



China Internet Report 2021

Presented by:  South China Morning Post

Supported by:  Race Capital

Introduction

Following a period of rapid growth and innovation, the China internet sector has entered a new phase of development with both push and pull factors driving internet companies to evolve.

Tightening regulation, increasingly saturated domestic market with changing demographics and geopolitical tensions are influencing companies to look outside their established markets, pivot business models, focus on new customer segments, and adapt to shifting dynamics to remain competitive and capture funding opportunities.



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CHINA INTERNET AT A GLANCE



People



Players



Money

TOP CROSS SECTOR TRENDS FOR 2021

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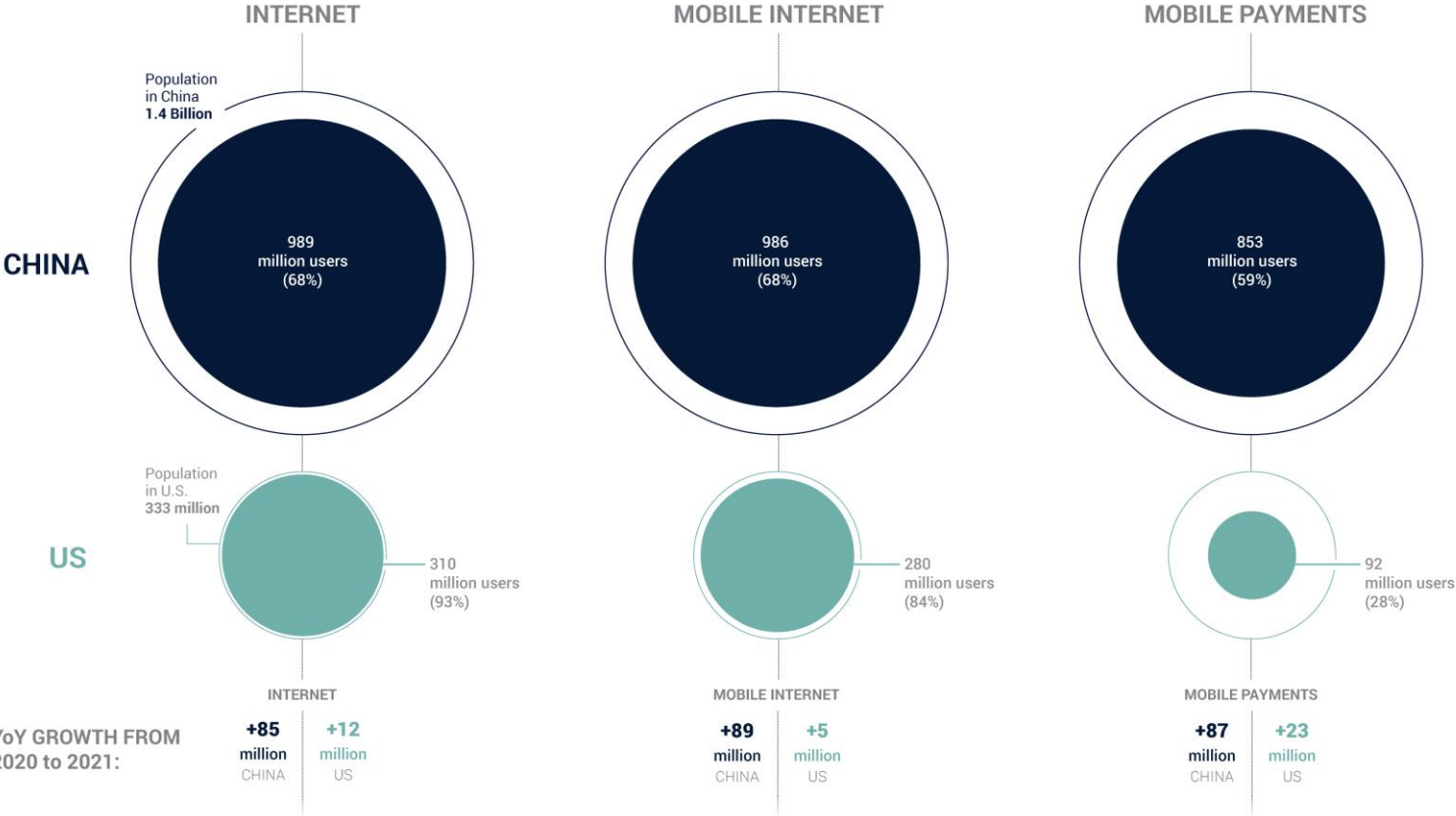
Money

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China vs U.S. Internet: People



Sources: China Internet Network Information Center (CNNIC), eMarketer, National Bureau of Statistics (NBS), Pew Research, Worldometer

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China vs U.S. Internet: Players

Alibaba Group 阿里巴巴集团						
Baidu 百度						
ByteDance						
Tencent 腾讯						
Others						

E-commerce	Content & media				Gaming	Blockchain
------------	-----------------	--	--	--	--------	------------

	News aggregator		Music	Podcasts	Short-form video	Other videos	Gaming	Video game streaming	
Others									
amazon									
Apple									
Facebook									
Google									
Microsoft									

Note: Logos in colours indicate full ownership, while logos in black and white indicate investments
Source: SCMP Research

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China vs U.S. Internet: Players

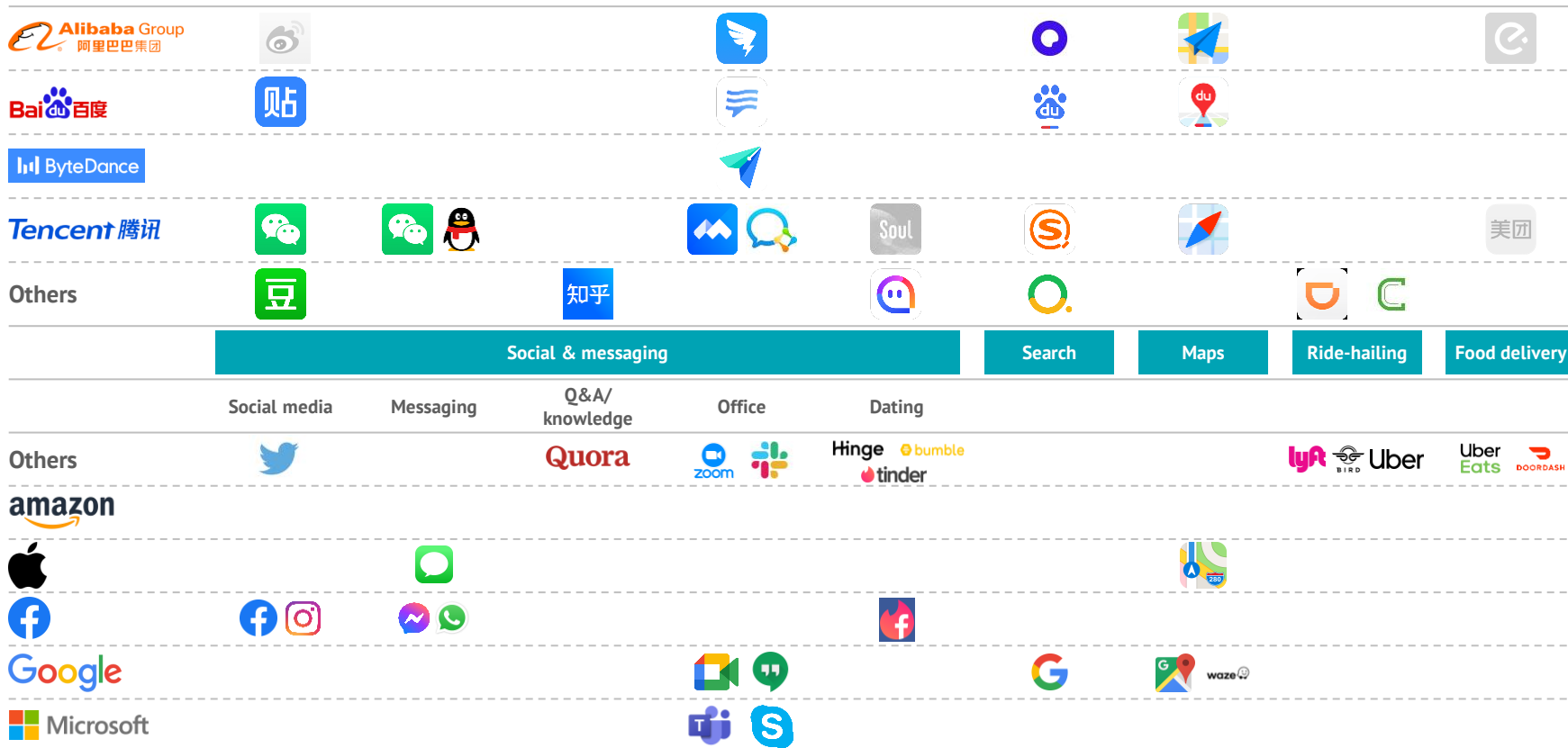
Alibaba Group 阿里巴巴集团	支	花呗	余额宝	蚂蚁保	阿里健康	X P E N G	autonx	MEGVII 旷视	商汤
Baidu 百度	度小满支付	百信银行 AIBANK	度小满理财	100	医生家	WELTMEISTER 威马汽车	apollo 希迪智驾	Baidu 百度	AAIG
ByteDance				大力			Q-CRAFT	ByteDance AI Lab	
Tencent 腾讯	QQ钱包 京东支付	京东金融 WeBank 微众银行	FUTU 东方财富	水滴 微保	KID 新东方在线 猿辅导	微医 丁香园	momenta	Tencent AI Lab	
Others		陆金所 Lufax.com 陆金所 Lufax.com	众安保险	高途 Gaotu	叮当 京东 美团	理想	DiDi pony	HUAWEI ZTE中兴	云从科技 优图 YITU
	Fintech			Online education	Healthtech	Smart cars	5G	AI	
	Payment	Digital-only banking	Wealthtech	Insurtech		Electric cars	Autonomous cars		
Others	P	axos Varo ally	Public	Lemonade NEXT	edmentum Market Street Khan Academy	Teladoc Good's better help	cruise ARGO	Qualcomm	NIVIDIA
amazon	pay					amazon pharmacy	ZOOX Aurora	amazon project kuiper	a
Apple	Apple Pay					Apple	Apple		Apple
Facebook							WAYMO		FACEBOOK AI
Google	G Pay								DeepMind Google AI
Microsoft					in LEARNING				

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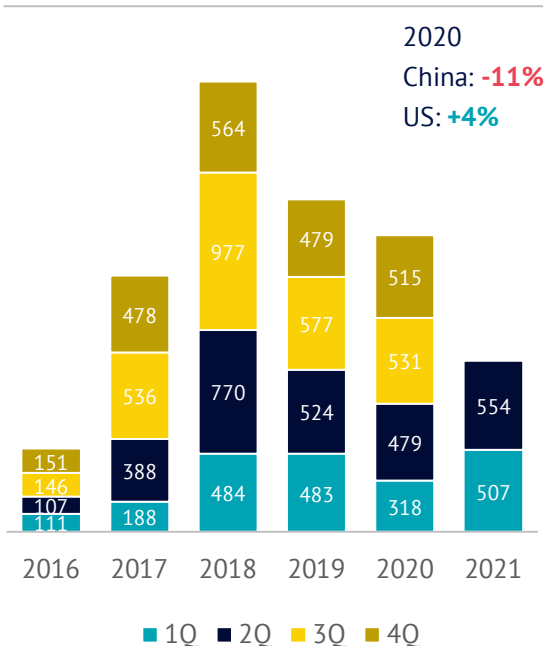
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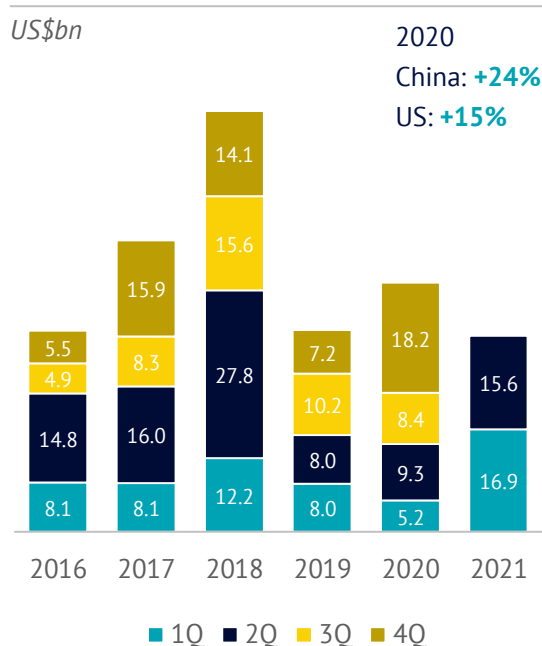
Money – Funding Raised by Start-ups

The number of deals in China's internet sector dropped by 11% in 2020. Since 2H 2020 momentum has recovered, and the total amount raised increased thanks to several mega deals. In comparison, the US internet sector defied the pandemic in both number of deals and amount raised in 2020.

Number of deals in China



Total amount raised in China



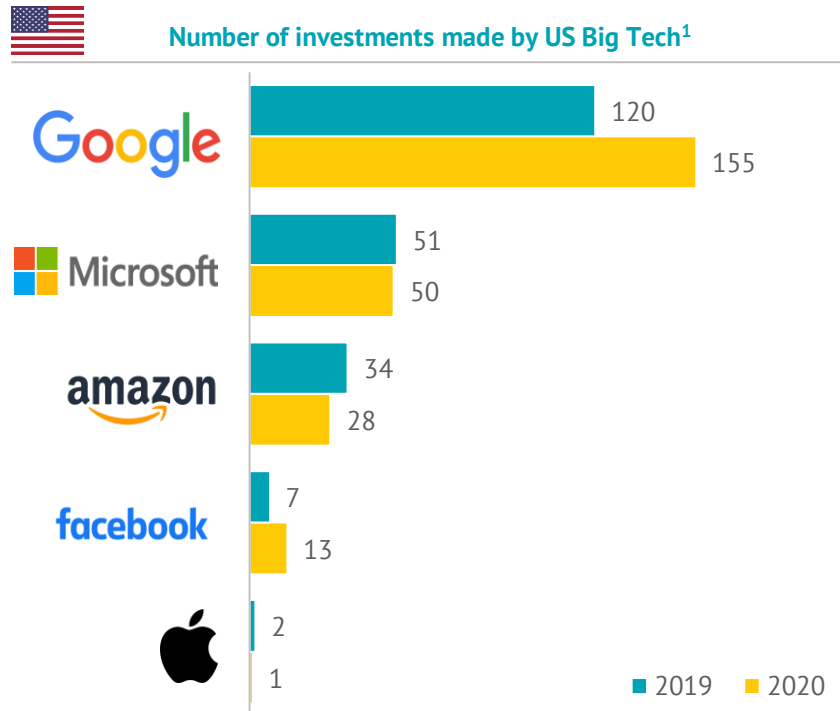
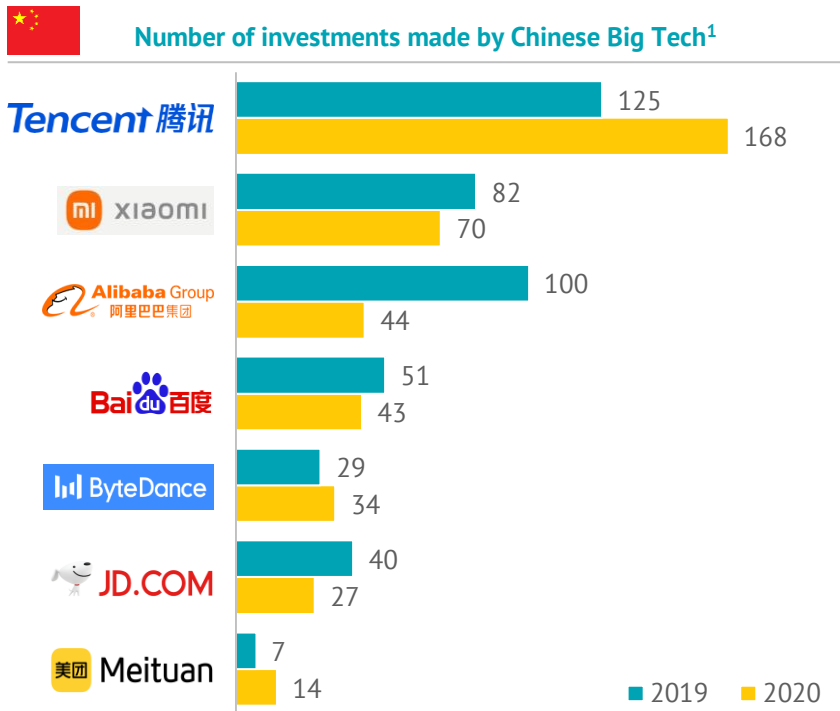
Selected mega deals since Jan 2020

Company	Date	Funding raised (US\$bn)	Valuation (US\$bn)
兴盛优选 Xinsheng Youxuan	Jul 2020-Feb 2021 (4 rounds)	3.6	6
猿辅导 Yuanfudao	Mar-Dec 2020 (4 rounds)	3.5	17
作业帮 Zuoyebang	Jun-Dec 2020 (2 rounds)	2.4	10
ByteDance	Dec 2020	2.0	180
清帮 Full Truck Alliance ¹	Nov 2020	1.7	12

¹Excluding the US\$1.6bn raised through its IPO in Jun 2021 and referring to its valuation after the US\$1.7bn funding raised in Nov 2020.
Sources: CB Insights, China Academy of Information and Communications Technology (CAICT), Crunchbase

Money – Investments by Big Tech

China's Big Tech took divergent paths in their investment activities in 2020 – Tencent further solidified its leadership as most of the other giants pulled back on investments. Newcomers, like ByteDance and Meituan, became more active. Meanwhile in the US, the number of investments by Big Tech hit a historical high, with Google and Microsoft continuing to lead.



¹Including investments by venture arms. For Alibaba, the data excludes investments made by Ant Group. Sources: Crunchbase, Datagoo, ITJuzi

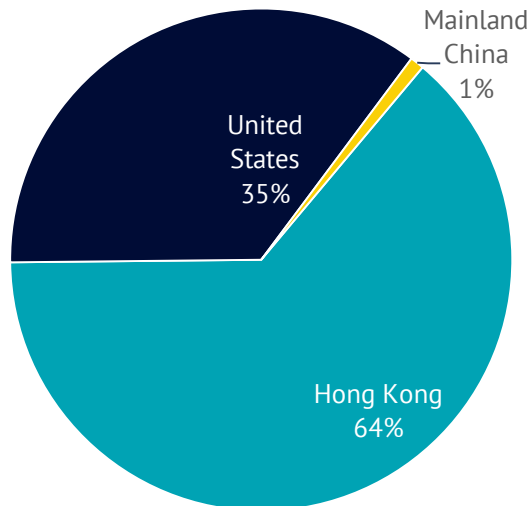


Money – Initial Public Offerings (IPOs)

Chinese tech companies raised a total of US\$46bn on public markets (including both primary and secondary listings) since Jan 2020. Hong Kong was the preferred location for Chinese tech IPOs, followed by the US. The largest IPO was from Kuaishou, which raised US\$6.2bn in Feb 2021. The largest US tech IPO during the same period would have ranked fifth when pitted against its Chinese peers.

Chinese tech IPOs by exchange¹ (since Jan 2020)

Breakdown based on total gross proceeds raised



Top Chinese tech IPOs (since Jan 2020)

Company	Exchange	Stock code	Date of listing	Gross proceeds (US\$bn)	Market cap ² (US\$bn)	Share price change 30D since listing	Share price change since listing ²
KUAISHOU	HKG	1024	Feb 5, 2021	6.2	42.8	148%	-30%
DiDi	NYSE	DIDI	Jun 30, 2021	4.4	40.1	-30%	-41%
JDH 京东健康	HKG	6618	Dec 8, 2020	4.0	31.2	101%	-4%
JD.COM	HKG (secondary)	9618	Jun 18, 2020	3.9	111.3	6%	21%
網易 NETEASE	HKG (secondary)	9999	Jun 11, 2020	3.1	60.2	24%	15%

During the same period, the largest US tech IPOs were those of **Snowflake's (NYSE: SNOW)** and **Airbnb's (NASDAQ: ABNB)**, with each raising US\$3.7bn.

¹Based on gross proceeds raised by Chinese tech companies based on a list of primary and secondary listings compiled by Bloomberg. | ²Market cap and share price as of Aug 13, 2021. Sources: Bloomberg, Google Finance, SCMP Research



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1

Tightening Regulations on Multiple Fronts

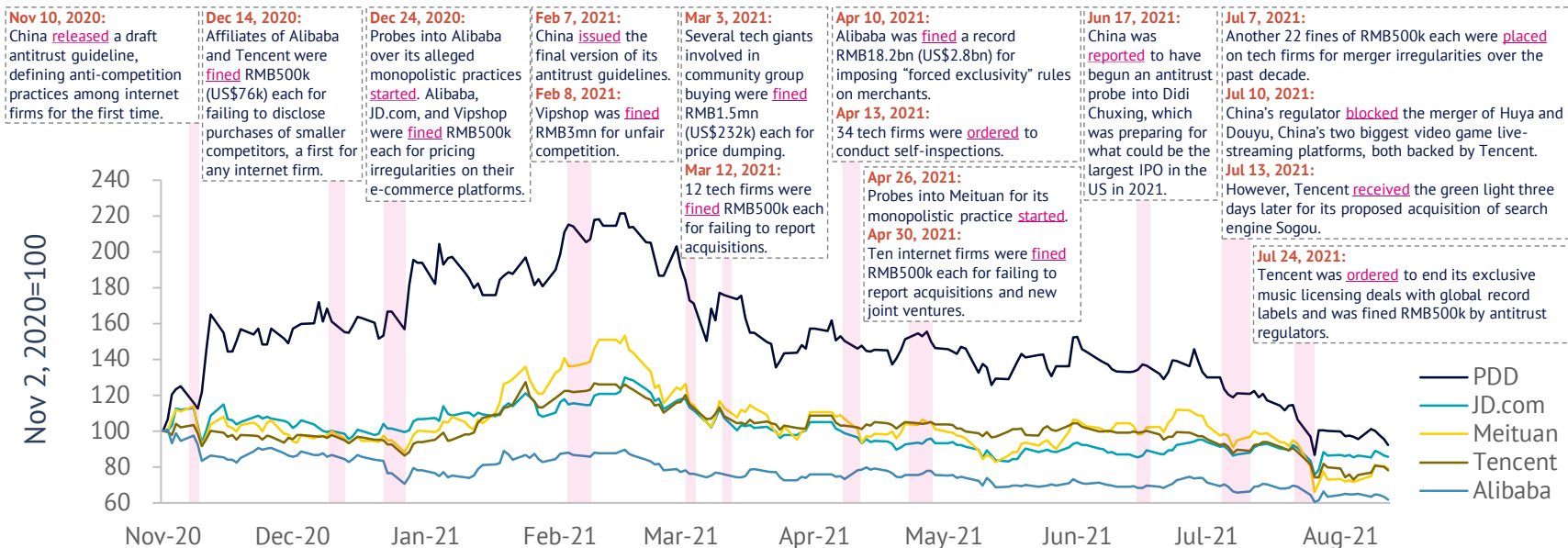
China's tech industry has been hit by sweeping regulatory crackdowns since the second half of 2020, driven by Beijing's desire to better align the country's technology development with national strategic goals and public interests. The tightening has focused on four areas – antitrust, finance, cybersecurity and data privacy, as well as cryptocurrencies.



1 Antitrust: Regulators Taking Aim at Big Tech's Bad Behaviour

Since late 2020, China has unleashed a slew of regulatory actions targeting the monopolistic behaviours of the country's biggest internet companies – a new antitrust guideline was issued, investigations were initiated, and companies were slapped with penalties. The share price of Big Tech was notably hampered, as the government reined in tech giants' power and influence.

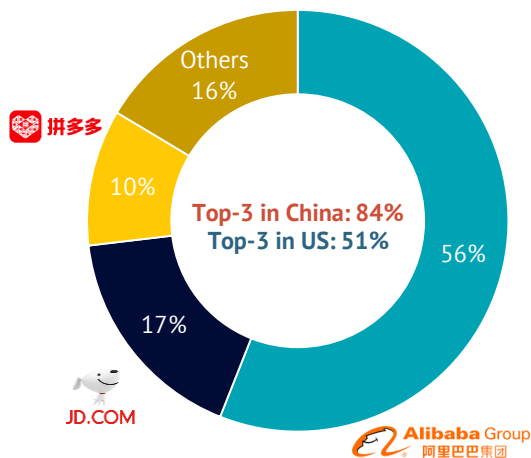
Timeline of China's antitrust actions and share price performance of selected Big Tech



1 Antitrust: High Market Concentration in Various Internet Sectors

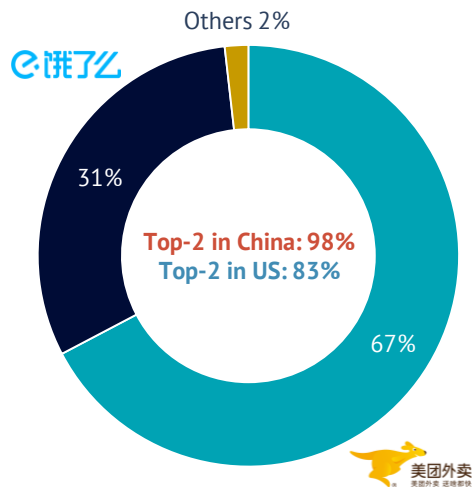
Antitrust actions were triggered by Big Tech's misuse of market power. In various sectors, the top players command over 80% market share. Market leaders – including Alibaba, Meituan, and Didi Chuxing – have notably been singled out by regulators with separate antitrust probes.

E-commerce market share¹



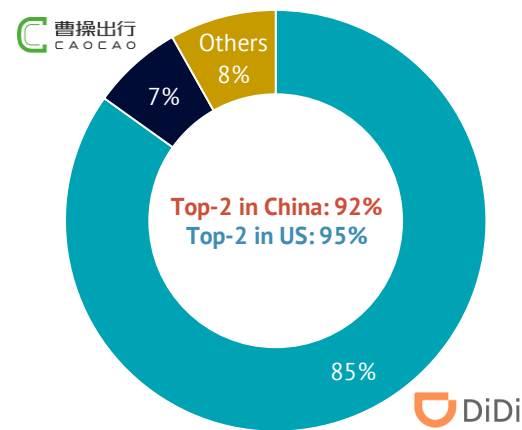
Alibaba was **fined** RMB18.2bn (US\$2.8bn) in Apr 2021 for forcing merchants to open stores or take part in promotions solely on its platforms.

Food delivery market share²



Regulators **started** probes into Meituan in Apr 2021 for forcing merchants to sell exclusively on its platform. Meituan could be fined up to billions of yuan.

Ride-hailing market share³



In Jun 2021, regulators had reportedly **begun** to probe into Didi Chuxing for unfair competition, ahead of the company's planned IPO in the US.

¹Based on retail e-commerce sales in 2020. | ²Market share for China is based on transaction value in 1Q20. Market share for the US is based on transaction volumes in Oct 2020. | ³Market share for China is based on orders in Jun 2020. Market share for the US is based on orders in 2020 estimated by eMarketer.

Sources: Edison Trends, eMarketer, Reuters, Trustdata, Zaker, SCMP Research & Reporting

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1 Antitrust: Unfair Practices Stressing Needs for Consumer Protection

High market concentration has allowed the largest platforms to adopt unfair practices – the most notable ones include walled gardens, price discrimination, and forced exclusivity – against business partners and consumers. Among growing complaints about such monopolistic behaviours, Chinese authorities moved to protect consumer interests, as well as to demonstrate power and maintain control of the market. As regulators ramped up pressure, Alibaba and Tencent have since begun to consider opening their walled gardens to each other.

Walled gardens



To share a link on **WeChat** from the e-commerce app **Taobao**, users must manually paste a sharing code generated by Taobao.



To share a video clip from **Douyin**, users must download the clip with Douyin's watermark, then upload it to **WeChat**.

Price discrimination



Two users were shown different prices when they requested the same ride on **Didi Chuxing** at the same time, suggesting the company's adoption of algorithmic price discrimination based on the analysis of users' personal data.



Forced exclusivity



Search "Galanz".

The "618" label is missing from the entry of Galanz's flagship store on Tmall.

This compares distinctively with the "618" label for other merchants selling Galanz's products.

During the "618" shopping festival in 2019, home appliance maker Galanz **accused Tmall** of blocking it on search results after it had decided to partner with **Pinduoduo**. While Galanz's store still showed up in search results, Tmall removed its "618" promotional label.



1 Fintech: Ongoing Reform to Transform Market Landscape

At around the same time as its antitrust push, the government rolled out a series of measures to rein in the country's fast-growing fintech sector. While Ant Group has borne the brunt since the abrupt termination of its IPO in late 2020, the actions to reshape China's fintech landscape are ongoing and spell far-reaching implications for other internet giants, most of which operate a sizeable fintech business.

Fintech regulations and their impact

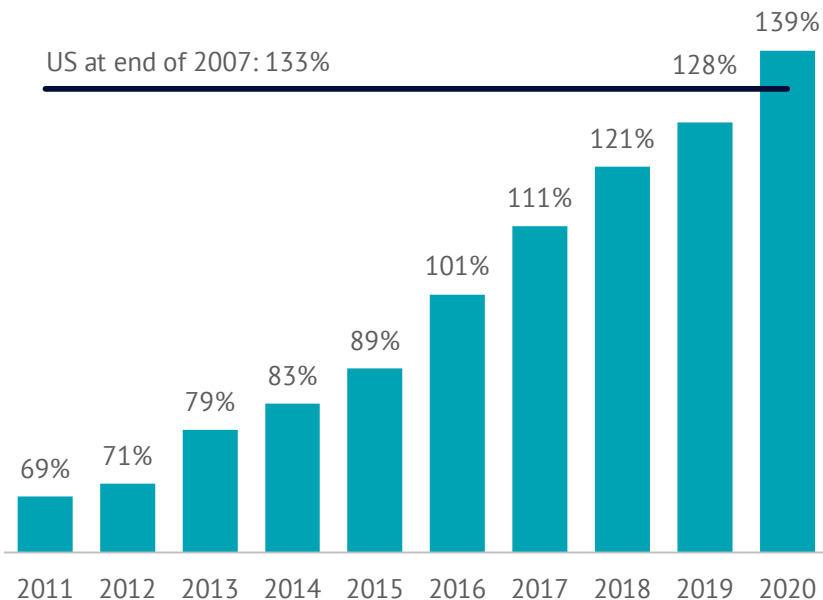
Policy objective	Regulatory requirements	Implications	Impact on fintech companies (Ant Group as an example)
1 Lower systemic risks in the financial system	Creation of financial holding companies (FHCs) to house all financial-related businesses	<ul style="list-style-type: none"> More stringent capital requirements: New rules issued in Sep 2020 required an FHC to have at least RMB5bn paid-in capital, which should take up at least 50% of total registered capital of its controlled financial institutions. More robust regulation: This will likely lead to higher compliance cost and curb the fintech firms' growth. 	<ul style="list-style-type: none"> In Apr 2021, Ant Group said it would apply to become a regulated FHC in its entirety. It was estimated that Ant Group would need to inject another RMB15bn in setting up an FHC for its existing business.
	Higher requirements for online micro-lending	<ul style="list-style-type: none"> Higher capital contribution for loans: Online lending platforms need to fund at least 30% of their joint loans with banks, according to rules first issued in Nov 2020. This will expose platforms to greater risk of defaults. Reduction in the loan size: The size of micro-loans is capped at RMB300k for each individual and RMB1mn for each business. 	<ul style="list-style-type: none"> As of Jun 2020, Ant Group contributed only 2% of its RMB2.2tn outstanding joint loans with banks.
2 End market dominance	Correction of monopolistic behaviours	<ul style="list-style-type: none"> Greater flexibility for consumers to choose services: Payment services will likely need to be separated from other financial products. Break up data monopoly: The collection and use of personal data by and via fintech platforms will be further restricted. 	<ul style="list-style-type: none"> Ant Group has to separate online lending from its payment service Alipay. It could hurt its ability to cross-sell on Alipay. Ant Group will also need to downsize its money market fund Yu'e Bao with RMB972bn of assets under management (AUM) as of 1Q21. Ant Group was reported to be in discussion to share its consumer data with Chinese state-owned firms.
3 Promote financial inclusion	Lower interest rates on lending	<ul style="list-style-type: none"> Cap on interest rates for loans from non-bank lenders: A ruling in Aug 2020 by China's Supreme People's Court imposed an interest cap on non-bank lending at four times the benchmark rate, or 15.4% based on the latest benchmark rate of 3.85%. 	<ul style="list-style-type: none"> The annual interest rates offered by Ant Group ranged from 13.6%-15.3% for its virtual credit card product Huabei and 5.5%-18.3% for its consumer lending service Jiebei .



1 Fintech: Rising Leverage and Systemic Risk Concerns Prompt Actions

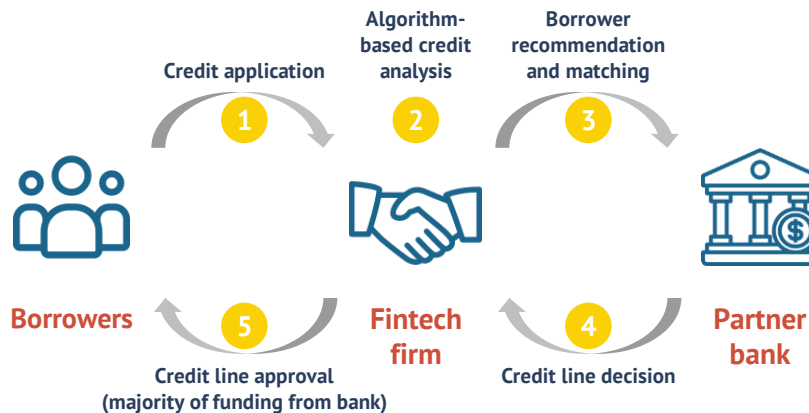
The clampdown arose in part from China's increasing concerns over systemic risk in the financial system as the country's household debt-to-income ratio shot past the pre-crisis level in the US. Fintech's facilitation of large amounts of loans without bearing the associated risk has alarmed regulators who are also worried about over-reliance on algorithms, lack of collateral for such lending as well as cybersecurity.

Household debt-to-income ratio in China



Sources: NBS, People's Bank of China (PBOC), SCMP Research & Reporting

How online loans work



- 1 Fintech firms **gather** credit applications from consumers and small businesses.
- 2 They use algorithms to assess credit profiles based on the troves of consumer data collected via their platforms.
- 3 Fintech firms then recommend and match applications to banks in packages.
- 4 Banks conduct their own due diligence and decide whether to grant a credit line.
- 5 Fintech firms normally contribute only a small fraction of the loans they facilitate, while most of the funding comes from banks.

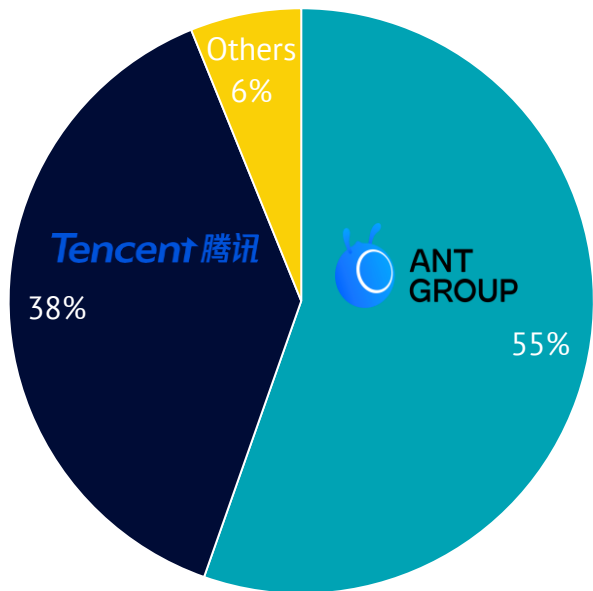
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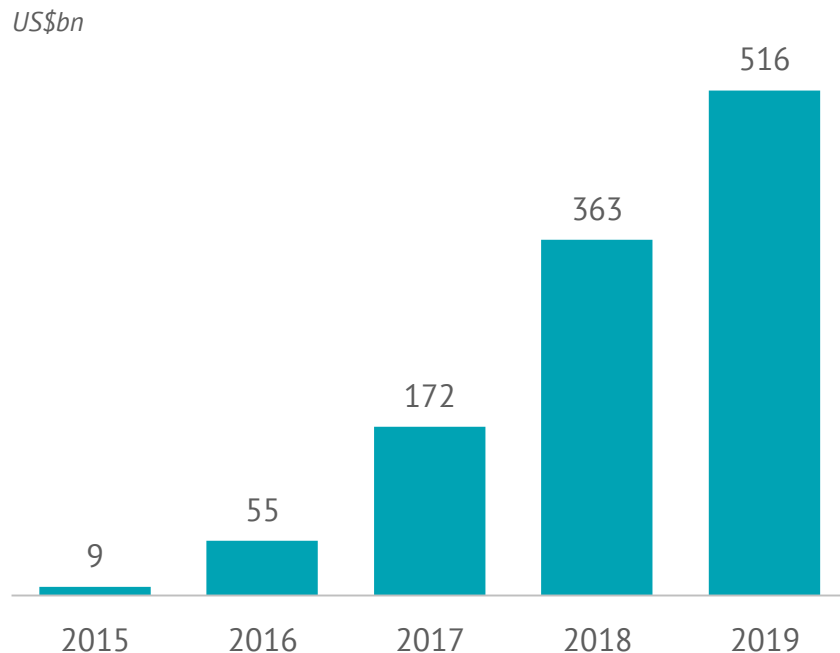
1 Fintech: Data Monopoly and Big Tech Lending Are Also Worrying

In addition, the government frets about fintech's "information monopoly". Ant Group and Tencent claim over a 90% share of China's mobile payment market, allowing them to collect a vast amount of consumer data. This could allow them to induce overspending which may lead to loan defaults and coercive collection. The government is also worried about the poor track record of consumer privacy protections by tech companies.

Mobile payment market share in China (2Q20)



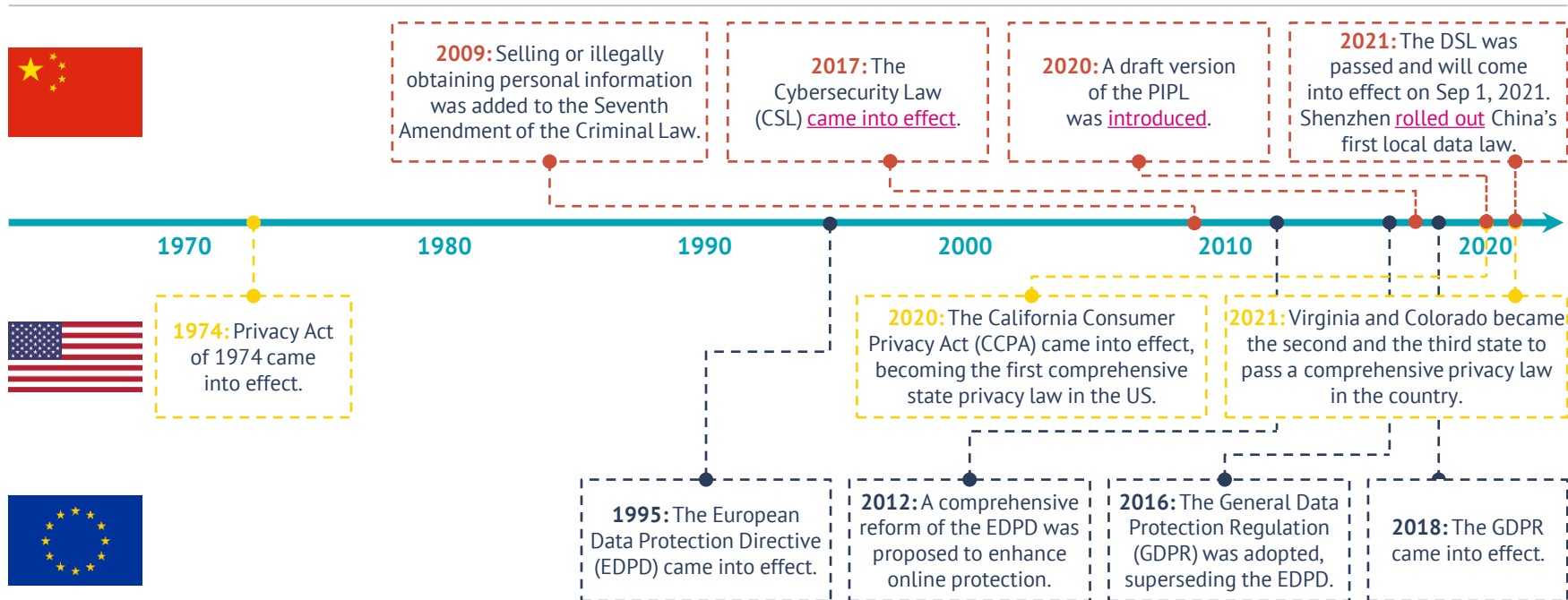
Lending by Big Tech in China



1 Data Protection: Legislation Progress Is Accelerating

China previously lagged the EU and the US on data protection. Yet, public concern on data privacy amid rising privacy violations and the authorities' growing unease have prompted an acceleration in relevant legislations. In Jun 2021, China **passed** the Data Security Law (DSL). The Personal Information Protection Law (PIPL) is also expected to be finalised later this year.

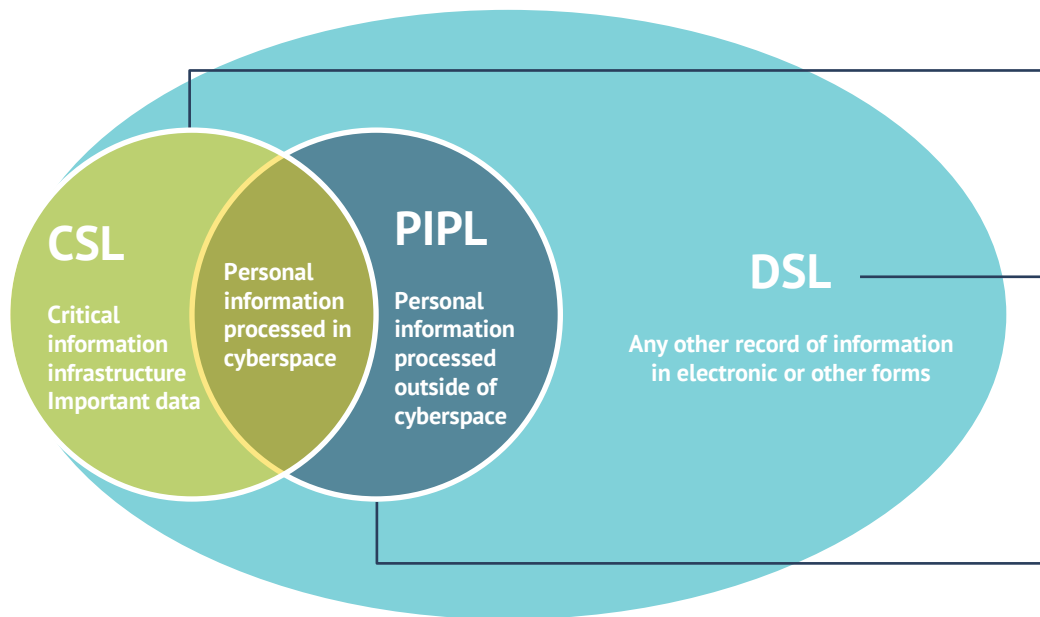
Timeline of privacy legislation



1 Data Protection: Three Pillars of Legal Regime on Data

After the CSL, China then went on to formulate the two other pillars of its legal regime on data protection, the DSL and the PIPL, to address growing concerns on national security and on privacy violation related to personal information. These laws have taken inspiration from the EU's GDPR, but they also have their own distinctive characteristics.

Scope of application of the various Chinese laws related to data protection



Comparison between Chinese laws and GDPR

- Aspects of the CSL are closely **modelled** on the GDPR.
 - The GDPR provides more reasons, hence greater flexibility for businesses, to process personal data.
 - Under the CSL, consent from the individual is the sole statutory processing condition.
 - The CSL provides a narrower scope of individual rights than the GDPR.
- While the GDPR emphasises personal information protection, the DSL **focuses** more on national security. Companies which transfer “core data” overseas without Beijing's approval are subject to a penalty of up to RMB10mn (US\$1.5mn) and could be forced to shut down.
- The PIPL is also inspired by the GDPR in many aspects.
 - The PIPL **introduces** more grounds for collecting and processing personal information, hence allowing greater business efficiency, similar to the GDPR.
 - The scope of individual rights is expanded under the PIPL, and includes some that are **not covered** by the GDPR, e.g. the rights to personal information of the deceased.
 - However, the PIPL **is not as strong** a tool in protecting individuals against state organs than against corporates.



1 Data Protection: Cybersecurity Reviews into US-listed Firms

In Jul 2021, the Cybersecurity Administration of China (CAC) **launched** probes into three companies newly listed in the US, citing the CSL, the National Security Law, and the Measures for Cybersecurity Review. All three were ordered to suspend new user registration pending future approval. On top of that, Didi Chuxing **saw all its more than 25 apps removed** from the country's app stores. These were the **first probes** into tech firms on national security grounds. The CAC also **proposed** new rules that would subject platforms with the data of 1mn or more users to a cybersecurity review if they plan to list overseas.



Company	Didi Chuxing
Business segment	Ride-hailing
IPO date	Jun 30, 2021
Stock code	NYSE: DIDI
Funding raised (US\$bn)	4.4
Market cap (US\$bn)¹	40.1
Users in China (as of Mar 2021)	13mn annual active drivers; 156mn MAU
Revenue (US\$m, 2020)	21,633



Company	Full Truck Alliance
Business segment	Truck-hailing
IPO date	Jun 22, 2021
Stock code	NYSE: YMM
Funding raised (US\$bn)	1.6
Market cap (US\$bn)¹	12.0
Users in China (as of Dec 2020)	2.8mn truckers; 1.3mn active shippers
Revenue (US\$m, 2020)	396



Company	Boss Zhipin
Business segment	Online recruitment
IPO date	Jun 11, 2021
Stock code	NASDAQ: BZ
Funding raised (US\$bn)	0.9
Market cap (US\$bn)¹	14.8
Users in China (as of Mar 2021)	24.9mn MAU
Revenue (US\$m, 2020)	298

¹Market cap as of Aug 13, 2021.
Sources: Boss Zhipin, Didi Chuxing, Full Truck Alliance, SCMP Research & Reporting

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1 An Expert's View from Jennifer Zhu Scott



Jennifer is the Executive Chairman of The Commons Project, a nonprofit public trust established to build global digital infrastructure as public good. She is the founder of Radian Partners, focusing on direct investment in Artificial Intelligence and deep tech. Jennifer is Forbes World's Top 50 Women in Tech in 2018 and Fortune Global Tech Forum Co-Chair in 2019. She is China Fellow of the Aspen Institute and has a dual Fellowship at The Royal Institute of International Affairs (Chatham House) under the Asia Pacific Program and the Digital Society Initiative. She is a Council Member at the Data Policy Council of the World Economic Forum, where she served for the China Council and the Future of Blockchain Council. She is a Board Trustee of Web Science Trust founded by Tim Berners-Lee. Her TED Talk on data ownership has over 3 million views.

The internet was invented in the early 1990s. It went on to empower information to transcend national borders. **Yet, in 2021, regulators around the world are confining tech giants to stay within their national borders.**

Didi Chuxing's IPO saga highlights this trend. The CAC has reasons to be concerned about national security: Didi's 550 million users in more than 400 Chinese cities generate detailed, dynamic location data under their real names in real-time. Meanwhile, Didi's US listing would add yet more foreign shareholders. In April 2020, for the first time, China's State Council stated that data is one of the five key means of production after land, labour, capital, and technology. In other words, data generated by tech giants within China's border are considered critically valuable assets with potentially significant national security concerns if accessed or controlled by adversaries. Thus, the **CAC's actions against Didi were aggressive and uncompromising, but not surprising.**

As a regulator, the CAC will also not be alone in challenging tech giants' data border issues. The CAC is just ahead of the curve at the moment. International Technology & Innovation Foundation, a tech think tank, found that 62 countries are imposing close to 150 data localisation measures. It would not be hard to imagine that obtaining data-border-related approvals from national regulators soon will become standard practice in many jurisdictions for large tech companies seeking overseas listing or even daily operations.

What is less obvious is the unequal data ownership between three key stakeholders:

- **Governments:** try to impose more control
- **Corporates:** try to hold on to their concentrated control and ownership
- **Individuals:** generate the data but have no control or ownership at all.

What if Didi only stored personally identifiable information (PII) on the user's device and only kept anonymised data on its own servers? That would make the national security argument much harder. Unfortunately, there is as yet no major tech company anywhere that empowers individual data ownership. The bargain of data control lies solely with the government and corporates. Yet, individuals do travel around the world. Information does need to be able to transcend national borders. The borders of nation-states don't always overlap neatly with the digital borders. **Without empowering individual data ownership, the world would have to choose between overly powerful regulators or overly powerful tech titans.**

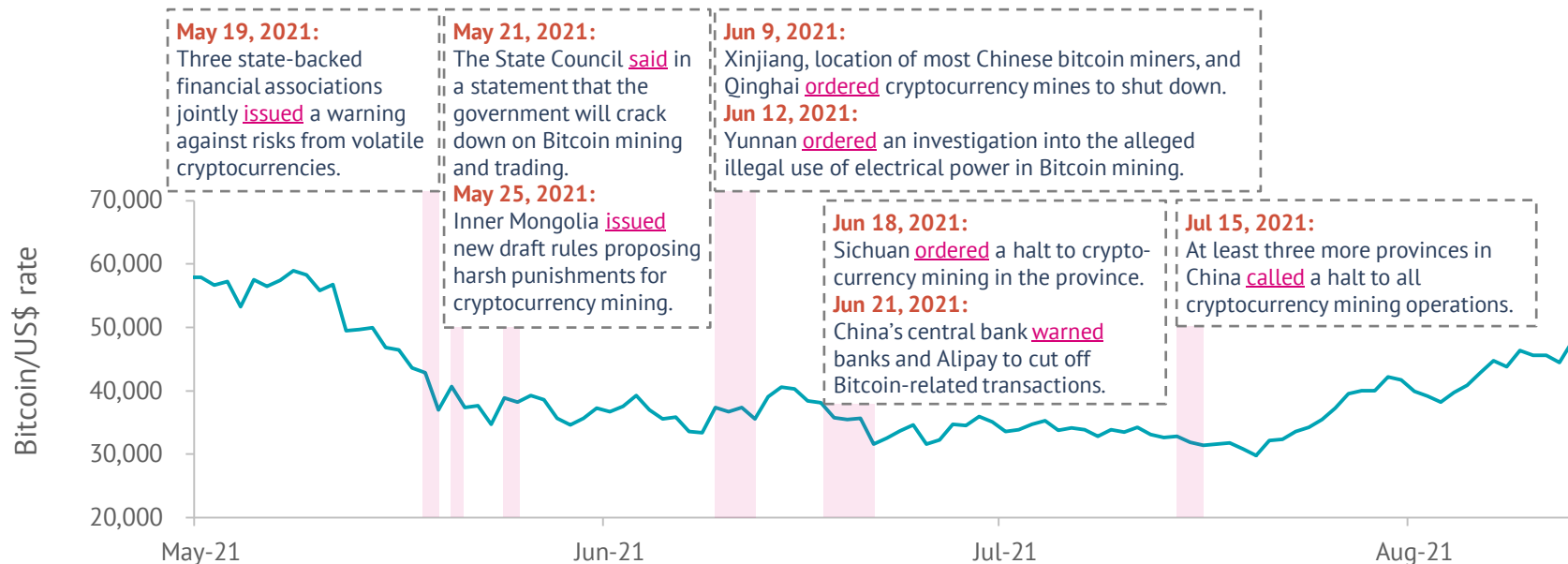
The problem isn't the Internet itself. The visionaries in the early 1990s would have never expected so few hands would control such critical global public infrastructure. The reality of the power concentration of the online world today goes completely against the initial idealism of the World Wide Web. **Starting to empower individuals could be a path forward beyond the current stalemate.** If we do it right, we may even stand a chance to create a safe, inclusive, and good digital society.



1 Cryptocurrency: Tightening Scrutiny of Bitcoin Mining

While China has made the creation (via initial coin offerings) and trading (on public exchanges) of cryptocurrencies illegal [since 2017](#), the government did not tighten scrutiny over Bitcoin mining in the country until this year. In 1H21, the government started to crack down on Bitcoin mining, with local authorities of the largest Bitcoin mining regions shutting down operations. The price of Bitcoin was sent tumbling and miners were forced to [relocate](#) out of China.

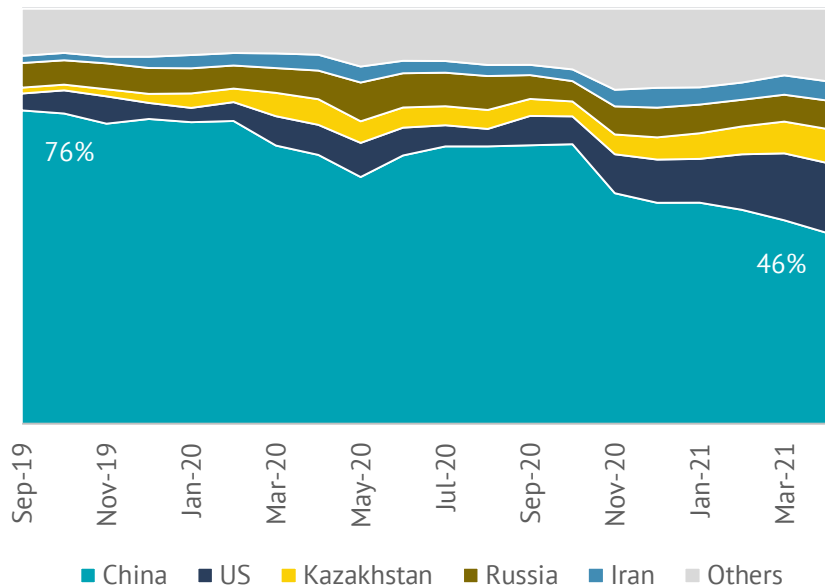
Timeline of China's recent crackdown on cryptocurrencies and Bitcoin's price



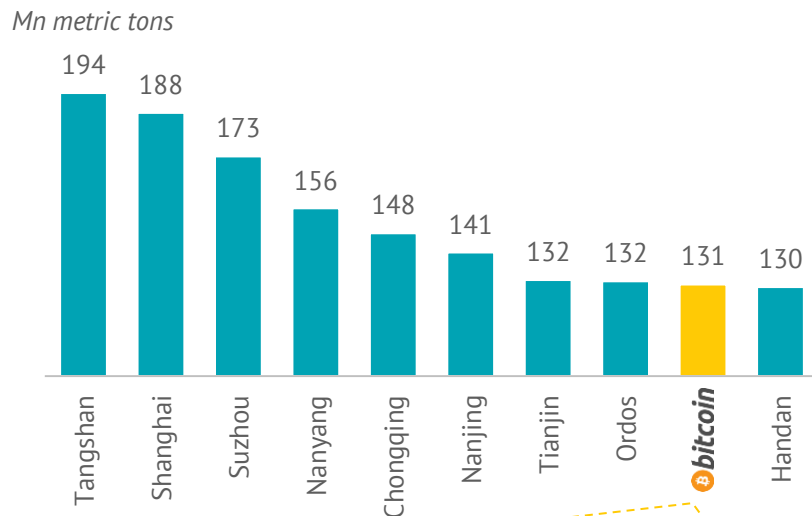
1 Cryptocurrency: At Odds with Green Goals, Stability, and Capital Control

The heightened pressure has come amid China's growing green ambitions, as it aims to reach peak emissions by 2030 and carbon neutrality by 2060. Though already on the decline before the crackdown, China still claimed 46% of the world's Bitcoin mining, which consumes a great amount of electricity, as of Apr 2021. The government is concerned that the volatility and speculative nature of bitcoin could also create disruptive spillovers into society. The potential ability of decentralised cryptocurrencies to circumvent its capital controls also raises alerts.

Bitcoin mining market share by country



Annual carbon emission ranking by Chinese cities¹



The annual energy consumption of the Bitcoin network in China would rank No.9 among all Chinese cities in emission output at its expected peak in 2024.

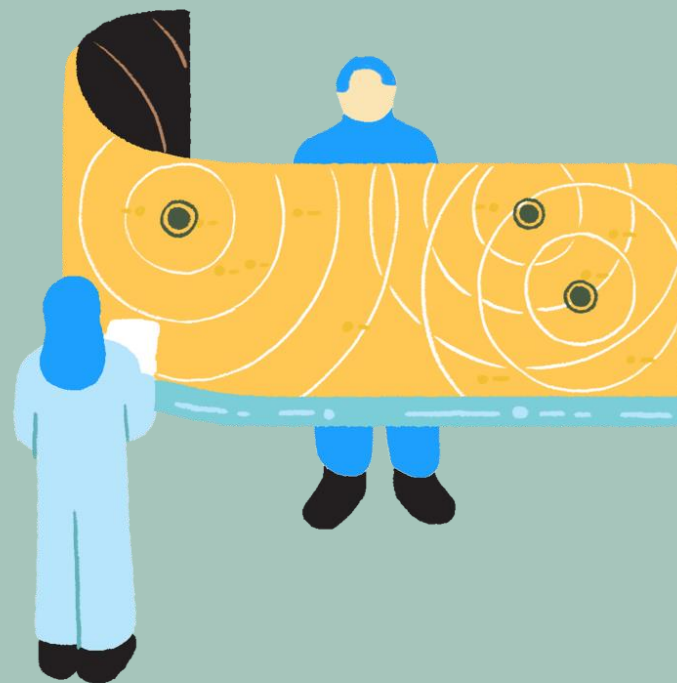
¹Jiang, S., Li, Y., Lu, Q. et al. Policy assessments for the carbon emission flows and sustainability of Bitcoin blockchain operation in China. *Nat Commun* 12, 1938 (2021). <https://doi.org/10.1038/s41467-021-22256-3>
Sources: Cambridge Bitcoin Electricity Consumption Index, SCMP Research & Reporting



2

Bumpy Road Ahead for Chinese Tech IPOs




Chinese tech companies are facing increasingly difficult decisions on where to go public. Geopolitical tensions and relaxed listing rules in Hong Kong are leading to more listed companies seeking secondary listings closer to home. For start-ups, China's tightening screws on overseas listings and regulatory oversight in the mainland are adding further complications.



2 Companies Facing Harder Decisions on Listing Destinations

The US has long been a preferred location for Chinese tech listings thanks to its deep pool of funding and flexible listing rules, including allowing [variable interest equity \(VIE\) structures](#), a way for mainland businesses to circumvent China's restrictions on foreign investments. Back home, stricter listing rules of Shanghai's Star Market for certain companies have become another factor favouring an overseas flotation.

Reasons for listing in the US


Reason	Details	Examples
<p>1</p> <p>Mature capital market and flexible listing rules</p>	<ul style="list-style-type: none"> Easier for loss-making start-ups to list due to lower capitalisation requirements. Allows Chinese firms to skirt the Chinese government's restrictions on foreign investments with a unique corporate structure called VIE. Under a VIE structure, a mainland business that could not otherwise accept money from overseas creates two companies: controlling (offshore) and operating (onshore). Through contractual agreements, foreign investors then have de facto control over the operating company as well as its assets and profits. 	  <ul style="list-style-type: none"> In Jun 2021, DiDi chose the NYSE over HKEX for its US\$4.4bn IPO, to tap its deep pools of capital and its easier listing requirements. In Jul 2021, Jianzhi Education became the first Chinese company to apply for a listing in the US since the new cybersecurity review requirement, triggered by Didi's IPO, was imposed. It also followed four failed attempts by Jianzhi to list in Hong Kong between 2018 and 2020.
<p>2</p> <p>STAR Market's stricter listing rules</p>	<ul style="list-style-type: none"> Tightening listing requirements on Shanghai's Star Market for some companies, especially those that lack core technologies. In Apr 2021, new rules banned financial investors from listing on the Star Market, subjecting fintech and "business model innovation" firms to extra scrutiny. 	 <ul style="list-style-type: none"> In Mar 2021, shortly before the tightening of fintech listings, JD Technology, the fintech unit of JD.com, withdrew its IPO application on the Star Market.



2 Companies Facing Harder Decisions on Listing Destinations

However, recent regulatory changes are making listing decisions more complicated. A series of forced de-listings from the US, recent cybersecurity reviews, and tightening scrutiny over future overseas listings, are all creating uncertainty for Chinese plans to float.

Reasons for listing in Hong Kong & mainland China

Reason	Details	Examples
<p>1</p> <p>Risk of forced de-listings from the US</p>	<ul style="list-style-type: none"> In Mar 2021, the Securities and Exchange Commission (SEC) implemented a new law that would force delisting in cases of non-compliance with auditing requirements, which China has long pushed back over national security concerns. This year has also seen the first Chinese companies delisted from the US due to their alleged ties with China's military. 	 <ul style="list-style-type: none"> In Apr 2021, online home platform Danke was delisted from the NYSE for not reporting financial results in a timely manner and not responding to information requests by the NYSE's regulatory arm. In May 2021, China's big three telecom companies, China Mobile, China Unicom (Hong Kong), and China Telecom were delisted from the NYSE for their alleged ties with China's military. China Mobile and China Telecom have applied to list in Shanghai's Star Market, and the latter has received the approval from Chinese regulators.   
<p>2</p> <p>Relaxed listing rules in HK</p>	<ul style="list-style-type: none"> The ongoing listing rules reform at the HKEX, which introduced new rules to expand the use of weighted voting rights (WVRs) in Oct 2020, is making more US-listed Chinese tech companies eligible for a secondary or dual listing in HK. Secondary and dual listings back home are considered a hedge against geopolitical tensions between China and the US. 	 <ul style="list-style-type: none"> In Mar 2021, Baidu completed its US\$3.1bn secondary listing in HK. A week after, Bilibili debuted in HK after its US\$3bn secondary offering. In Jul 2021, electric car maker Xpeng became the first company with a WVRs structure to conduct a dual primary listing in HK. Xpeng's rival Li Auto followed suit in Aug 2021, raising US\$1.5bn in its HK IPO.   
<p>3</p> <p>Greater scrutiny for overseas listings</p>	<ul style="list-style-type: none"> China launched a cybersecurity review into Didi shortly after its US IPO, then released draft rules that force platforms with data of 1mn or more users to undergo a cybersecurity review if they are planning to list overseas. Didi was reported to be considering delisting. The SEC has since then set new disclosure rules for Chinese listings involving VIEs and required listing applicants to disclose risks of regulatory pressure from the Chinese governments. 	 <ul style="list-style-type: none"> Shortly after Didi's removal from app stores, regulators also launched cybersecurity reviews into Boss Zhipin and Full Truck Alliance. Both companies had just completed an IPO in the US. In May 2021, news emerged that the CAC had pressured online audio platform Ximalaya to drop US as its listing destination in favour of HK, reportedly out of concerns about the US gaining access to a large amount of user data through Chinese content & media firms listing there.  



2 Bumpy Road Ahead for Overseas IPO Applications

The revised Measures of Cybersecurity Review [released](#) in Jul 2021 forces platforms with data of 1mn or more users to undergo a cybersecurity review if they are planning to list overseas, potentially derailing the IPO plans for Chinese start-ups. Some firms have already suspended or withdrawn their plans.

Chinese tech start-ups planning for overseas listings

Company	Description	Users	Planned US IPO location	
ByteDance	<ul style="list-style-type: none"> The world's highest-valued start-up with content platforms worldwide, including TikTok. 	1.9bn worldwide MAU (2020)	Not disclosed	Companies that have suspended or withdrawn their US IPO plans before the new rules.
Hello	<ul style="list-style-type: none"> Alibaba-backed bike-sharing platform. 	183mn annual transacting users (2020)	NASDAQ	
Qiniu	<ul style="list-style-type: none"> Cloud computing company providing end-to-end media and machine data analytics solutions. 	494k active users (2020)	NASDAQ	
Soulgate	<ul style="list-style-type: none"> Operator of Gen Z social networking app Soul that uses AI to match users with similar interests. 	33.2mn MAU (Mar 2021)	NASDAQ	
Daojia	<ul style="list-style-type: none"> Largest home services platform in China in terms of gross transaction volume in 2020. 	4.2mn+ cumulative consumers (Mar 2021)	NYSE	Companies that have suspended or withdrawn their US IPO plans after the new rules.
Keep	<ul style="list-style-type: none"> Mobile fitness app that allows users to view fitness videos and buy fitness equipment. 	40mn MAU (Mar 2021)	Not disclosed	
Lalamove	<ul style="list-style-type: none"> Hong Kong on-demand logistics start-up. 	Over 7mn registered users	Not disclosed	
LinkDoc	<ul style="list-style-type: none"> Mainland-based oncology big data company. 	Over 3.5mn cared patients (as of Mar 2021)	NASDAQ	While it has not officially suspended its IPO, policies announced in Jul 2021 prohibit edtech platforms like Spark Education from raising capital through IPOs.
Xiaohongshu	<ul style="list-style-type: none"> Social media and e-commerce start-up. 	Over 100mn MAU (as of Oct 2019)	Not disclosed	
Ximalaya	<ul style="list-style-type: none"> The largest online non-music audio platform in China, providing podcasts and radio services. 	250mn MAU (1Q21)	NYSE	
Spark Education	<ul style="list-style-type: none"> Tencent-backed online education provider for K-12 students. 	370,530 students (as of Mar 2021)	NASDAQ	



3

Changing Overseas Expansion Plans amid Geopolitical Tensions

Chinese tech companies are changing their global expansion strategies to cope with intensifying geopolitical tensions.

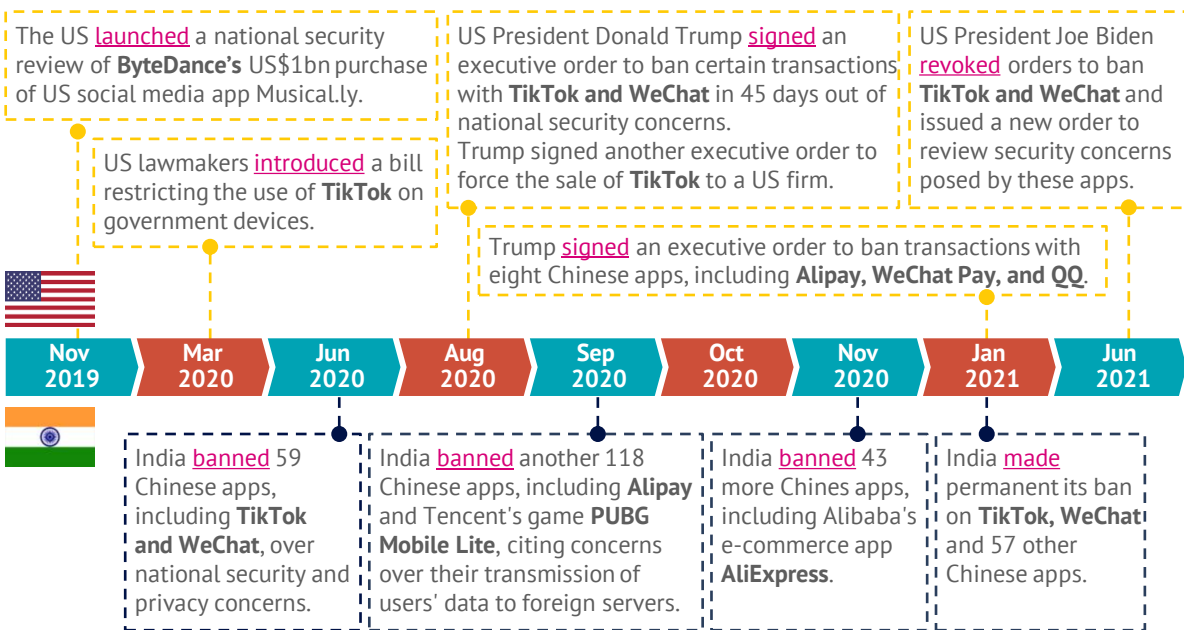
Some find success by switching focus back to Southeast Asia while a new generation downplays their Chinese origins.



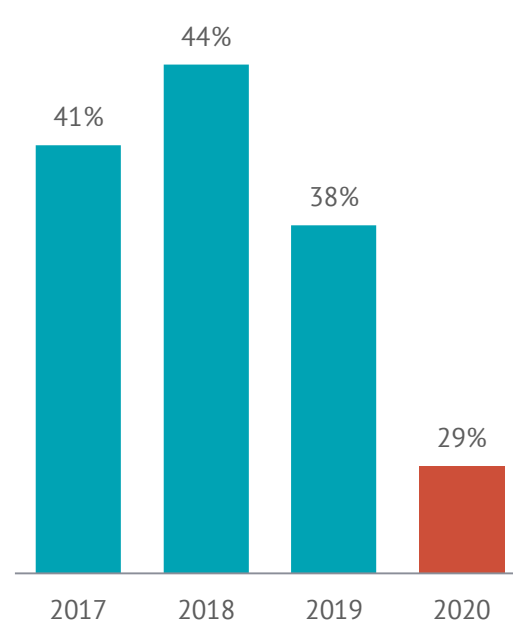
3 Geopolitical Tensions Pose Hurdles in Existing Markets

Chinese tech companies have been caught by intensifying geopolitical tensions between China and other countries. In 2020, both the US and India, among other countries, started probes into or sought to force shutdowns of certain Chinese tech companies' business in their country. In India, the government's ban on over 200 Chinese apps has dealt a heavy blow. The market share of Chinese apps fell to 29% in 2020 from a high of 44% in 2018.

Timeline of crackdowns on Chinese apps in the US and India



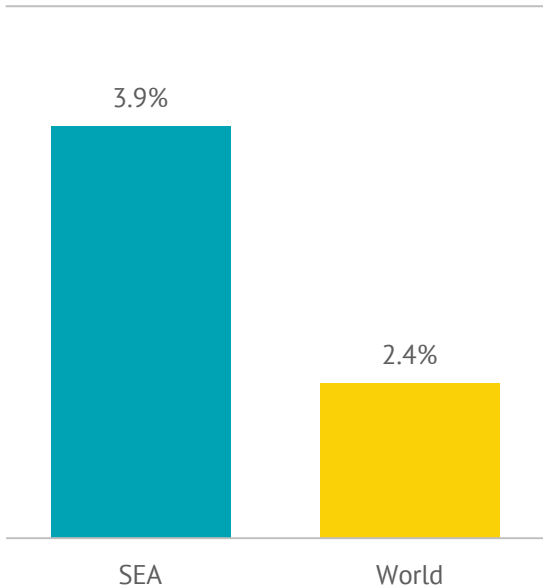
Market share of Chinese apps in India



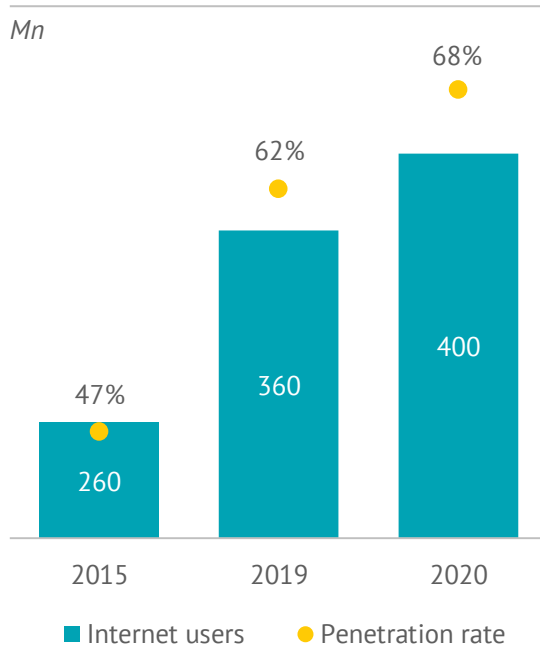
3 Southeast Asia as a Lucrative Alternative

Facing headwinds in other overseas markets, Chinese tech companies have been looking elsewhere to expand. The Southeast Asian (SEA) market has again looked attractive. Both the above-average GDP growth and the rapidly rising internet penetration point to promising prospects for its digital economy, which is expected to grow 24% annually through 2025.

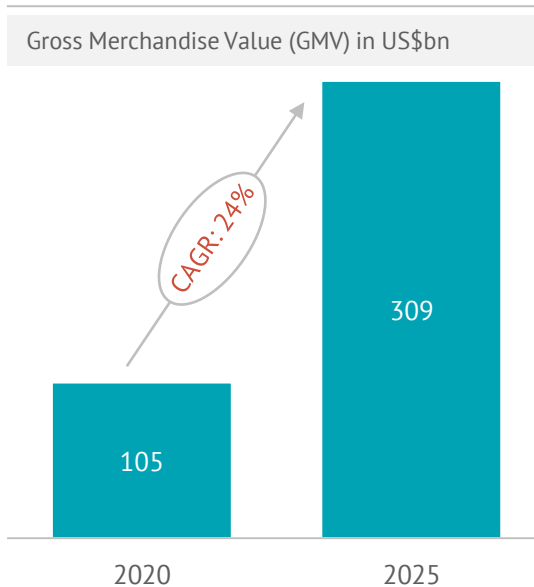
GDP growth (2015-20 CAGR)



Population and internet users in SEA



Size of digital economy in SEA



3 Renewed Wave of Expansion in Southeast Asia

China's Big Tech has been present in SEA for over a decade, but now there is a renewed focus on the region with Singapore becoming a favoured location for regional headquarters. Its perceived political neutrality offers Chinese tech companies the possibility to gain share in both the domestic and overseas markets while navigating the increasingly challenging geopolitical landscape.

Big Tech's recent expansion efforts in SEA



- In May 2020, Alibaba **acquired** a 50% stake in the 50-storey AXA Tower in **Singapore**. Its SEA e-commerce platform Lazada is the anchor tenant of the office building.
- In May 2021, Alibaba led a US\$400mn round of funding in The CrownX, the largest retail firm in **Vietnam** under conglomerate Masan Group.
- In Jun 2021, Alibaba **said** it planned to invest US\$1bn to expand its cloud computing arm Alibaba Cloud in SEA. It had opened its third data centre in **Indonesia** and would launch its first one in the **Philippines** in 2021.



- In Sep 2020, ByteDance was **reported** to be looking to spend several billion dollars and add hundreds of jobs in **Singapore** over the next three years. It was reported to have applied for a digital bank license and be planning a data centre in the country. ByteDance operates TikTok and enterprise software business Lark in **Singapore**.
- In Oct 2020, ByteDance leased three floors at One Raffles Quay in **Singapore's** financial district.
- In Mar 2021, ByteDance was reported to be hiring hundreds of engineers and senior management positions in **Singapore** for TikTok, Lark, and other businesses.



- In Sep 2020, Tencent was **reported** to have opted for **Singapore** as its regional headquarters in Asia. It had at the time dozens of job openings in Singapore in cross-border e-commerce, cloud computing, and esports.
- In Oct 2020, Tencent leased almost 200 seats for one year at JustCo's co-working space in OCBC Centre East at Raffles Place in **Singapore**.
- In Mar 2021, Tencent participated in a US\$300mn round of funding for **Singaporean** IP analytics software developer PatSnap.
- In Apr 2021, Tencent **opened** its first data centre in **Indonesia** with another one scheduled in a few months.
- In May 2021, Tencent joined a US\$65mn funding round for **Indonesian** start-up Bibit, which provides robo-advisor services for mutual funds.
- In Jun 2021, Tencent invested in GrowSari, a B2B platform advising neighbourhood stores on digitisation in the **Philippines**.



3 Start-ups Downplaying Chinese Origins to Penetrate Overseas Market

While Big Tech explore alternative overseas opportunities, a new generation of e-commerce start-ups are downplaying their Chinese origins to avoid being caught up in anti-China sentiments or the stereotype of low-quality associated with “Made in China” products. Shein is one of them. Its success can also be attributed to supply chain efficiency and effective digital marketing.



Background

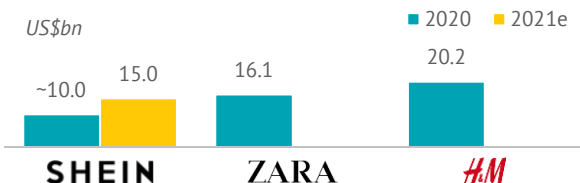
- Founded by Xu Yangtian (Chris) in Nanjing in 2008.
- E-commerce fast fashion retailer specialising in women's clothes mostly priced below US\$20, targeting gen Z shoppers in overseas market.
- Known for its supply chain efficiency, adding over 5k new items on its website daily.

Funding

- Closed at least five rounds of funding to date, with the latest round in Aug 2020.
- IDG Capital, Sequoia Capital China, and Tiger Global Management are among its investors.

Sales

- With a targeted sales growth of 50% or US\$15bn for 2021, Shein is catching up quickly with fast fashion giants H&M and Zara.



Sources: H&M, Inditex, Shein, SCMP Research & Reporting

Key factors contributing to its success

Downplaying Chinese origin

- Remains **focused exclusively on overseas markets** with little sales efforts in China.
- Has not offered any clues about its origin** in its app or on its website, not even its office locations or where it sources its materials.

Data-driven supply chain efficiency

- Proprietary technology **offers data-driven intelligence** on design, capacity, and production, allowing near real-time response to consumer preferences.
- Requires its suppliers to finish the design and production process in around 10 days and manufacturers to be located within a five-hour drive from its sourcing hub in Guangzhou an example of its **extremely efficient supply chain**.
- Managed to **target a short lead time from design to shipping** of only three days, compared to the lead time from design to store of three weeks for Zara's parent Inditex.

Social media-centric digital marketing

- Digitally-native, as are its target buyers. Product shots in its app are styled as **social media selfies**, and the brand utilises **influencers in sales campaigns** on Instagram and TikTok. its main Instagram account attracts over 20mn followers and 900k posts are tagged #sheingals.
- Held an **online event** in 2020 for Covid-19 relief called “Shein Together”, featuring artists Katy Perry and Rita Ora and models like Hailey Bieber.
- Launched **pop-up stores** in major cities like London, Paris, and New York.

Near-term catalysts

- Has **benefited** from China's **export tax waiver** for direct-to-consumer businesses in response to US tariff measures. Meanwhile, it enjoys the exemption for small-value shipments from a 16.5% import duty and a 7.5% tariff for China products in the US.
- Covid-19's boon for online sales has also proven a strong booster for its business.

Shein app



Influencer campaign



Pop-up store



3 Start-ups Downplaying Chinese Origins to Penetrate Overseas Market

Besides Shein, e-commerce start-ups like Cider, Urbanic, and Zaful have all been experiencing high growth in overseas markets, all downplaying their Chinese origins, leveraging robust domestic supply chains, and pursuing social media marketing. Just as importantly, they all run independent overseas e-commerce sites, instead of opening stores on third-party marketplaces. This allows them to collect and utilise valuable customer data to churn out products catered to the constantly evolving demands in a timely fashion.

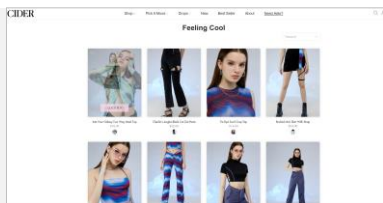
CIDER

Background

- Founded by Michael Wang, the co-founder of clothes sharing platform YCloset, in 2020.
- A digital-first fashion brand targeting young females overseas.
- Has developed a digitised supply chain that feeds data to factories on styles with the most demand.
- Unique pre-order model allows it to aim at achieving zero-inventory to minimise waste.
- Has **amassed** 2mn social media followers globally.

Funding

- Closed its US\$22mn round A funding in Jun 2021, co-led by A16Z and DST Global.



URBANIC

Background

- Online fast fashion brand under Hangzhou-based start-up Mayfair founded in 2019 by Chi Xue and former Alibaba executive Eddie Deng.
- Main market in India.
- Targets young middle-class consumers aged 20-44.
- Most products are priced around INR1,200 (US\$16).
- Able to achieve millions of dollars of monthly sales within six months of its launch with a robust data-driven supply chain
- Has branched out to offer cosmetics, skincare, and baby products, and is planning to launch sub-brands to broaden its customer reach.

Funding

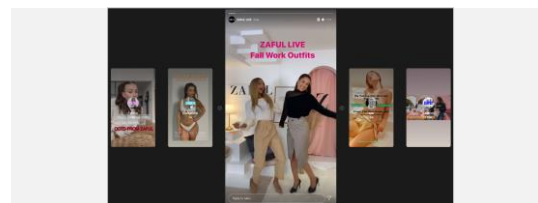
- Bagged US\$10mn from its round A+ funding co-led by Fosun RZ Capital.
- Also received funding from Sequoia Capital India, CDH Investments, and Nexus Venture Partners.



ZAFUL

Background

- E-commerce fashion brand operated by Global Top E-Commerce (SHE: 002640).
- Successfully penetrated the US and European markets with fast-fashion swimwear and has since expanded to offering a wide range of apparels.
- Relies heavily on social media marketing, especially live-streaming, having worked with over 100k influencers globally to target young customers.
- Had 17mn MAU as of end 2020. The average order size in 2020 was US\$54.



3 An Expert's View from Shirley Ze Yu

Shirley Ze Yu is a leading voice on China's political economy, Professor, Director of the China-Africa Initiative at the London School of Economics, and a senior practitioner fellow with the Ash Center of Harvard Kennedy School. She is also a professor at the IE Business School, and a distinguished foreign faculty professor at the National Defence University, Pakistan. She is the Independent Non-Executive Director of Eurasia International Commercial Bank of Kazakhstan. She is the creator of a daily intelligence and insights newsletter on China for Fortune Global 500 stakeholders-China BIG Idea by Shirley Yu. Shirley Yu is a frequent commentator and contributor on the BBC News, Bloomberg, CNN, Al Jazeera, PBS Frontline, S&P Global, and Channel News Asia on China. She is a column contributor to the FT, the National News, among others. She is a Davos World Economic Forum Expert on China, 5G, and geo-economics.



Chinese technology delivers comparative strength by marrying China's industrial capabilities with AI, a combination that is a fundamental feature of the 4th Industrial Revolution. This is most obvious in China's autonomous driving technology featured in NEVs, smart devices, commercial drones, AIoT, and Industrial IoT. This strength is currently irreplicable due to China's high industrial efficiency and production capacity in the global manufacturing supply chain, as well as China's conducive state policies for massive data accumulation and 5G infrastructure expansion.

Chinese technology continues to thrive on its digital applications. The digital economy represented 36.2% of the Chinese GDP in 2019. Digital applications in fintech such as Alipay and WeChat Pay, social media led by TikTok and WeChat, and e-commerce modelled by Alibaba, Pinduoduo, and JD.com, continue to expand into China's vast developing markets and deep rural areas. **They also synergise into a unique Chinese social media + e-commerce + fintech model for the digital economy. The Chinese digital ecosystem model is being successfully adopted in ASEAN and Africa**, where the 20th century financial and telecommunications infrastructures have not taken root.

China has envisioned a three-phased technological roadmap by 2035, when China moves to become a global technology pioneer. Made in China 2025 aims to build China's industrial capabilities at the top end of the global supply chain. AI Vision 2030 plans to have China lead global AI development by 2030. China Standards 2035 defines China as the standard-bearer of technologies that define the 21st-century.

Chinese technology will produce profound technology-induced economic transformation in the BRI region, today a near-synonym for the developing world. Chinese technology companies bring technological infrastructure connectivity across this vast geographical region in telecommunications, smartphone usage, fintech, and smart logistics. They also bring in the Chinese digital ecosystem and Chinese venture capital.

In the foreseeable future, **we can envision that the Hong Kong Stock Exchange will become the birthplace of some of the world's largest IPOs, not only from China, but increasingly the BRI region.** The world's financial market gravity will shift to Greater China as Chinese technology companies opt for listings in China's own exchanges.



4

Shifting Demographics Highlighting Underserved Internet User Segments

China's demographics are quickly changing, creating new niche segments to compete over.

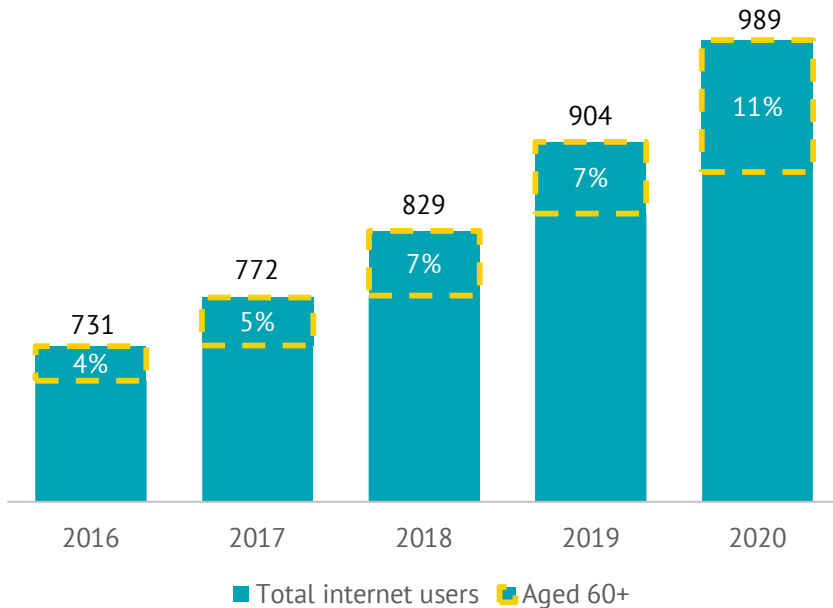
The silver economy, the sheconomy, and “sinking” markets are three of the most heated battlefronts.



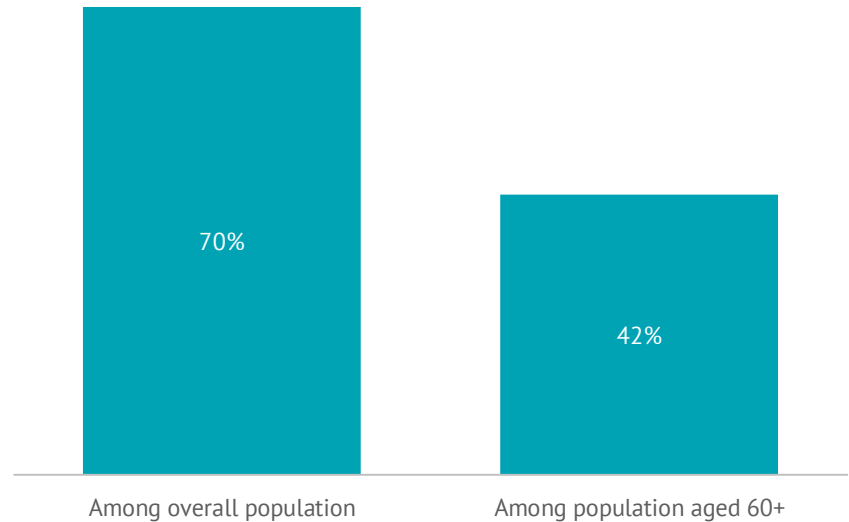
4 Silver Economy: Senior Netizens on the Rise

A rising proportion of elderly internet users in China, partly boosted by Covid-19, is propelling the expansion of the “silver economy”. By the end of 2020, **11%** of internet users in China were aged 60 or above, up from just 4% in 2016. However, the penetration rate of internet among seniors, 42% as of end 2020, remained low compared to 70% overall, suggesting huge potential for this user group.

Number of internet users in China





Internet penetration rate in China (2020)



4 Silver Economy: Products and Content Catering to Elderly

Considering the ageing population, China's Ministry of Industry and Information Technology (MIIT) [published](#) guidelines in Apr 2021 for web pages and mobile apps to carry out "elderly friendliness modifications". Companies themselves are also finding it increasingly important to tailor content, new apps, and designs to the growing cohort of [digitally-familiar elderly](#).

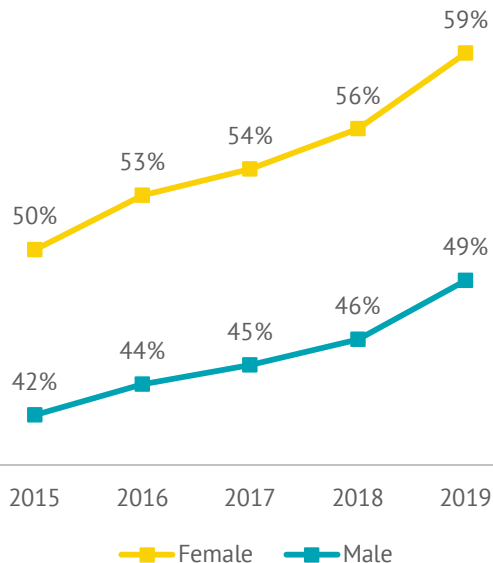
Strategies to capitalise on the silver economy

Strategy	Examples	Details
<p>1</p> <p>Senior-friendly features and accessibility modifications</p>	<ul style="list-style-type: none"> Baidu's large text version (search) Didi Care (ride-hailing) Lehuo for Elderly (e-commerce) Toutiao's accessibility version (news) 	<ul style="list-style-type: none"> Senior mode or edition with larger font size and simplified interface with no pop-ups or advertisements. One-click orders, pre-set regularly-used addresses, and simplified billing process on ride-hailing app Didi. Voice commands and screen reader features for the visually impaired.
<p>2</p> <p>Targeted content</p>	<ul style="list-style-type: none"> Douyin (content & media) Kuaishou (content & media) Taobao (e-commerce) 	<ul style="list-style-type: none"> Promotion of elderly influencers to acquire senior users on short-form video platforms like Douyin and Kuaishou. Value-for-money food and household supplies, and healthcare products aimed at price-sensitive seniors on e-commerce platforms like Taobao. Family-sharing feature on Taobao, allowing kids to pay for products on behalf of their parents.
<p>3</p> <p>New apps</p>	<ul style="list-style-type: none"> Meipian (social media) Tangdou (social media) WeChat-hosted mini games (gaming) 	<ul style="list-style-type: none"> Social media tool Meipian facilitating photo editing, collage, and sharing on social media without the need to write captions for senior users. Tencent-backed Tangdou creating an online community for China's middle-aged or elderly "square dance" lovers. WeChat-hosted casual mini-games becoming increasingly popular among seniors.
<p>4</p> <p>Digital familiarisation courses</p>	<ul style="list-style-type: none"> Alibaba WeChat 	<ul style="list-style-type: none"> "Mobile Phones 101" courses held by local governments and internet platforms for elderly to keep up in the fast-developing digital economy. Platforms publishing short-form videos to guide seniors to use their apps.

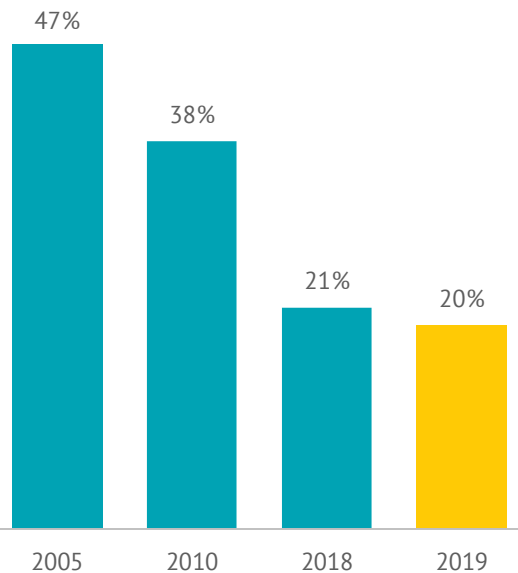
4 Sheconomy: Increasingly Independent and Confident Female Consumers

Increasing levels of education, coupled with a high labour force participation rate, has helped build a foundation for greater financial autonomy. Delayed marriage and a fast-declining birth rate also mean that the consumption habits of female consumers are undergoing significant changes.

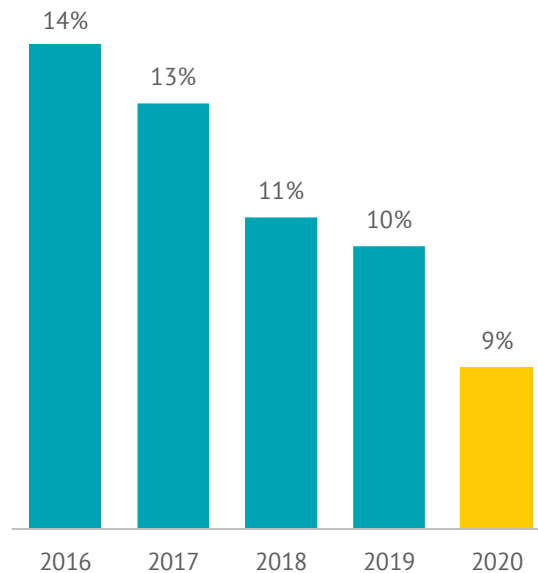
Tertiary school enrolment rate in China



Percentage of people registered for marriage aged 20-24 in China



Birth rate in China



4 Sheconomy: Online Discourse Charting New Path to Equality

Gender equality has become a growing topic of discussion online. With more women becoming aware and outspoken about their rights, brands are facing the consequences of creating content deemed sexist or partnering with figures seen as controversial. Simultaneously, demand for content satisfying the needs of female communities has shot up.

Advertising



- Nanjing University was **blasted** for **publishing sexually suggestive photos** to recruit students, like the one above that reads, "Let me be part of your youth".
- The other featured photos, especially when men held up the signs, **did not feature the suggestive text**.
- PurCotton **published an ad** showing a woman wiping off makeup to scare a strange man following her at night.
- The ad **sparked widespread backlash** from women accusing PurCotton of reinforcing prejudiced ideas about women and makeup.



Gaming

- Netizens are increasingly speaking out against sexist behaviour in gaming. Women are also demanding more casual, female-focused games.
- The CEO of *Black Myth: Wukong*-maker Game Science, **came under fire** after saying the game made him feel 'pressure in his pants', among other **sexually charged comments shared on Weibo**, sparking outrage among netizens who **swore to boycott the game**.



- Other studios are **working on romance-focused games** like *Love and Producer* and *Honour of Kings* to appeal to a **growing cohort of female gamers** and their wallets.
- A 2019 report estimated that 46% of the country's gamers are women.
- Friendtimes, the studio behind *Fate of the Empress*, earned over **1mn downloads** across 12 games in different genres, including career, dress-up, and imperial court intrigue.

Entertainment







- Kris Wu, a former member of the South Korean-Chinese boy band Exo, was **accused** of date rape by an online influencer this July, prompting at least **two dozen other accusations to be lodged against him on social media**.
- Wu's allegations reignited **debate** in **China's #MeToo movement**.
- Although the hashtag has been censored in the past, netizens have been posting a large number of messages to social media with distinctive hashtags like **"Girls help girls"** to organise discussions.
- **Under pressure from online discussions**, Kans (cosmetics) and Vatti (electrical appliances) are among the many **Chinese brands that have since dropped Wu**.
- Intel created a Chinese ad featuring comedian Yang Li, **known** for her quips about men, causing **backlash from male users** who prompted Intel to remove the ad.
- In response, women **charged** Intel of trying to appease "fragile" male egos with many questioning the removal in the company's Weibo post.

4 Sheconomy: Demand Focusing on Personal Taste and Quality Life

A population of well-educated, financially-independent, and confident female consumers is spearheading changes in consumption preferences with an increasing emphasis on personal characteristics and quality life.

Female consumption trends in China

Product category	Consumption trends
 Cosmetics	<ul style="list-style-type: none">▪ Growing demand for items that highlight personal taste, e.g., lipstick and eye makeup with bold colours and make-up increasingly seen to express personal characteristics and mood.▪ More interest in cosmetics that go beyond basic functions, e.g., makeup removers with pore cleansing and anti-acne functions.
 Apparels	<ul style="list-style-type: none">▪ Focus on style, comfort, brands, and reputation over price sensitivity.
 Food & beverages	<ul style="list-style-type: none">▪ Healthier eating habits, lifting demand for low-carb, low-fat, and high-protein snacks.▪ Rising alcohol consumption driving higher demand and an increasing ticket size, with wine, Chinese <i>baijiu</i>, and beer being most favoured overall, while younger consumers showing higher preference for ready-to-drink cocktails and fruit wines.▪ Traditional Chinese snacks also experiencing resurgence among female consumers.
 Lifestyle	<ul style="list-style-type: none">▪ Fitness equipment has become highly sought after, with yoga accessories seeing the highest demand.▪ Pet products, including food, treats, healthcare products, etc., in the spotlight as pet ownership continues to grow.▪ Home products associated with a higher living standard, e.g., scented candles and bath powder.



4 Sheconomy: Success of Female-focused Start-ups

Rising female consumption has boosted several promising e-commerce start-ups and online brands. These brands share a common focus on the evolving demands of a new generation of female consumers, as well as strong social media presence to better appeal to their target customers.



PERFECT DIARY

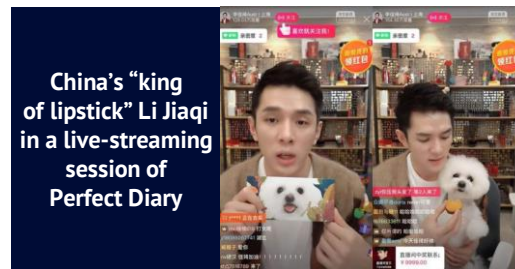
- **Perfect Diary** is a home-grown cosmetics brand launched in 2017.
- **Social media platforms** like Douyin and WeChat form a crucial pillar of its marketing strategy.
- It launches timely new products based on consumer data and **leverages popular online influencers** like Li Jiaqi.
- The brand led the domestic colour cosmetics market based on online retail sales in 2019 with sales of RMB2.6bn (US\$401mn) in 9M 2020, up 40% YoY.
- Perfect Diary's parent Yatsen Holding raised US\$709mn through its IPO in New York in Nov 2020.

Bananain 蕉内
Think inside

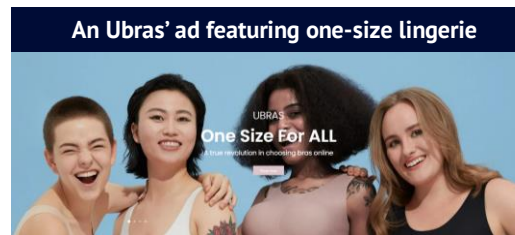
Ubras

NEIWAI

- Digital native start-ups like **Bananain, Neiwai, and Ubras** have found success in China's lingerie market by defying the traditional beauty standards that favour push-up bras and cater to the demand for **comfort and simplicity**.
- The product design of these brands also speak to the lifestyle preferences of younger women. Bananain features **gender-neutral and label-free design**. Neiwai commits itself to **fighting ageism and sizeism**. Ubras specialises in **one-size lingerie**.
- Their success was evident during the Singles' Day online shopping festival in 2020, where Ubras and Bananain took up the top two spots in lingerie sales.



China's "king of lipstick" Li Jiaqi in a live-streaming session of Perfect Diary



An Ubras' ad featuring one-size lingerie



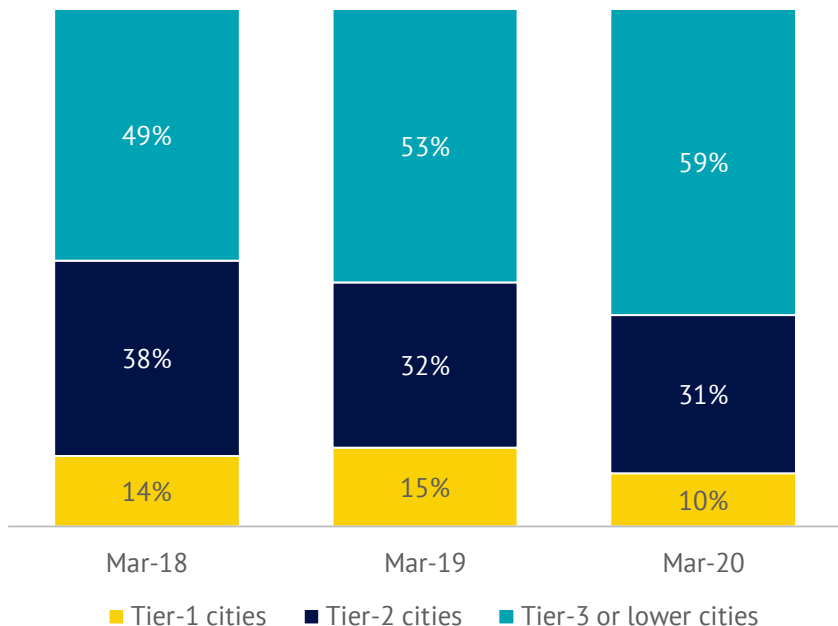
A Bananain's ad featuring gender-neutral design



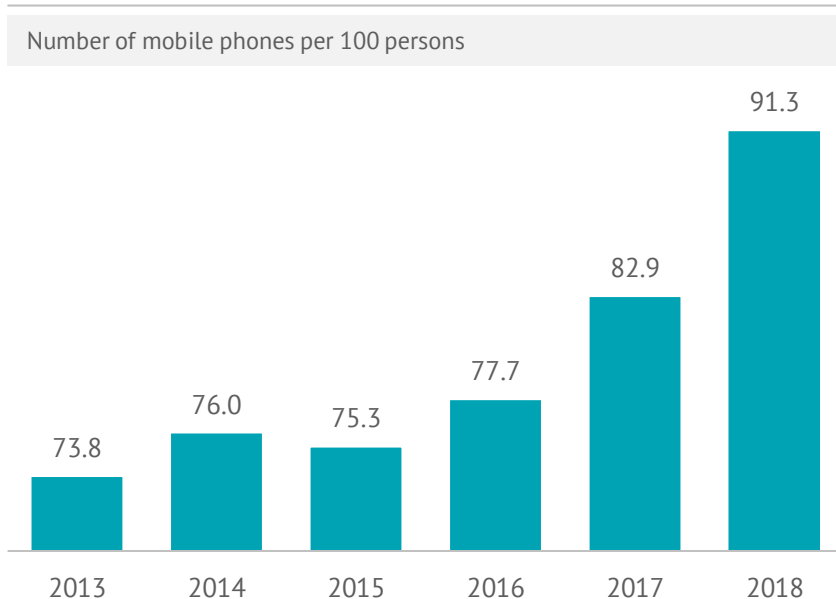
4 Sinking Markets: User Growth, Under-penetration Signal Opportunities

“**Sinking markets**” refer to the markets of tier-3 or lower cities and rural areas. The share of mobile internet users in sinking markets rose to nearly 60% in 2020 from ~50% in 2018. The steadily increasing internet penetration, plus the ubiquity of smartphones there, has lured internet players to tap into the under-penetrated sinking markets.

Distribution of mobile internet users in China



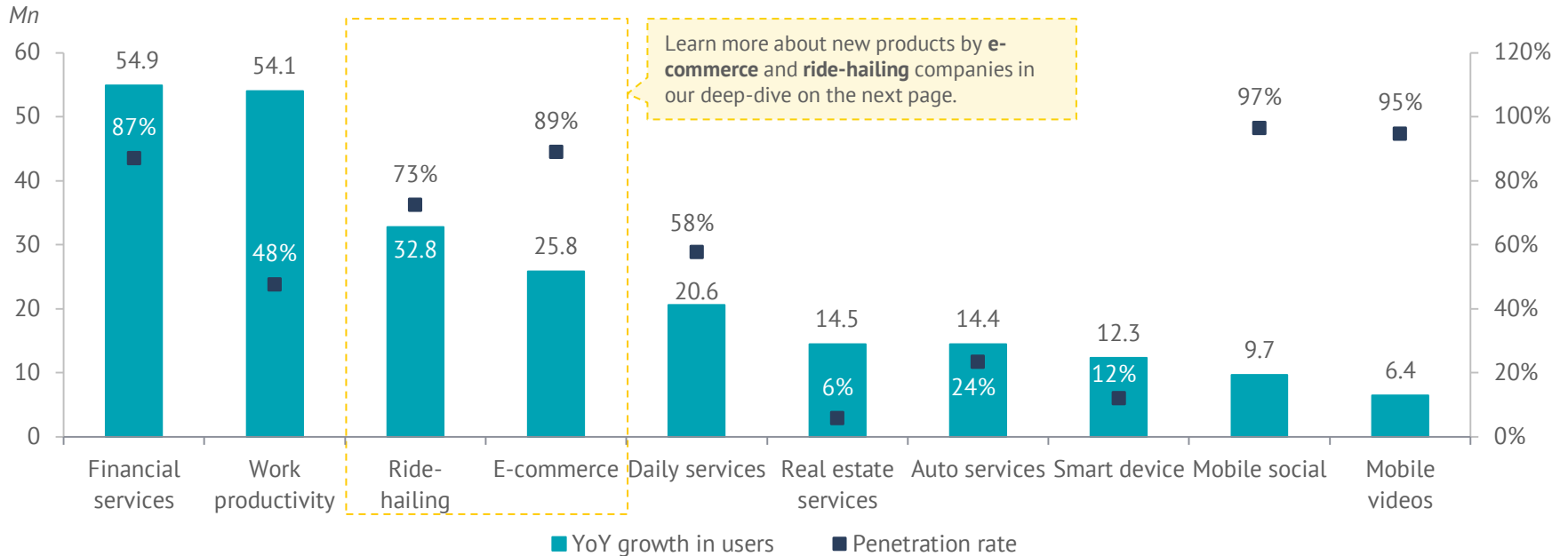
Mobile phone penetration in sinking markets



4 Sinking Markets: Sectors at Various Growth Stages

Within sinking markets, there are divergent trends among different sectors. While social & messaging and videos are close to full saturation with only marginal growth, sectors including financial services, work productivity, ride-hailing, e-commerce, and daily services are still undergoing relatively rapid expansion.








User growth and penetration rate in sinking markets by sector (Oct 2020)



4 Sinking Markets: New Strategies in E-commerce and Ride-hailing

In the past, we have seen the tried-and-true methods of low prices, gamification, localised content, and simplified apps, mainly from e-commerce and content & media players, to tap into sinking markets. In the past 12 months, e-commerce and ride-hailing companies emerged with new strategies like [community group buying](#) and low-cost ride-hailing to capture users from tier-3 cities and below.

Strategies targeting sinking markets

Strategy	Examples	Big Tech parent or investors	Details
1 Community group buying	 Chengxin Youxuan	Didi Chuxing	<ul style="list-style-type: none"> Community group buying is an emerging business model that pools together residents of the same community to purchase groceries and other daily essentials in bulk at a discount. The bulk orders allow merchants to offer steep discounts, which attract price-sensitive customers in sinking markets. Big Tech has jumped on the bandwagon by starting their own community group buying businesses or investing in start-ups.
	 Duoduo Grocery	Pinduoduo	
	 Meituan Youxuan	Meituan	
	 Nice Tuan	Alibaba	
	 Xingsheng Youxuan	JD.com, Tencent	
2 Low-cost ride-hailing	 Hello	Ant Group	<ul style="list-style-type: none"> Bike-sharing company Hello has launched ride-hailing services in several lower-tier cities. Passengers are charged pre-determined rates regardless of the actual route or traffic conditions. Didi launched a standalone app with heavily subsidised discounts. Passengers are charged pre-determined rates.
	 Huaxiaozhu	Didi Chuxing	



4 An Expert's View from Rui Ma

Rui Ma is a tech analyst with sixteen years of experience in technology and finance, spanning seed stage to pre-IPO investing, with a decade focused on China. She founded Tech Buzz China in 2018 to educate and consult investors, funds and entrepreneurs on Chinese tech companies' products, strategies and trends. She previously worked at 500 Startups as an investment partner and spent a decade in private equity and mergers & acquisitions roles at the Raine Group, Morgan Stanley and Merrill Lynch in both Silicon Valley and China. Rui holds a B.S. in Electrical Engineering and Computer Science from the University of California at Berkeley, and additional degrees from Tsinghua, INSEAD, UIUC and Harvard University.



How can tech players best capitalise on China's shifting demographics?

The Chinese consumer internet space is quite mature by now, which means that the low hanging fruit have largely been picked already and the most important quality is adaptability. **It's not just about having one hit, which anyone can copy, but a sustained process for innovation.** Thus, no matter which subsector a company chooses to go after, the silver economy, the sheconomy, or another, they'll need to be able to nimble and capture every new opportunity.

WeChat has been extremely successful with the silver economy. It has the most intuitive product design and the highest utility features. **Alibaba and lifestyle-oriented players such as Xiaohongshu continue to dominate the sheconomy,** while the sinking markets are something every player is going after due to its size and growth rate. **Pinduoduo in particular has the best fit with this market, but Alibaba and others are investing heavily as well.**

Will ageing and slow growth of China's population hurt its tech industry?

Seniors are one of the more under-penetrated demographics in China, and the younger cohorts are very digitally active. **They are definitely a positive business impact,** but businesses will likely need to support them in different ways from other generations.

What is the long-term impact of rising female consumption and independence?

As Chinese female consumers become wealthier and more independent, we already see them taking up a larger part of businesses they weren't so involved in before, such as **personal wealth management.** And they're **making a big dent in home ownership** as well.

This growth in affluent women consumers will influence companies to be more thoughtful about how to operate in a more female-friendly way, from their advertising, to their sales tactics and customer service. In addition, **I hope they become more gender equal in their internal organization as well,** because this new group of female consumers will not want to do business with enterprises who are known to mistreat or disrespect their female employees.

Can the fast-saturating sinking markets retain their allure?

The sinking markets in rural China still represent the best opportunity for growth for Chinese entrepreneurs. About one billion people living away from the coast in China have yet to upgrade their lifestyles to the "middle class" and so still have a lot of economic catching up to do. This is also the group that the government is focusing on helping. While they have their distinctive characteristics, **this is still the largest market you can find that shares the same language, cultural norms, digital and physical infrastructure** as the rest of China. One billion people with GDP per capita growing at high single digits / near double digits? Where else can you find that? As many entrepreneurs and investors like to say, **the next China is China.**

Whether the sinking markets will turn into another winner-takes-all segment depends on the type of business. For those with strong network effects, that is possible. **But today's tighter regulatory environment means that anticompetitive behaviours are far more likely to be scrutinised and punished than before,** so at the very least we can expect that market leaders will have to play by fairer rules than in the decade before.



5

Growing Focus on Private-domain Traffic

E-commerce brands have relied on paid ads offered by platforms to acquire and re-target customers. Slowing growth has pushed up the cost of customer acquisition.

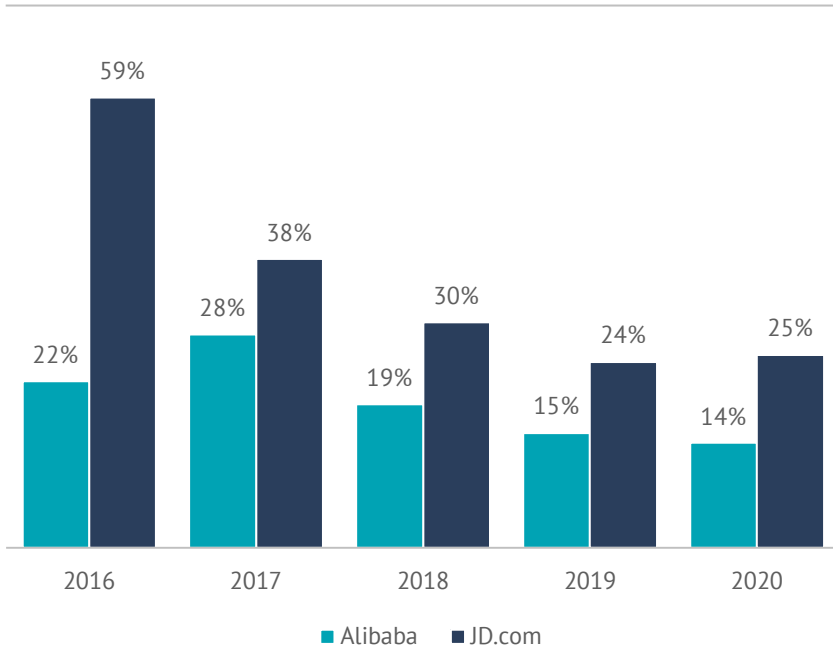
Brands are now paying more attention to private-domain traffic as they look to build direct communication channels with customers and engage them directly to drive repeat repurchases.



5 Rising Cost of Customer Acquisition amid E-commerce Slowdown

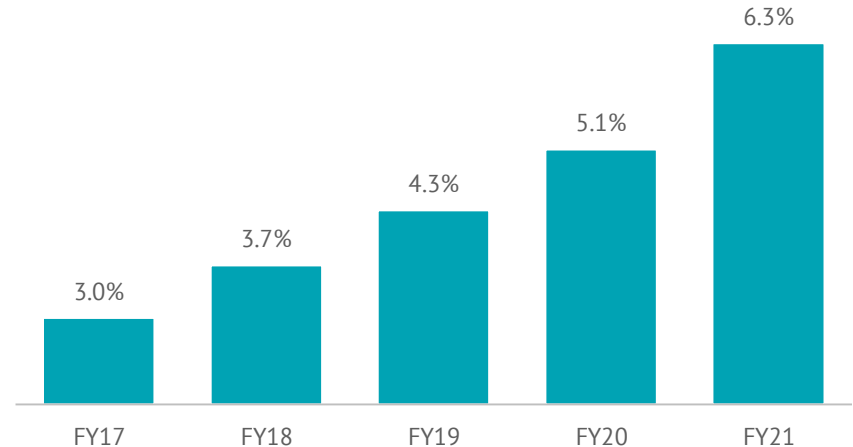
The overall growth of China's internet is moderating as the penetration rate peaks. In e-commerce, this is reflected by the slower increase in gross merchandise value (GMV) for major e-commerce platforms. Meanwhile, brands find themselves paying higher fees to these platforms for marketing services to acquire traffic to their stores.

Growth of e-commerce GMV¹



Monetisation rate of Alibaba's China retail marketplace

Monetisation rate is calculated as Alibaba's retail revenue divided by the GMV on its marketplace. It measures how much merchants and brands pay Alibaba for every dollar of sales they generate.










¹Data for Alibaba represent its GMV from April to March of the next year, since the company's fiscal year ends in March. Sources: Alibaba, JD.com



5 Solution: Private-domain Traffic

Companies have turned to marketing strategies centred around “private-domain traffic” to build direct communication channels with customers and engage them directly to drive repeat repurchases.

Private- vs. public-domain traffic

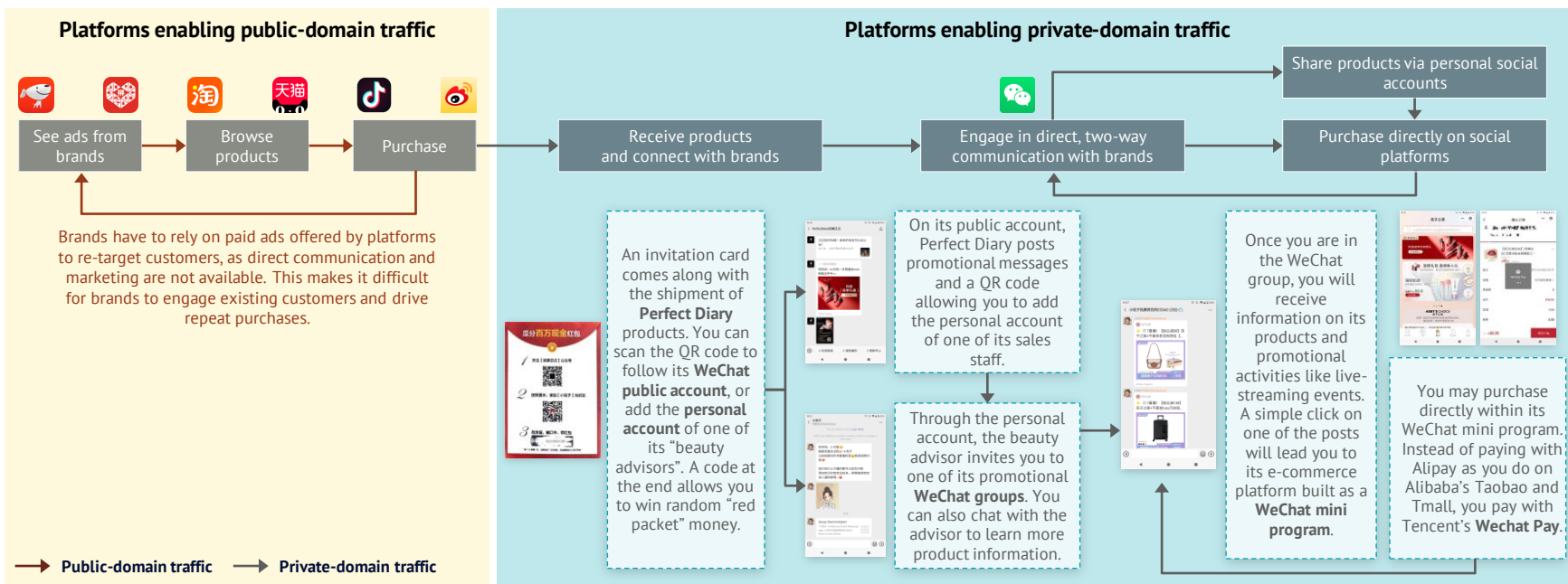
	Platforms enabling private-domain traffic	Platforms enabling public-domain traffic
Description	<ul style="list-style-type: none"> Platforms with free and user-friendly features that allow brands to build their own communities and communication channels with users and launch direct marketing campaigns. 	<ul style="list-style-type: none"> Platforms without free or user-friendly features that allow brands to build their own communities and communication channels. Brands have to rely on paid ads to acquire users.
Goals of platforms	<ul style="list-style-type: none"> Ad-free user experience. Lead generation for other businesses of parent company (e.g., leads for WeChat Pay). 	<ul style="list-style-type: none"> Revenue generation from paid marketing services based on reach.
Pros and cons for brands utilising the platforms	<ul style="list-style-type: none"> ✗ Significant efforts in building reach initially. ✓ Customer relationships owned by brands. ✓ Two-way communication between brands and customers, facilitating engagement and efforts to drive repurchases. 	<ul style="list-style-type: none"> ✓ Large, readily-available user pools to reach. ✗ Customer relationships owned by platforms. ✗ No two-way communication between brands and customers, hindering engagement and efforts to drive repurchases.
Major platforms		     



5 E-commerce with Private-domain Traffic

Private-domain traffic has been mostly used in e-commerce by brands to build and own customer relationships, drive repeat purchases, and broaden their reach with social commerce tactics. WeChat has been the dominant source of private-domain traffic, thanks to its large user base, as well as its comprehensive ecosystem encompassing messaging, social, e-commerce, and payment functions. Home-grown cosmetics brand Perfect Diary has long been lauded for its sales and marketing strategy relying on private-domain traffic. Private-domain traffic is estimated to have contributed 15% of the brand's sales.

User journey of e-commerce (Perfect Diary as an example for private-domain traffic)



Special Thanks

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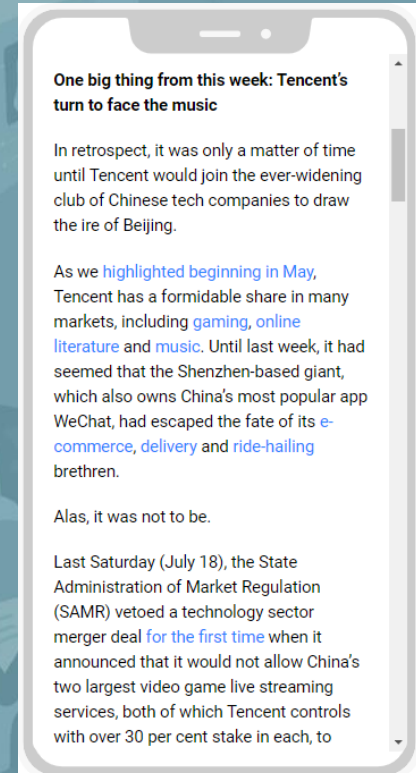
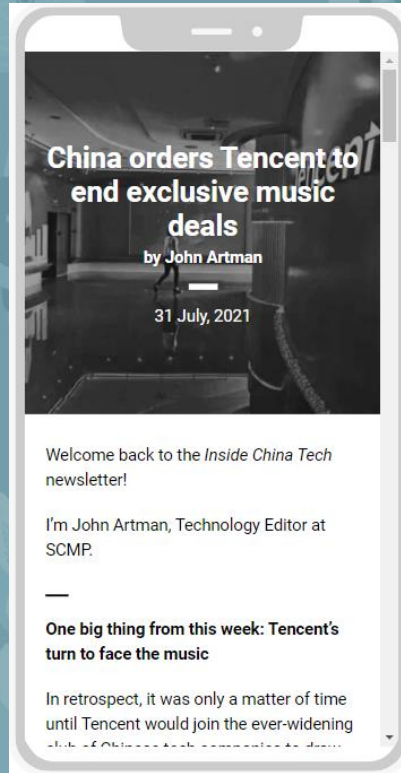


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