

# China's "National Champions" Alibaba, Tencent, and Huawei

By Jeffrey Melnik

**B**efore reading this article, maybe you checked your Apple iPhone or Google Android phone for today's weather or the news or caught up on some email. Maybe you logged onto Facebook and caught up with your friends or shopped for things on Amazon. Maybe after some intense study reading the pages of *EAA*, you plan to unwind by watching some movies on Netflix or playing some *Fortnite* on your gaming console. The work of American tech giants like Apple, Amazon, Microsoft, and Facebook is an essential part of our daily lives, so much so we barely think about it anymore. But what is it like in China—a market of ever-growing international prominence in tech? What is the Amazon, Apple, or Google of China?

In the not-too-distant past, China's internet and tech scene lagged behind that of the US's. The first email in China was sent in 1987 between Chinese scientists and German researchers at the University of Karlsruhe, seventeen years after the same feat in America. It wasn't until seven years later in 1994 when researchers at the Institute of High Energy Physics at China's Academy of Sciences built the first cable connection for the country to the world wide web, but only by connecting to facilities at Stanford University's Linear Accelerator Center. The rise of the internet in China was slow at first, but the growth of tech cafés, where patrons could economically use internet-connected computers, and government investment in networking infrastructure caused a rapid expansion in users throughout the country. By 2014, twenty years after the world wide web first arrived in China, 618 million users (about half the nation's population) regularly used the internet over telephone lines, optic cables, and wireless networks—the largest number of any country in the world.

This rapid ascent of internet ubiquity in China and the consequent growth of tech start-ups have led to its own share of powerful, fiercely competitive conglomerates buoyed by a massive population, the world's second-largest economy, and restricted foreign competition—a result of key government policies to promote domestic companies over foreign competition and its restrictive internet firewall. While many American tech companies have a presence in China, these companies are all bested by domestic competition in the market. Many companies like Google and Facebook are largely absent, as are media-streaming services like Netflix. At present, nine of the world's biggest tech companies in terms of market capitalization (the total value of a company's stock shares) are now based in China, but most Americans likely could not name most of them, while being able to name American businesses like Microsoft and Amazon. However, many Americans have likely interacted with one of these companies without realizing it, as they continue to grow and expand internationally into different fields, and the Chinese government continually pushes its Made in China 2025 industrial policy plan.

By 2025, China aims to drastically reduce its dependence on foreign competition and become a dominant global force in tech in areas such as next-generation information technology, 5G wireless networks, cloud computing, robotics, and artificial intelligence. Key to this goal are companies labeled as "national champions"—companies who not only seek private profit but also advance Chinese interests in certain sectors while benefiting from state policies. China's national champions are the best of the best and domestic leaders in their respective industries. However, the success of these companies is not without its share of controversies, especially in the companies' connections to the authoritarian

Chinese government and the ways they support the repressive policies of Xi Jinping.

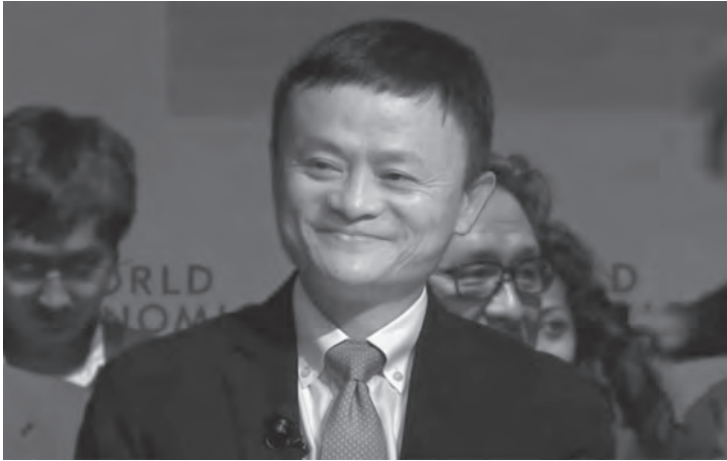
This essay provides short introductory overviews of a few of the most important national champions: the two largest Chinese internet companies with an ever-growing presence in the US, Alibaba and Tencent, and Huawei, a global Chinese telecommunications juggernaut at the forefront of the current US–China trade dispute. Why is it important to know more about these three, and what are the controversies involved—particularly in their relationships with the Chinese government?

## Alibaba



Jack Ma (front, lying down in white) with his team during the early days of working out of his apartment. Source: *The Alibaba Group* website at <https://tinyurl.com/y3vkvdz5>.

Like the many American tech giants with humble origins in home garages, Alibaba comes from similar beginnings. Company founder and former CEO Jack Ma (Ma Yun) was born to a poor family in Hangzhou, China, in 1964. With no money or connections, Ma could only advance in society through education, where he failed his college entrance exams twice before finally gaining admittance to a teachers college on his third try. After graduation, Ma struggled to find work—even failing to get a job at a KFC in China—before finding work as an English teacher. In 1995, Ma learned about the internet for the first time in his life during a trip to California where, according to Ma, in a rather bizarre story, he was collecting a debt on behalf of a Chinese company. The businessman who owed this debt held him captive at gunpoint for two days, refusing to pay his debt back.<sup>1</sup> It was only after convincing the man to become his partner in a new internet-based venture in China, where the web was still in its infancy, that he was set free. Although Ma never had contact with the man again, he did follow through on starting an internet company on his return to China. Barely understanding the world wide web himself, Ma founded his first website, *China Pages*, after quitting his teaching job and borrowing about US \$2,000. The site, which built websites for Chinese businesses, would eventually fail, as would a joint venture with a state-owned telecommunications company. Then, in 1999, Ma formed Alibaba (named after the character Ali Baba from the folk tale collection *One Thousand and One Nights*) as an online business-to-business marketplace with a group of friends and about US \$60,000 in total capital. The company's success in China soon attracted major investments from



Jack Ma speaking on the future of online trade and globalization at the World Economic Forum 2017. Source: Wikipedia at <https://tinyurl.com/hpe3wfj>.

US's Goldman Sachs and Japan's SoftBank—and now, twenty years later, the Alibaba Group, led by CEO Daniel Zhang (Zhang Yong), is the dominant e-commerce entity in China and a competitor to Amazon for the world's largest e-commerce company.

In the fiscal year ending March 2019, the Alibaba Group reported revenues of US \$56 billion, the vast majority of which came from China.<sup>2</sup> The core of the company, like Amazon in the US, is in e-commerce (online sales). Alibaba's main website is geared around e-commerce, but the company has launched several other subsidiary e-commerce sites over the years, including the consumer-to-consumer sales website Taobao Marketplace, the business-to-consumer sales website Tmall, and the eBay-like commerce site AliExpress. On Singles Day in 2018 (a popular shopping holiday held in China on November 11), Alibaba set a record with over US \$30 billion in sales across its various e-commerce platforms.<sup>3</sup> As of July 2019, Alibaba now allows US small businesses to sell on its main website.

Alibaba has greatly expanded in its twenty years of existence to numerous business ventures. Most Chinese have never owned credit cards, instead favoring online mobile payment services via cellphones offered through companies like Alibaba. In 2004, Alibaba launched AliPay (now a part of Alibaba's Ant Financial Services, launched in 2014), an online payment platform with no transaction fees. AliPay overtook PayPal as the largest online payment service in 2013, and as of November 2018, over 870 million users were registered on AliPay worldwide, though the service's active users have now fallen behind its chief competitor, Tencent's WeChat Pay. Alibaba Cloud—a cloud-computing subsidiary—launched in 2009.<sup>4</sup> The service hosts Alibaba's own collection of e-commerce and services while also providing online hosting services for other businesses. Alibaba Cloud is China's largest cloud-computing company, with twenty data centers across the globe, including two in the US, though they remain behind the worldwide leader Amazon, who possesses a vast and largely secretive number of data centers (a recent leak suggests over one hundred centers worldwide). Other Alibaba services include the messaging service WeChat and the search engine Shenma, a joint venture with Chinese company UCWeb, the second-most-used search engine in China, with 8.8 percent of market share (though a distant second to China's Baidu). Alibaba is slowly expanding into brick-and-mortar retail ventures as well with a supermarket chain, Freshhippo, that now has 135 stores throughout China.

In recent years, Alibaba has made major investments in entertainment. The company formed a digital media and entertainment group for ticketing and live experiences, a digital games and application download platform called 9Apps, the video-streaming service Youku, and a music division titled AliMusic for the ever-growing streaming market. Alibaba Pictures formed in 2014 after the acquisition of ChinaVision Media and, by June 2015, became the largest movie company in China, worth US \$9.6

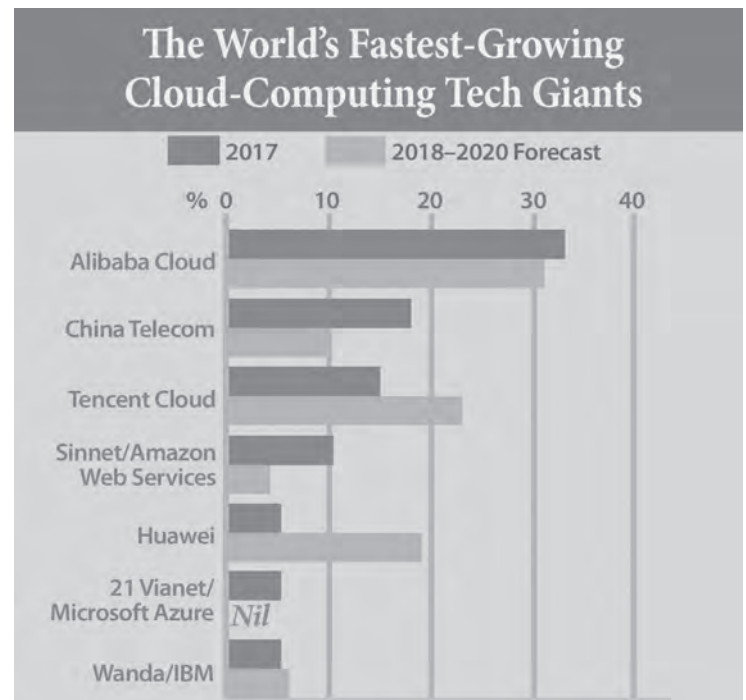


Key entities of the Alibaba Group as of July 2019. Source: *The Alibaba Group* website at <https://tinyurl.com/y64jho5e>

## Alibaba Cloud is China's largest cloud-computing company with nineteen data centers across the globe, including two in the US.

billion. Many Americans have likely watched an Alibaba Pictures-financed film in recent years without realizing it. Alibaba Pictures coproduced the most recent installment of the *Mission: Impossible* series titled *Fallout* (2018) and the 2019 movie *A Dog's Journey*. These entertainment ventures, while growing in number of users, have accumulated losses of US \$2.35 billion through March 2019—a drop in the bucket, however, compared to Alibaba's combined revenues.

Alibaba's meteoric rise has not come without its share of controversy. Counterfeit goods have long been a problem in China, where a report by the UN Office on Drugs and Crime estimated almost 70 percent of all counterfeit goods seized originated from the country.<sup>5</sup> Alibaba and its associated sales websites have become a haven of sorts for Chinese counterfeiters, and the problem became such that in 2016, the US Office of



Sources: *AlphaWise*, *Morgan Stanley Research*, and *The Economist* at <https://tinyurl.com/yymul2mn>.

the Trade Representative added the Alibaba-owned Taobao Marketplace to a list of notorious counterfeit platforms. American footwear company New Balance estimated at the time that as much as 90 percent of New Balance products listed on Taobao were counterfeit or dubious goods.<sup>6</sup> While Alibaba has stepped up efforts to remove counterfeiters from their platforms—closing over 240,000 stores selling counterfeit items on Taobao by 2017—the issue persists. In April 2019, President Donald Trump signed a memorandum aiming to curb the sale of counterfeit goods from Alibaba. The memorandum also targets Chinese counterfeiters present on US e-commerce sites like Amazon and eBay (Amazon, in particular, has allowed Chinese counterfeiters to thrive on its platform).<sup>7</sup>

While not state-owned, Alibaba still finds itself like other private Chinese tech companies deeply involved with the government as one of its national champions. Former CEO Jack Ma, like several of his CEO peers in China, is a member of the Chinese Communist Party and a backer of Xi Jinping’s most repressive policies.<sup>8</sup> Ma has spoken openly about using big data compiled by companies like Alibaba to build a nationwide surveillance network to deter crime.<sup>9</sup> As part of Xi’s Made in China 2025 initiative to use Chinese technology companies to advance the country in various sectors, Alibaba is working on “smart city” infrastructure using its resources, for example, to help city authorities manage traffic and trash and sanitation services. By 2020, the Chinese government hopes to implement a unified social credit system—a single scoring system assessing Chinese citizens’ economic and social reputations, which can affect travel allowance, school choices, work, etc. Alibaba’s Ant Financial already operates its own social credit system using its financial records of users to compile US-like credit scores. As China works toward a singular social credit system, the information compiled on its users by Ant Financial and others will doubtlessly become an essential component.<sup>10</sup>

## Tencent



Ma Huateng. Source: Screen capture from *The Rise of China’s Tencent Billionaire* on YouTube at <https://tinyurl.com/y4t5fkpn>.

The low-profile Ma Huateng worked as a software developer for China Motion Telecom Development in the late 1990s, during which he participated in a presentation by Israeli company Mirabilis of ICQ, the world’s first online instant messaging service for computers. Inspired by the idea, Ma, also known as “Pony Ma,” and his classmates from school, Zhang Zhidong, Xu Chenye, Chen Yidan, and Zeng Liqing, founded the company Tencent in 1998 and launched their first major product, QICQ, a Chinese version of ICQ, in February 1999. Following the threat of a copyright infringement lawsuit with American company AOL, who had purchased ICQ from Mirabilis, Tencent renamed the product QQ. By 2016, the platform had 899 million users, and QQ has grown beyond its roots in instant messaging to include shopping, games, music, blogging, and other services.<sup>11</sup> The same can also be said for its owner, Tencent, who has

## Tencent Products and Services as of July 2019

Social Networks	Payment
QQ Weixin/WeChat Qzone	Tenpay Weixin/WeChat Pay QQ Wallet
Entertainment	Information
Tencent Literature Tencent Comic Tencent Pictures Tencent Music Entertainment Group (TME) QQ Music Penquin e-Sports NOW Live Interest Tribe Tencent Classroom Tencent Games Nextradio	QQ.com Tencent News Tencent Video Tencent Microblog
Utilities	Platform
YingYongBao QQ Browser Tencent Mobile Manager Tencent PC Manager Tencent Map QQ Mail Pitu Tencent Questionnaire Tucao	Tencent Open Platform Tencent Cloud
	Artificial Intelligence
	Tencent AI Lab Tencent YouTu Lab

Source: Tencent website at <https://tinyurl.com/y3c4zz2o>.

grown into one of the world’s most valuable technology conglomerates, gaming companies, social media companies, and venture capitalist and investment firms.

Tencent’s core businesses are in video gaming and internet-related services and products such as cloud computing and social media. Tencent’s gaming division, Tencent Games, launched in 2003 with a focus on online games, particularly for Tencent’s QQ platform. Sixteen years later, the division is the most valuable of all video gaming divisions in the world. The company’s 2015 multiplayer online battle arena (MOBA) game *Honor of Kings* for mobile platforms (released as *Arena of Valor* in the West in 2017) became the highest-grossing game of all time by 2017. Tencent purchased American video game developer Riot Games and their popular MOBA game in the US, *League of Legends*, in 2011. One of the most popular video game phenomenon currently in the US is the battle royale game *Fortnite*, which Tencent partially owns through its 40 percent stake of the game’s developer, Epic Games. Tencent also owns smaller stakes in other major Western developers such as Activision Blizzard and Ubisoft. Steam, the largest computer video gaming platform in North America and Europe, operated by US company Valve, launched in 2003 and currently features approximately 125 million active users. Tencent’s competing computer gaming platform, WeGame, launched years later in 2017 but already has far more active users, with 200 million alone in China. On its gaming division alone in 2018, Tencent earned over US \$19 billion in revenues.<sup>12</sup>

In 2011, Tencent launched its most successful platform, the mobile app WeChat (*Weixin*), a Facebook-like, multipurpose social media platform, and, by 2018, WeChat featured over one billion active users in China. WeChat has extensive functionality like messaging, video and voice calling, image and video sharing, and “moments,” a Facebook-like posting



December 12, 2018, the New York Stock Exchange is decorated for the first day of trading for the Chinese music-streaming platform Tencent Music Entertainment. Source: © Shutterstock.

service. The application, however, is far more than just a social media and communication platform, and WeChat usage is such in China that it is difficult to get by in daily life without using the platform. Its digital wallet and mobile payment service, WeChat Pay, had over 600 million active users by 2017, greatly eclipsing Alibaba's competing service, AliPay, and its 450 million users.<sup>13</sup> Users use WeChat Pay to pay bills, order goods, transfer money to other users, and pay in stores and other locations that feature a WeChat Pay option. WeChat users also order food from restaurants, book travel, shop, read news, play video games, purchase movie tickets, and even do laundry, among other things, entirely within the app. *Forbes Magazine* has called the application "China's app for everything," and Berkshire Hathaway Vice Chairman Charlie Munger has described WeChat as one of the few potential competitors to US financial giants Visa, Mastercard, and American Express.

Tencent possesses a staggering array of investments. Tencent CEO Ma Huateng is a noted aggressive investor, similar to Warren Buffet of Berkshire Hathaway, and Tencent owns or possesses stakes in over 600 companies in real estate, food, automotive, education, agriculture, and renewable energy, among other fields. Like Alibaba, Tencent has set up a film division that has invested, for example, in 2017's *Wonder Woman* and the upcoming sequel to *Top Gun*. Through its businesses and investments, Tencent made over US \$45 billion in revenue in 2018 and, as of publication, ranks as the world's fifth most valuable internet company.<sup>14</sup>

Like its competitor Alibaba, Tencent is a national champion with some troubling ties to the Chinese government, where Ma serves as a delegate to the National People's Congress. Similar to Alibaba's role in pushing smart cities, the Chinese government has invested in Tencent initiatives to improve medical imaging. Perhaps most concerning is how its services are used to promote the Great Firewall of China (GFW)—a series of legislative actions and technologies employed by the Chinese government to monitor and censor the internet and block access to foreign sites. WeChat, with its near ubiquity in China, has become an invaluable tool for the government to monitor and censor user content. This censorship follows its Chinese users everywhere. WeChat users who have registered their Chinese phone number with the service still find their activity is censored even when outside China.<sup>15</sup> To gain access to these Chinese users, foreign companies, universities, etc., must register accounts on services like WeChat within China and then become subject to the same censorship laws within the country. Recorded chats are used in legal proceedings, and individuals have been followed for posting about political matters. In order to gain access to WeChat's massive user base via its social networking "moments," Chinese websites must have an internet content provider license (ICP) provided by the Chinese government.

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WeChat employs a form of coded censorship where keywords in messages trigger an immediate block and warning to users. A report by Citizen Lab, a research group based at the University of Toronto, specifically looked at how WeChat quickly censored human rights-related messages in the wake of the "709 Crackdown," where on July 9, 2015, the Chinese government arrested 709 human rights lawyers on charges of subverting state power. The group found that certain messages with keywords like "China arrest human rights defenders" would not send over WeChat, whose servers keep an eye out for these keywords and immediately prevented them from sending.<sup>16</sup> The report also found that these keywords are not static and that Tencent rapidly adds new keywords in response to current news events.

Police have used Tencent technologies to monitor crowds at events, and gamers in China must now verify their identities with police databases as part of a crackdown on what the Chinese government perceives as excessive gaming among youth. A recent report uncovered a page on Tencent's website touting its cloud services as "standardizing and streamlining party-building work." The web page was quickly removed when Tencent was asked about it and replaced with a page about how Tencent services can help local governments manage data.<sup>17</sup>

### Huawei



June 21, 2019. CNBC's Deirdre Bosa interviews Huawei founder and CEO Ren Zhengfei at the telecom giant's campus in Shenzhen, China. Source: YouTube at <https://tinyurl.com/y4923ej6>.

The oldest of the companies discussed in this article, Huawei Technologies, was founded in 1987 by Ren Zhengfei. Before founding Huawei, Ren was a member of the People's Liberation Army of China (PLA), where it is alleged he worked as a skilled technologist, though little can actually be confirmed about Ren's activities during his service. He moved to Shenzhen in 1983 and worked in the electronics business before establishing Huawei in 1987. Thirty-two years later, Huawei is an international telecom giant that, in 2018, pulled in revenues of over US \$107 billion.<sup>18</sup>

Three businesses make up the core of Huawei Technologies: (1) carrier networks and their associated wireless technology, like AT&T and Verizon in the US, that provide wireless cellular service; (2) business enterprise, providing hardware and software to these customers; and (3) consumer devices, like smartphones. Huawei's business model in its earliest years was reselling private branch exchange (PBX) telephone switches imported from Hong Kong for China's then-very underdeveloped telecommunications structure. The company, meanwhile, reverse-engineered these



Commuters pass by the stores of tech giants Apple, Huawei, and Samsung in Chengdu, Sichuan, China. Source: © Shutterstock. Photo by B. Zhou.

## By 2018, Huawei surpassed Apple to become the world's second-largest smartphone manufacturer, only trailing Samsung, selling over 200 million smartphones worldwide that year.

switches while expanding its own research and development division. By 1990, Huawei began selling its own PBX switches, primarily for hotels and small businesses in China. In 1993, Huawei released what was then the most powerful telephone switch in China and gained major mainstream market share as they expanded into Chinese cities and rural areas. Their success gained the attention of the PLA, who gave Huawei a contract to build a telecommunications network for their use, and in 1996, after the Chinese government began a policy of promoting domestic networks while restricting foreign competitors, Huawei became a national champion in telecommunications.

Huawei started launching its own wireless network-based products in 1997 and began a rapid ascent, besting its domestic competition with the boom of the Chinese telecommunications industry. Beginning in 1999, Huawei expanded into foreign markets with a research and development (R&D) center in Bangalore, India, and established four R&D centers in the United States by 2001. By 2011, Huawei had partnerships with most of the world's largest telecoms, and their networks reached about one-third of the world's population. By 2012, Huawei networks had overtaken Swedish-based Ericsson to become the world's largest telecom hardware manufacturer in the world. In 2003, Huawei established its mobile handset division and shipped its first handset, the C300, in 2004. Their first smartphone, based on Google's Android mobile OS, the U8220, launched in October 2009, two years after Apple released its first smartphone, the iPhone, one year after Google released its first Android handset, and several months after Samsung released its own Android-based smartphone. In 2015, Huawei partnered with Google to manufacture the company's newest line of Nexus smartphones for US consumers. By 2018, Huawei surpassed Apple to become the world's second-largest smartphone manufacturer, only trailing Samsung, selling over 200 million smartphones worldwide that year.<sup>19</sup> By 2020, the company expects to become the world's no. 1 manufacturer, though recent events have hampered these ambitions.

Huawei's close relationship to China's government has long been a concern for foreign governments where the company conducts business—especially the US—over alleged espionage and the theft of intellectual property. The ownership structure of Huawei is also very

murky. Officially, the company is private and not state-owned. Ren is listed as the CEO of the company, though he may only own about 1 percent of the company. The chief secretary of Huawei's board of directors has stated in interviews that the company is owned by a labor union, but US officials suspect that Beijing and the Communist Party exert the most influence, and perhaps ownership, in the company behind the scenes.<sup>20</sup> As a result of conflicts with the US government, Huawei has struggled to gain ground in the US market, despite its massive success

elsewhere. Telecommunications company Cisco filed a lawsuit against Huawei in 2003, alleging the company had copied their software, documentation, and other copyrighted materials, as well as infringing on several of their patents. The same year, US lawmakers pressured the George W. Bush administration to stop a deal between Huawei and Cisco rival 3Com over national security concerns. The deal eventually fell through. The US House Permanent Select Committee initiated an investigation in 2011 on the counterintelligence and security threat posed by Chinese telecommunications companies like Huawei with operations in the US.<sup>21</sup> American carriers agreed to block deals with Huawei in 2013, prompting the company to abandon the US telecommunications market entirely, though they would continue to sell smartphones and other electronics hardware to American consumers. In late 2018, with the US and China embroiled in a lengthy trade battle under the Trump administration, the government initiated a massive crackdown on Huawei and another Chinese telecom company, ZTE, banning their hardware for federal government use. At the request of the US, Huawei CFO Meng Wanzhou, daughter of founder and CEO Ren Zhengfei, was arrested in China in December 2018 over charges Huawei violated sanctions placed on Iran by committing bank and wire fraud, meant to mask the illegal sale of US technology in the country. Meng and Huawei were charged with thirteen counts of fraud, and prosecutors additionally charged the company with ten counts of theft of trade secrets. Meng was later released on bail.

Controversies surrounding Huawei have intensified throughout 2019. In March, the US allegedly threatened to limit intelligence to Germany if they didn't drop Huawei's 5G network rollout in their country. In May, Trump issued an executive order giving the government power to restrict transactions with "foreign adversaries" that involve information and communications technology. Under the order, Huawei and seventy of its affiliates were added to the Department of Commerce's entity list under the Exports Administration Regulations, preventing companies from doing business with Huawei without a government license. Various US businesses immediately suspended their relationship with Huawei to comply with the order, including Google, a damaging blow since Huawei's smartphones are dependent on Google's Android operating system. These restrictions would ease up in some cases, like Huawei and Google, but only for a ninety-day window to discuss longer-term solutions. With Huawei's own mobile OS years away, the executive order greatly crippled Huawei's smartphone business, forcing massive price drops.

### Conclusion

Like the US tech landscape, there are plenty of currently thriving businesses and emerging start-ups in China. Baidu, a tech services company responsible for China's leading search engine, rivals Alibaba and Tencent (collectively the three are often referred to together in the acronym BAT) in size though its recent revenue slumps and competition threaten its



News photographers crowd around Meng Wanzhou in Canada. Source: Screen capture from the South China Post video on YouTube at <https://tinyurl.com/y5fthaxd>.

standing in China. JD.com (Jingdong) is a strong rival to Alibaba in e-commerce, though 20 percent of the company is owned by Tencent. Xiaomi, a chief consumer electronics rival to Huawei, is a growing success in China with an emerging presence internationally. Bytedance is a major emerging company with its successful news app Toutiao in China, and its video-sharing service TikTok is currently enjoying new success in the US.

Already worth billions, there is still so much room for China's current national champion powers such as Alibaba and Tencent to grow, especially in the US. Over the years, more of the online services we use and entertainment we enjoy will certainly come from the products and investments of leading Chinese companies like Alibaba and Tencent. Their issues, however, will not go away, either. Americans are increasingly aware of the privacy issues with big tech companies, and concern is growing over how that data is managed. This problem worsens when considering the relationship of the Chinese government to Chinese companies, as Alibaba and Tencent look toward the West for future growth.

At present, Huawei's future in smartphones looks somewhat rocky, and the company will likely never escape the watchful eye of the US government. Despite this, Huawei will remain a major global telecom powerhouse, and as it looks to move away from dependency on Android, current events may prove to be just a minor bump in the road. It may have been farfetched once to think US perennial giants like Apple or Google as anything less than the top companies in tech, but that now seems much more plausible, especially as China pushes forward with its major goals to become a global tech leader by 2025. Impossible, perhaps, yet not implausible either, and China's growth in tech will certainly be driven forward by its national champions. ■

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