

THE UNSAID TRUTHS OF CHINA TECH

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04/20/2021

Chinese technology companies have been in the spotlight lately, and a few under-reported details stand out.

When the Ant Financial IPO was delayed, speculation grew about how Chinese regulators would restrict the company. As expected, its financial services are going to be structured under the regulation of a financial holding company. One component that went unanswered is, what to do with Ant’s technology arm? In my view, it may be spun into a separate tech company that would improve its [valuation](#).

The more media attention focuses on Jack Ma, the worse his situation will be. The more he is portrayed as a martyr, the harder it will be to sort it out. My own parents knew nothing about credit cards and mortgages, but now China is graduating into a credit-driven society. Ant’s reputation is not stellar here, with practices often viewed as “predatory lending.”

Are mutually exclusive contracts anti-competitive, all politics aside? Chinese antitrust regulators say yes, while the U.S. Federal Trade Commission says it’s complex and nuanced. If Twitter asked you to sign a contract to only appear on one social media platform, is that anti-competitive? What about exclusive contracts for licensing an index for an ETF? The FTC stated, “Exclusive contracts can benefit competition in the market by ensuring supply sources or sales outlets, reducing contracting costs or creating dealer loyalty.” It cited three cases where it has been ruled anticompetitive.

Mutually exclusive contracts are so common in China that as soon as Ant was fined, the CEO of 58.com called for an antitrust investigation against competitor BeKe (KE Holdings) for signing mutually exclusive contracts with real estate brokers.

China’s antitrust regulator asked 34 Internet platform companies like Tencent, ByteDance and JD to “conduct self-inspections within one month” or face a fine. Chinese regulators often use warnings to adjudicate rather than bringing actual legal cases. When Qihu360 and Tencent got into anti-competitive spats and lawsuits, the government asked each party to stop some practices and each wrote apology letters to the public.

34 Chinese Companies and Their U.S. proxy’s business lines

China Company	U.S. Proxy Counterpart or Business Line	China Company	U.S. Proxy Counterpart or Business Line
1 爱奇艺 (QIYI)	Netflix	18 哔哩哔哩 Bilibili	Facebook
2 Baidu	Google	19 叮咚买菜 DingDong 100Meters	InstaCart for Fresh
3 贝壳找房 Beike	Redfin/Zillow	20 饿了么 Ele	Uber Eats/DoorDash
4 滴滴 DiDi	UBER/LYFT	21 国美 Gome	Bestbuy
5 当当网 DangDang	A minor Amazon	22 盒马生鲜 HeMa/Baba subsidiary	InstaCart for Fresh
6 京东 JD	Amazon	23 拼多多 Pinduoduo	Amazon
7 多点 Dmall	InstaCart	24 携程 CTRIP	HOTELS.com/Kayak/TripAdvisor
8 快手 KuaiShou	Instagram/Twitch	25 小红书 Red	Instagram/Twitch
9 美团 Meituan	YELP+UBER EATS	26 阅文 China Literature	Wattpad
10 每日优鲜 MsFresh	InstaCart for Fresh Meat/Seafood	27 苏宁易购 Suning Commerce	Bestbuy/Target
11 奇虎 Qihu360	McAfee Cyber Security	28 阿裡 Alibaba	Amazon+PayPal+
12 去哪儿网 QUNAR	KAYAK/TripAdvisor	29 贝贝网 Beibei	Gap kids+Maternity
13 搜狗 Sogou	BING Search	30 蘑菇街 MoGuJie	Female Fashion+Social
14 微店 WeChat SHOP	Facebook shops	31 网易 NetEase	Yahoo
15 58同城 58.com	Redfin/Zillow	32 雲集 Yunji Global	Socially Driven Shopping
16 新浪微博 weibo	Twitter	33 唯品會 VIP Shopping	Online Retailer for Global Brands
17 字节跳动 ByteDance/Tiktok	Instagram/Twitch	34 騰訊 Tencent	Facebook+Sony Gaming

Source: WisdomTree, 2021.

Some of the smaller retailers on this list hardly have monopoly power, which calls into question “regulatory overreach” when their mutually exclusive contracts are subject to antitrust regulation. I can’t help but wonder what the grandfather of regulatory economics, George Stigler, would say.

Speaking of George Stigler, his thoughts and research on economics of regulation merited him a Nobel prize, and I would highly recommend his humorous autobiography as general reading for those interested in the Chicago School of Economics, which has a healthy dose of skepticism of regulators.

All regulations look backward, not forward. The biggest question for Ant and Alibaba in the next five years is whether they can compete, grow and make money in a very competitive space for Chinese technology. The 34 companies on this list show the challenges and opportunities, as Ant is still the top non-state-owned financial entity with the least competition from other [non-state-owned enterprises](#), while Alibaba's other main businesses have plenty of strong competitors.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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