

Alibaba signals that China is an innovative tech center

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When most people think of the Chinese tech industry, they probably envision vast Foxconn factories with armies of workers churning out iPhones and laptops. And Silicon Valley, in this popular view, is the world's tech innovation capital. But the pending initial public offering of Alibaba, the planet's largest e-commerce site, symbolizes a new China - one that isn't about just making or copying gadgets and services others have created.

It's about innovation, too. Or, as some have called it, "Chinnovation."

"Alibaba's IPO is a game-changing moment," said Rebecca Fannin, the founder and editor of Silicon Dragon Ventures, a news service focused on the world's emerging markets, including China. "It will mark China's image transformation."

What this means for Silicon Valley is an intriguing issue. It would be hyperbole to predict that the rise of innovative, creative Chinese companies such as Alibaba means that Silicon Valley's days as tech's intellectual center are numbered. In fact, Chinese companies eagerly are tapping into the valley's innovation: investing in U.S. startups, hiring away U.S. talent and setting up research and development centers in Silicon Valley.

But the rise of companies such as Alibaba comes as major Silicon Valley firms like Facebook and Google find their access to the vast and rapidly growing Chinese online market all but blocked, shutting off one of the

ways that they could grow and potentially leaving them at a competitive disadvantage with Chinese rivals.

China is still a center for low-cost manufacturing. But its government's goal has long been for businesses to become creators, not just makers, say experts on China, and the country is fast shedding its image as the workhorse of the tech industry.

As a result, tech trends and ideas emerging from China increasingly matter. And charismatic figures such as Jack Ma, Alibaba's executive chairman, could be as influential on a global level as a Steve Jobs or a Bill Gates.

"The Alibaba IPO is a validation of its place in the international marketplace and shows the innovation of Chinese companies," said Anna Han, an associate professor of law at Santa Clara University, who specializes in Chinese law.

This shift happened over the past decade starting with so-called "sea turtles," Chinese nationals with experience in the West returning home to found companies.

Many Chinese tech firms initially created copycats of U.S. models, but they soon figured out how to adapt the ideas and services to the Chinese market. They also have succeeded in areas that have proved to be stumbling blocks to U.S. firms, such as making money from mobile. And the closed nature of the Chinese tech market has given them the room to experiment without having to worry about competition from Silicon Valley tech heavyweights.

The dominant Chinese tech firms are not household names in the United States, and for the most part they don't compete here. They include Weibo, described as a hybrid of Facebook and Twitter; Renren, a

Facebook equivalent; Tencent, owner of messaging service WeChat; and Baidu, often referred to as the "Google of China." Alibaba is described as a combination of eBay, Amazon and PayPal, but with cloud services as well.

"Chinnovation" has its own unique characteristics, according to Yinglan Tan, a venture capitalist and author of the 2011 book "Chinnovation: How Chinese Inventors are Changing the World." For example, early-stage Chinese firms are intensely focused on revenue, he writes. In addition, they are willing to customize their services to local customers' needs instead of providing one service that fits all, like most valley companies.

Alibaba is a good example of Chinese innovation. The company was at first a business-to-business marketplace, then it created new properties to go after the consumer market by combining features from Amazon and eBay. One of Alibaba's chief innovations was Alipay, which came up with a creative way for the many Chinese consumers without credit cards to pay for goods, by holding the money from buyers in escrow until the goods they were purchasing were delivered.

At this stage in their evolution, most Chinese tech firms have not focused on the U.S. market. In fact, in its filing to go public Alibaba didn't even mention the issue, saying it planned to continue focusing on the Chinese market.

But already the company has made large investments in U.S. firms such as \$215 million in TangoMe, a Mountain View mobile messaging firm. It led a \$250 million investment round in the Uber competitor Lyft, as well as a \$206 million round in ShopRunner, the delivery service for online purchases that is a rival to Amazon Prime.

That's typical of its rivals; many are also turning to the U.S. for

expertise. Last year, Baidu opened an artificial intelligence center in Cupertino. And Hugo Barra, Google's former head of product marketing, joined Xiaomi, the Chinese electronics firm. Its founder, Lei Jun, who wears jeans and dark shirts while giving presentations, has been described as a Steve Jobs imitator.

"The big impact will be the propensity for Chinese firms to acquire or invest in Silicon Valley-based companies as a way to participate in new markets and to gain access to new talent," said Crawford Del Prete, chief research officer at IDC.

For a new generation of Chinese tech entrepreneurs, Baidu, Alibaba and Tencent are the lions of the tech industry, the way that Apple, Microsoft, Google, Facebook and Amazon are to young U.S. entrepreneurs.

And with the shift in China, even U.S. entrepreneurs are looking East for inspiration.

Evan Spiegel, founder of Snapchat, the Santa Monica-based startup that reportedly turned down \$3 billion from Facebook, has said that Tencent's WeChat is "a role model."

Alibaba's IPO no doubt will be big for the company, but it also will be a big step for a country. It will mark the moment when we see China not only as the maker of cool gadgets and electronic toys invented here, but an important [tech](#) creative center making so much more.

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