinese. US regulators want to unwind Facebook's acquisitions of Instagram and WhatsApp, which might well spell the disintegration of the Facebook empire. They are unhappy with the way Facebook is leveraging its user base and information. When it quickly copies Snapchat's features in order to destroy a competitor, the game doesn't look fair.

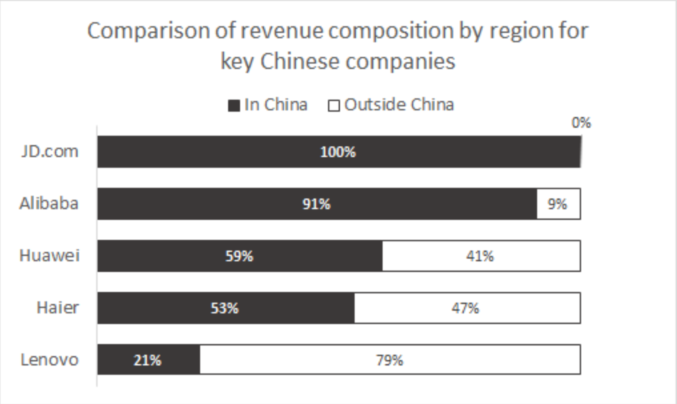
And at the heart of the turmoil in Silicon Valley and in Shenzhen is the controversy of "data advantage." Both US and China are trying to avert more tech concentration. Ant, for instance, is looking for prospective buyers to divest some of its previous acquisitions. At least one sale might include its stake in Chinese bike-sharing startup Hellobike.

But here is another way of looking at the recent incidents. China and US are looking at very different things.

Chinese authorities have long supported national champions that're seen as world-beating. Think Huawei, Lenovo, and Haier. They have all won big domestically and gone on to unseat global players. That's also how Japan and South Korea got rich. You nurture an advanced industrial base, impose an export requirement on it, then support the winners who bring cash home.

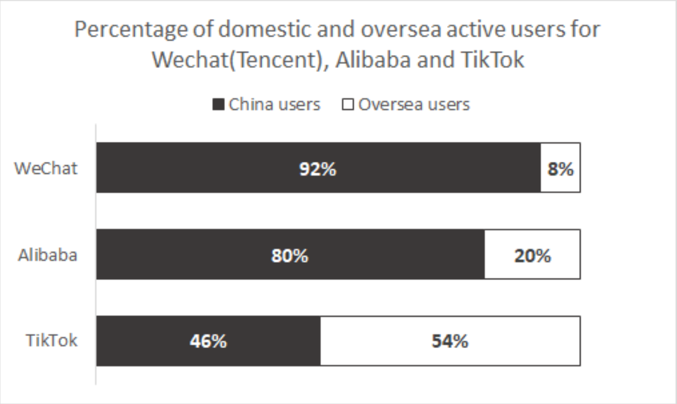
This is where the disappointment lies. Alibaba's international commerce is about 10% of its domestic revenue. Tencent's WeChat has more than a billion monthly users in China, but "merely" 70 million user accounts registered overseas. JD.com operates mostly within China. The only exception is TikTok, which is owned by ByteDance. It's the lone startup that has made inroads into America's heartland. Is it a wonder that when TikTok faced political heat in India, the Chinese government approached ByteDance with offers of help?

Here is a revenue breakdown of the five leading companies in China.



JD.com and Alibaba are under extreme scrutiny. We haven't heard of crackdowns against Huawei, Haier or Lenovo. Companies that have substantial overseas revenues are immune.

Here is another picture. It looks at user volume among the three major platforms.



Again, it is WeChat and Alibaba being scrutinized the most.

What's emerging here is that the companies still receiving government supports are ones that have already gone international. These companies earn foreign money and bring home profits. The reason why China's big tech companies are falling out of favor is simple: They are disrupting state-owned enterprises without winning abroad.

So what are the long-term implications? The tech war between China and US will only intensify during the Biden administration. If Alibaba, Tencent, JD.com and a host of other tech companies are to survive scrutiny from Beijing, they will need to gain traction for their own international expansion. They will not fight against Amazon in the US., but in South East Asia, the Middle East, and part of Europe. Those will be the frontier markets for for all tech giants.

Chinese big tech will survive. But to serve the national interest, it will have to expand internationally, very quickly.