

# Alibaba symbol of China's new tech giants

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A man walks past an advertising billboard showing the mobile app of Alibaba's Taobao consumer-to-consumer site at a subway station in Beijing Thursday, Sept. 18, 2014. Alibaba Group's U.S. stock offering is a wakeup call about an emerging wave of technology giants in China's state-dominated economy. (AP Photo/Vincent Thian)

Alibaba Group's U.S. stock offering is a wakeup call about an emerging wave of technology giants in China's state-dominated economy.

Until now, Chinese companies that made a splash in global stock

markets were state-owned banks and oil companies. But they are big by decree, not because they sell products customers want.

By contrast, [private sector](#) tech champions such as Lenovo Group in personal computers and search engine Baidu Inc. survived bruising competition to rise to the top of their industries.

Lenovo overtook Hewlett Packard Co. to become the No. 1 global PC maker last year. Baidu ranked No. 31 on Forbes magazine's latest list of the most innovative companies. Huawei Technology Ltd. unseated Sweden's Ericsson in 2012 as the biggest maker of network gear.

Each success is unique, but they share common roots in an environment in which the ruling Communist Party has spent heavily since the 1990s to train engineers and expand Internet access. Communist leaders have pursued a hybrid strategy of encouraging inflows of technology and investment while limiting foreign ownership and censoring online material.

"We've seen a pretty careful balancing of encouraging competition and investment and also control," said Duncan Clark, chairman of BDA China, a research firm in Beijing, and an adviser to Stanford University's China 2.0 Program in entrepreneurship.

China's tech giants expanded while attracting little notice abroad in part because many focus on a fast-growing home market in the world's second-largest economy. They have little incentive to take on the risk and distraction of expanding overseas.

Tencent Holdings Ltd., with a stock market valuation of \$150 billion, is known abroad for its WeChat instant messaging service, which has attracted millions of foreign users. But most of its \$3.1 billion in 2013 profit came from its role as China's leading provider of online and

smartphone-based games.

Alibaba, founded in 1999 to link foreign retailers with Chinese producers of goods from costume jewelry to industrial hoses, also has stepped up its focus on its home market. Since the start of 2013, the company has spent more than \$2 billion to create or acquire Web-based video, finance and other consumer businesses. Chinese buyers accounted for a big portion of last year's \$248 billion in sales on its e-commerce platforms.

The company's shares are expected to start trading Friday in New York after an initial public offering that is set to be the biggest ever, possibly raising \$25 billion. But many Chinese tech companies show no interest in expanding to foreign stock exchanges.



People walk past an advertising billboard showing the mobile app of Alibaba's Taobao consumer-to-consumer site at a subway station in Beijing Thursday, Sept. 18, 2014. Alibaba Group's U.S. stock offering is a wakeup call about an

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Tencent is traded in Hong Kong but has announced no plans for listings outside Greater China. Huawei, founded in 1988 by a former military engineer and owned by its employees, has begun reporting financial results like a publicly traded company in an attempt to ease security concerns in Western markets, but has no plans to join any stock market at home or abroad.

Despite such private sector success, the Communist Party still pumps billions of dollars into Soviet-style, state-directed technology plans. Beijing has created its own mobile phone, encryption and other technology standards but failed to attract users. The government has spent heavily since 2001 on trying to develop homegrown computer chips to compete with Western industry leaders.

In entertainment, state television dominates traditional broadcasting but is overshadowed online by private sector video websites such as Youku Tudou Inc. and portals Sina Corp. and Sohu.com Inc.

Chinese leaders laid the foundation for the tech boom in the late 1990s by expanding university enrollment and requiring state-owned phone carriers to add millions of new lines and create rural Internet access.

The number of university graduates, a big share of them in engineering, computer science and other technical fields, rose fivefold over the past decade to a record 7.2 million this year, according to the official Xinhua News Agency.

Regulators kept out foreign competitors but created structures to give

startups such as Baidu, Sina and Sohu access to Western financial markets as an alternative to government banks that lend little to private companies.

Companies in energy, aviation, biotechnology and other fields are starting to invest abroad as they acquire technology, research skills and access to markets.

In the U.S., Chinese tech companies have invested in 37 states, according to an April report by research firm Rhodium Group. They have created or sustained some 25,000 jobs and "are becoming significant contributors to research and development investment," wrote authors Thilo Hanemann and Daniel H. Rosen.



In this Monday, Sept. 15, 2014 photo, workers renovate an ancient-style building at the headquarters of Alibaba Group in Hangzhou in east China's Zhejiang province. Alibaba Group's U.S. stock offering is a wakeup call about an emerging wave of technology giants in China's state-dominated economy. (AP



Photo) CHINA OUT

Alibaba pumped \$215 million into Tango, a mobile messaging service, and \$75 million into Shoprunner, a U.S. logistics outfit. Huawei, which says it has China's biggest annual research and development budget at 16 billion yuan (\$2.5 billion), employs researchers in Silicon Valley and other global tech centers. Haier Group, one of the biggest global appliance manufacturers, has a design studio in Los Angeles and a factory in South Carolina.

The impact of Chinese investment "is still small but largely positive," wrote Hanemann and Rosen. "Chinese firms such as Haier, Lenovo, Tencent and Alibaba are increasing choices and lowering prices for consumers."

Overall, China's research-and-development spending rose 35.8 percent in 2012, though to a still modest 3.2 percent of the global total, according to consulting firm Strategy& Inc. The United States accounted for 39 percent of global spending and Japan for 21.3 percent.

As American investors line up to buy Alibaba shares, another wave of newer potential success stories is forming.

They include Qihoo 360 Technology Co. in security software and mobile browsers and Xiaomi in low-priced smartphones.

Research firm Canalys says Xiaomi, founded in 2010, passed South Korea's Samsung Electronics Co. this year to become China's best-selling smartphone brand by number of phones sold.

The biggest looming potential threat to China's tech growth might come

not from the market but from politics, warned Clark of BDA. Despite private sector success, younger Communist Party officials have a more "nationalistic bent" and want a bigger official role in directing development, which might stifle creativity.

"There is a risk that that earlier lesson is being lost," said Clark.  
"Ultimately, China's entrepreneurs are the best way for China Inc. to continue to build innovative companies."

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